



BANK OF FINLAND

Monthly Bulletin

The budget proposal for 1975

**Financing Finnish investment with
domestic saving**

Direct investment in January-June 1974

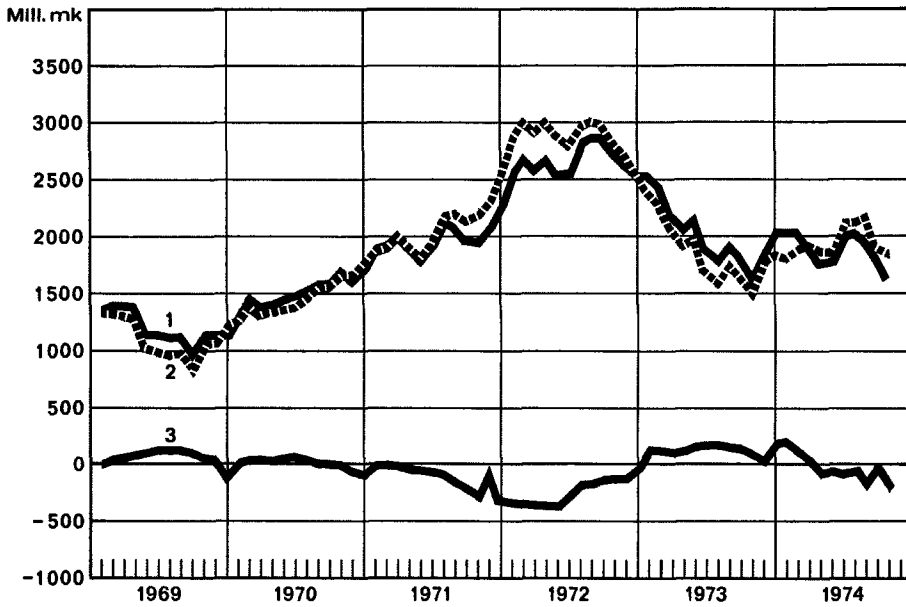
Trade between Finland and the USSR

Publications of the Bank of Finland

DECEMBER 1974

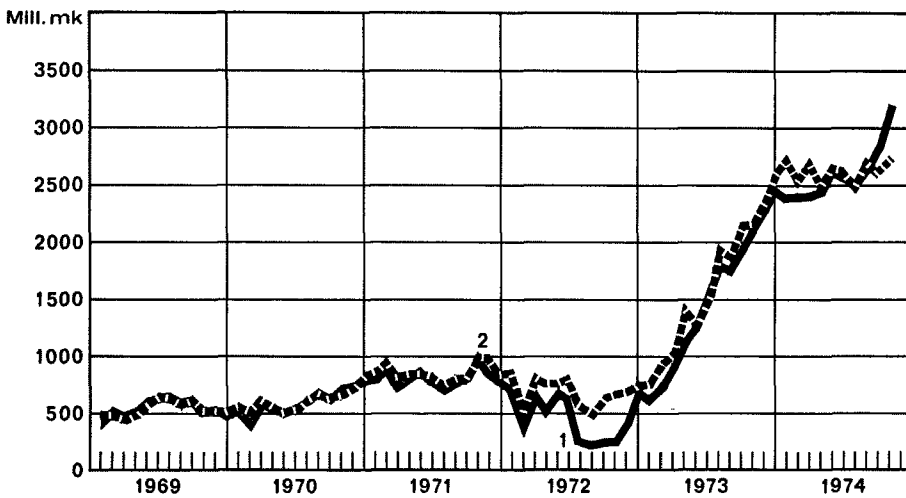
Vol. 48 No. 12

Bank of Finland foreign exchange reserve, 1969-1974



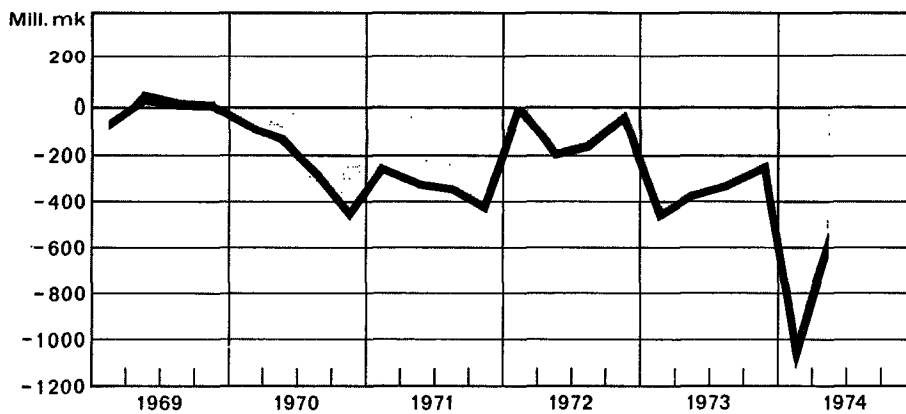
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2. Gold and convertible currencies
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Bank of Finland's position in regard to the banks, 1969-1974



1. Net claims on the banks
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THE BUDGET PROPOSAL FOR 1975

According to estimates presented in the Budget proposal for 1975, the volume of total production will grow by 3 ½ per cent this year and by 3 per cent in 1975 if growth picks up towards the end of this two-year period.

The Government presented the third supplementary budget for 1974 to Parliament at the same time as it submitted the Budget proposal for 1975 and decided upon certain other economic policy measures. The current goals for fiscal policy are to increase productive capacity, domestic energy production, the volume of exports and the supply of labour.

The Budget proposal for 1975 amounts to 21 700 million marks, which is 26 per cent more than the Budget proposal for 1974. This growth is the result of rapid rises in prices, costs and wages, which mean that in 1974 state expenditure will clearly exceed expenditure budgeted in the ordinary Budget proposal. The present Budget proposal includes few appropriations for the new functions that the central government will be responsible for.

Attempts will be made to cut sharply the growth in administrative expenditure. For this reason, it is proposed that the number of civil servants be increased by much less than in previous years. The reform of primary education, health care and children's day care will greatly increase central government subsidies to local authorities in 1975. In recent years, local authority expenditure has expanded more rapidly than state expenditure. Hence the Government has started to negotiate with the central organizations of local authorities on measures to check the vigorous growth in local authority expenditure.

The Budget proposal includes certain measures designed to improve the position of families with children. The measures were largely

agreed upon last spring, when the comprehensive incomes policy agreement was concluded. It is intended that child allowances be raised twice in 1975, in addition to the rises implemented during the current year. Furthermore, a special increase will be made in the allowances for children below three years of age, and more families with children will be entitled to housing subsidies. The period for receiving maternity allowances has been extended to 174 weekdays, and the size of the allowance will be raised.

Funds intended for export promotion have been increased substantially. It is proposed that the new financing programme of Finnish Export Credit Ltd. for 1975—1979 be approved; according to this programme, financing would be based on guarantee debentures. A transfer of 202 million marks to the Export Guarantee Fund is suggested in the Budget proposal.

Large appropriations for technical and commercial research have been made. This is deemed necessary in order to improve the international competitiveness of the country and to restore equilibrium in its foreign trade.

Almost 1 100 million marks is to be used for marketing and subsidizing agricultural produce. This increase is a consequence of price subsidies paid for fertilizers and fodder and of the increased need to subsidize the export of certain products.

It is proposed that almost 2 500 million marks be used for real investment. The most substantial increases are due to railway construction, purchases of rolling stock, automation of the telecommunication network and expansion of peat production. According to the plan presented in the Budget proposal, the rapid electrification of railways will be continued in the 1970s. This project is given high

STATE BUDGETARY EXPENDITURE BY FUNCTIONAL CATEGORIES, 1973—1975

	Finance accounts 1973 mill. mk	Budget 1974	Budget proposal 1975	Change on 1974 Mill. mk	Per cent
General administration	920	933	1 233	+ 300	+32
Courts, police, etc	574	606	842	+ 237	+39
National defence	956	1 017	1 405	+ 388	+38
Education and culture	2 835	3 012	3 853	+ 841	+28
Social security	1 704	1 945	2 444	+ 499	+26
Public health	1 397	1 533	2 223	+ 690	+45
Housing and community development	1 052	1 336	1 639	+ 303	+23
Transport and communications	2 120	2 168	2 980	+ 812	+37
Agriculture and forestry	1 818	1 896	2 186	+ 290	+15
Other economic activities	1 059	862	1 031	+ 169	+20
Other expenditures	2 525	1 894	1 897	+ 2	+ 0
Total	16 961	17 202	21 734	+4 533	+26

priority because of the change in the energy situation.

It is estimated that a record number of dwellings will be completed in 1974. It is forecast that residential construction not financed by state loans will decline sharply as a result of tightening in the money market. Attempts will be made to keep state-financed residential construction at a high level in 1975—1976. It is estimated that almost 1 400 million marks will be needed in 1975 to pay housing loans.

In the third supplementary budget for 1974, which was presented to Parliament together with the Budget proposal for 1975, 315 million marks was earmarked for state-controlled industrial and energy companies. It is suggested that a state-controlled joint stock company be established for the manufacture of semi-finished television products. The Regional Development Fund Ltd is to receive 170 million marks in the form of loans and increases in share capital. It is suggested that 20 million marks be used for silvicultural subsidies and loans.

The supplementary Budget proposal provides for the establishment of a state investment fund which would be subordinate to the Ministry of Finance but work through Postipankki (the post office bank). This fund is designed to improve the allocation of state funds and thus to promote economic growth and employment as well as to improve inter-

national competitiveness. The assets of the fund will be used in accordance with an investment programme approved by the Council of State for financing the investment of both private and state-owned companies.

Major changes in the income base will be caused by revisions in income and property taxation, which are at present being considered by Parliament; they will reduce central government revenue by 600 million marks from the level which would have been reached if the 1974 tax base were used. Central government revenue will also be reduced by the removal of purchase tax from certain basic foodstuffs over the period October 1, 1974—December 31, 1975.

It is intended that railway, postal, telephone and telegraph charges, as well as buffer stock charges for liquid fuel, be raised from the beginning of 1975. Employer's contributions for child allowances will be raised on July 1, 1975.

The Budget proposal also includes forecasts of the macroeconomic and budgetary situation and the economic policy problems which will be encountered in years following 1975. The emphasis will be laid on balancing the current account, curbing inflation and securing the growth of real income of the economically active population.

November 20, 1974

BANK OF FINLAND

Mill. mk

	1973		1974				
	Nov. 30	Dec. 31	Nov. 8	Nov. 15	Nov. 22	Nov. 29	
Assets							
Gold and other foreign assets	2 328	2 493	2 371	2 334	2 328	2 274	
Gold	152	121	121	121	121	121	
Special drawing rights	285	285	286	286	286	286	
IMF gold tranche	268	268	268	268	268	268	
Foreign exchange	1 355	1 546	1 291	1 256	1 248	1 193	
Foreign bills	100	96	217	215	217	218	
Foreign bonds	168	177	188	188	188	188	
Claims on domestic banks	2 673	2 617	3 317	3 215	3 543	3 275	
Discounted bills	2 623	2 556	3 128	3 000	3 314	3 108	
Rediscounted bills	—	—	—	—	—	—	
Cheque accounts	50	61	189	215	229	167	
Other lending	355	362	414	400	400	402	
Inland bills discounted							
In foreign currency	—	—	—	—	—	—	
In Finnish marks	60	58	123	110	113	108	
Loans	295	304	291	290	287	294	
Other assets	724	598	628	628	615	635	
Finnish bonds	150	33	52	51	32	53	
Finnish coin	37	25	33	34	33	32	
Currency subscription to Finland's quota in the IMF	530	530	530	530	530	530	
Other claims	7	10	13	13	20	20	
	Total	6 080	6 070	6 730	6 577	6 886	6 586
Liabilities							
Notes in circulation	1 790	1 907	2 031	2 032	2 100	2 169	
Liabilities payable on demand	308	178	309	355	395	379	
Foreign exchange accounts	99	80	213	257	293	279	
Mark accounts of holders abroad	71	67	71	71	73	71	
Cheque accounts							
Treasury	50	2	0	0	1	2	
Post Office Bank	67	2	1	1	1	1	
Private banks	—	—	—	—	—	—	
Other	2	8	2	2	4	2	
Other sight liabilities	19	19	22	24	23	24	
Term liabilities	2 245	2 214	2 456	2 257	2 436	2 116	
Foreign	76	—	—	—	—	—	
Domestic	2 169	2 214	2 456	2 257	2 436	2 116	
IMF mark accounts	530	530	530	530	530	530	
Allocations of special drawing rights	258	258	258	258	258	258	
Equalization accounts	172	171	283	278	296	258	
Bank's own funds	777	812	863	867	871	876	
Capital	600	600	600	600	600	600	
Reserve fund	114	114	163	163	163	163	
Profits undisposed	—	—	—	—	—	—	
Earnings less expenses (Dec. 31, Net profit)	63	68	100	104	108	113	
	Total	6 080	9 070	6 730	6 577	6 886	6 586

End of year and month	Gold and foreign accounts						Treasury		
	Gold and foreign exchange	Liabilities on foreign exchange and mark accounts	Foreign exchange reserve (1-2)	Other foreign assets	Other foreign liabilities	Net foreign assets (3+4-5)	Cheque account	Term liabilities, net	Net liabilities to the Treasury (7+8) ¹
	1	2	3	4	5	6	7	8	9
1967	701	75	626	98	354	370	4	7	11
1968	1 353	62	1 291	125	34	1 382	3	354	357
1969	1 268	92	1 176	517	360	1 333	4	196	200
1970	1 844	106	1 738	639	518	1 859	2	119	121
1971	2 620	327	2 293	686	530	2 449	2	138	140
1972	2 685	121	2 564	757	530	2 791	1	48	49
1973	2 220	147	2 073	803	530	2 346	2	532	534
1973									
Oct.	1 861	169	1 692	768	530	1 930	49	30	79
Nov.	2 060	170	1 890	798	606	2 082	50	530	580
Dec.	2 220	147	2 073	803	530	2 346	2	532	534
1974									
Jan.	2 207	147	2 060	808	530	2 338	1	533	534
Feb.	2 214	143	2 071	817	530	2 358	3	530	533
March	2 104	168	1 936	831	530	2 237	49	529	578
April	1 986	196	1 790	855	530	2 115	51	528	579
May	2 005	203	1 802	874	530	2 146	5	528	533
June	2 231	197	2 034	888	530	2 392	1	527	528
July	2 251	189	2 062	888	530	2 420	48	527	575
Aug.	2 285	305	1 980	889	530	2 339	4	526	530
Sept.	2 008	176	1 832	899	530	2 201	43	521	564
Oct.	1 955	312	1 643	922	530	2 035	2	519	521
Nov.	1 868	350	1 518	936	530	1 924	2	518	520

¹ New series, see explanations on page 18.

FOREIGN EXCHANGE SITUATION

Mill. mk

	Net holdings, Dec. 31, 1973			Net holdings, September 30, 1974			Change	
	Bank of Finland	Other	Total	Bank of Finland	Other	Total	Sept.	Jan.-Sept.
Gold	121	—	121	121	—	121	—	—
Special drawing rights	285	—	285	286	—	286	—	+1
IMF gold tranche	268	—	268	268	—	268	—	—
Convertible currencies	1 189	165	1 354	1 243	-105	1 138	-281	-216
Other currencies	210	2	212	-86	-15	-101	+158	-313
Total	2 073	167	2 240	1 832	-120	1 712	-123	-528

BANK OF FINLAND

Mill. mk

End of year and month	Domestic banks				Other						
	Dis-counted and redis-counted bills	Cheque accounts ¹	Liabilities, Cheque accounts		Net claims on the banks (1+2-3-4)	Inland bills in Finnish marks	Other advances	Liabilities	Net claims on the rest of economy (6+7-8) ³	Deposit certificates ³	Notes in circulation
			Private banks ²	Posti pankki ²							
1	2	3	4	5	6	7	8	9	10	11	
1967	868	—	155	35	678	197	383	56	524	—	1 052
1968	618	107	163	16	546	186	195	43	338	—	1 160
1969	550	87	93	12	532	192	269	25	436	—	1 298
1970	836	3	1	4	834	137	246	324	59	203	1 344
1971	849	—	9	2	838	121	234	385	-30	400	1 479
1972	753	5	—	2	756	44	277	73	248	790	1 730
1973	2 556	61	—	2	2 615	58	314	259	113	1 450	1 907
1973											
Oct.	2 363	54	—	320	2 097	57	302	301	58	1 400	1 683
Nov.	2 623	50	—	67	2 606	60	302	260	102	1 400	1 790
Dec.	2 556	61	—	2	2 615	58	314	259	113	1 450	1 907
1974											
Jan.	2 146	129	—	1	2 274	64	303	237	130	1 310	1 706
Feb.	2 227	113	—	4	2 336	64	304	229	139	1 380	1 744
March	2 530	103	—	78	2 555	72	296	230	138	1 450	1 792
April	2 677	156	—	80	2 753	79	293	244	128	1 450	1 806
May	2 719	93	—	3	2 809	81	289	230	140	1 490	1 907
June	2 794	127	—	3	2 918	81	297	221	157	1 600	2 134
July	2 688	158	—	43	2 803	84	305	213	176	1 600	1 970
Aug.	2 538	122	—	3	2 657	98	302	203	197	1 360	2 042
Sept.	2 703	249	—	9	2 943	114	301	181	234	1 390	2 060
Oct.	2 985	142	—	2	3 125	121	304	219	206	1 510	2 019
Nov.	3 108	167	—	1	3 274	108	314	224	198	1 400	2 169

¹ Including special index accounts² Including cash reserve accounts³ New series, see explanations on page 18.

SELLING RATES FOR FOREIGN EXCHANGE

Mk

November 18, 1974

New York ¹	1 \$	3.705	Frankfurt o. M.	100 DM	150.10	Vienna	100 S	20.96
Montreal	1 \$	3.760	Amsterdam	100 Fl	144.00	Lisbon	100 Esc	14.95
London	1 \$	8.620	Brussels ²	100 Fr		Madrid	100 Pta	6.57
Stockholm	100 Kr	86.90	Zurich	100 Fr	139.80	Tokyo	100 Y	1.240
Oslo	100 Kr	68.80	Paris	100 FF	79.40	Reykjavik	100 Kr	3.23
Copenhagen	100 Kr	63.50	Rome	100 Lit	0.5600	Moscow ³	1 Rbl	4.907

¹ As from Dec. 20, 1971 also applied to clearing accounts with Berlin, Budapest and Sofia.² 9.900 commercial rate; 9.820 financial rate.³ Clearing account: also Bucharest.

DEPOSITS BY THE PUBLIC

Mill. mk

End of year and month	Sight deposits			Term deposits					Total (2 + 3 + 9)	
	Cheque accounts		Postal giro accounts	Commer- cial banks	Savings banks	Co-op. banks	Posti- pankki	Co-op. stores		All credit institutions
	Commer- cial banks	All credit institutions								
	1	2	3	4	5	6	7	8	9	10
1967	661.5	834.0	340.9	4 103.1	3 644.6	2 417.3	941.2	431.3	11 537.9	12 712.8
1968	856.2	1 087.6	428.4	4 597.8	3 966.4	2 683.1	1 027.2	465.0	12 739.8	14 255.8
1969	1 057.4	1 373.9	520.8	5 236.3	4 333.1	3 021.6	1 116.0	521.6	14 228.7	16 123.4
1970	1 142.7	1 507.7	603.3	6 098.7	4 846.9	3 458.4	1 287.6	574.2	16 265.8	18 376.8
1971	1 343.2	1 733.5	754.4	6 961.4	5 446.4	3 876.6	1 491.4	642.3	18 418.1	20 906.0
1972	1 851.2	2 371.4	979.2	8 095.8	6 231.8	4 499.8	1 805.6	720.0	21 353.0	24 703.6
1973*	2 153.3	2 900.5	1 360.2	8 973.8	7 117.1	5 238.7	2 158.7	804.9	24 293.2	28 553.9

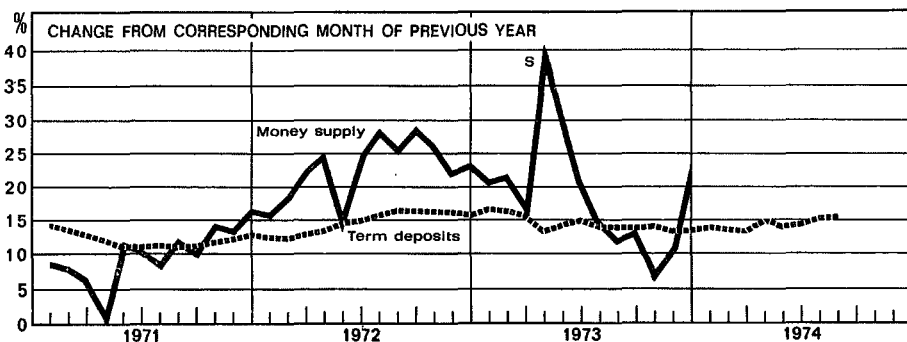
1973*

Aug.	1 677.3	2 192.3	1 025.7	8 401.2	6 610.8	4 831.8	1 974.3	763.4	22 581.5	25 799.5
Sept.	1 630.7	2 155.5	1 098.0	8 442.8	6 689.7	4 924.3	1 994.5	783.9	22 835.2	26 088.7
Oct.	1 690.5	2 234.4	932.0	8 524.6	6 756.3	5 013.2	2 017.6	783.2	23 094.9	26 261.3
Nov.	1 681.9	2 221.5	989.1	8 508.2	6 833.8	5 113.1	2 052.0	785.2	23 292.3	26 502.9
Dec.	2 153.3	2 900.5	1 360.2	8 973.8	7 117.1	5 238.7	2 158.7	804.9	24 293.2	28 553.9

1974¹

Jan.	1 896.2	2 478.1	1 272.5	9 113.6	7 227.8	5 377.5	2 207.4	814.2	24 740.5	28 491.1
Feb.	1 851.4	2 431.8	1 373.6	9 162.3	7 272.2	5 445.5	2 230.9	825.6	24 936.5	28 741.9
March	1 806.1	2 379.5	1 253.4	9 078.6	7 271.1	5 449.4	2 266.3	831.7	24 897.1	28 530.0
April	1 839.1	2 482.1	1 229.2	9 081.0	7 272.6	5 510.5	2 268.9	833.3	24 966.3	28 677.6
May	2 007.4	2 641.1	1 179.0	9 158.2	7 378.6	5 598.5	2 286.7	839.3	25 261.3	29 081.4
June	1 992.3	2 627.9	1 231.6	9 205.1	7 484.0	5 631.6	2 334.9	847.2	25 502.8	29 362.3
July	2 155.1	2 817.9	1 267.3	9 244.4	7 565.9	5 725.8	2 365.5	854.4	25 756.0	29 841.2
Aug.	2 157.9	2 855.2	1 201.4	9 366.3	7 705.0	5 838.6	2 395.5	859.8	26 165.2	30 221.8

¹ New series, see explanations on page 18.



ADVANCES TO THE PUBLIC—MONEY SUPPLY

Mill. mk

End of year and month	Advances granted by					Types of advances		Total (1 to 5) (6 and 7)	Money Supply
	Commer- cial banks	Savings banks	Co-op. banks	Posti- pankki	Mortgage banks	Loans & Bills	Cheque credits		
	1	2	3	4	5	6	7	8	9
1967	5 558.9	3 247.7	2 424.3	864.9	1 026.9	12 583.8	538.9	13 122.7	2 146
1968	5 865.5	3 448.4	2 600.5	927.9	1 053.0	13 392.0	503.3	13 895.3	2 642
1969	6 892.2	3 802.8	2 922.1	1 039.8	1 290.4	15 354.4	592.9	15 947.3	3 126
1970	7 963.5	4 342.1	3 403.8	1 341.9	1 454.0	17 814.9	690.4	18 505.3	3 445
1971	9 233.7	4 795.6	3 834.0	1 746.6	1 799.1	20 639.8	769.2	21 409.0	4 025
1972	10 667.3	5 503.0	4 482.6	2 244.8	2 374.4	24 472.6	799.5	25 272.1	4 959
1973*	13 293.1	6 495.5	5 302.5	3 398.6	2 696.4	30 214.3	971.8	31 186.1	6 114

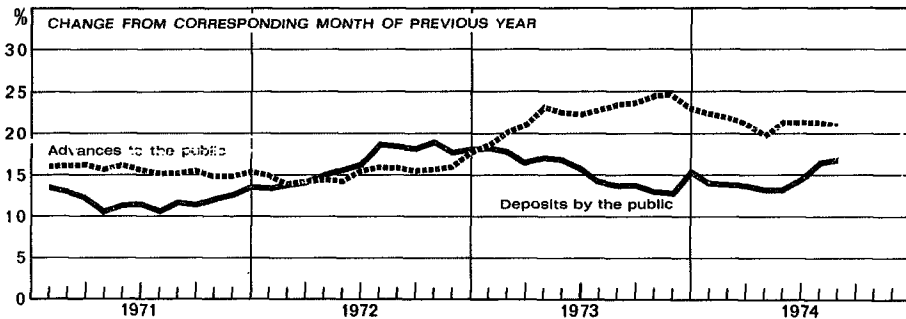
1973*

Aug.	12 419.3	6 096.5	4 908.2	2 915.1	2 565.5	27 928.1	976.5	28 904.6	4 791
Sept.	12 702.8	6 202.6	5 009.5	3 023.8	2 573.6	28 451.7	1 060.6	29 512.3	5 004
Oct.	12 968.1	6 320.2	5 116.5	3 173.2	2 592.9	29 142.5	1 028.4	30 170.9	4 749
Nov.	13 162.8	6 414.2	5 209.2	3 284.9	2 629.6	29 677.4	1 023.3	30 700.7	4 906
Dec.	13 293.1	6 495.5	5 302.5	3 398.6	2 696.4	30 214.3	971.8	31 186.1	6 114

1974¹

Jan.	13 386.6	6 609.8	5 361.4	3 570.9	2 741.2	30 656.7	1 013.2	31 669.9	..
Feb.	13 446.8	6 697.9	5 444.2	3 664.7	2 770.1	31 007.0	1 016.7	32 023.7	..
March	13 595.2	6 771.6	5 514.6	3 740.9	2 827.4	31 379.4	1 070.3	32 449.7	..
April	13 829.9	6 844.2	5 574.4	3 890.5	2 847.7	31 914.6	1 072.1	32 986.7	..
May	14 110.7	6 935.2	5 670.5	4 016.1	2 920.3	32 536.8	1 116.0	33 652.8	..
June	14 292.8	7 014.9	5 749.7	4 164.3	2 980.7	33 083.6	1 118.8	34 202.4	..
July	14 349.5	7 091.4	5 839.7	4 334.5	3 021.2	33 533.7	1 102.6	34 636.3	..
Aug.	14 500.3	7 190.6	5 953.4	4 359.1	3 038.9	33 962.9	1 079.4	35 042.3	..

¹ New series, see explanations on page 18.



FOREIGN TRADE

Mill. mk

Value mill. mk

Period	Value mill. mk		
	Exports f. o. b.	Imports c. i. f.	Surplus of exports (+) or imports (-)
1970	9 687	11 071	-1 384
1971	9 897	11 734	-1 837
1972	12 082	13 107	-1 025
1973	14 605	16 601	-1 996

1973			
Sept.	1 366	1 482	- 116
Oct.	1 538	1 689	- 151
Nov.	1 558	1 623	- 65
Dec.	1 331	1 462	- 131

1974*			
Jan.	1 540	1 950	- 410
Feb.	1 471	1 886	- 415
March	1 599	1 865	- 266
April	1 779	2 128	- 349
May	1 848	2 273	- 425
June	1 555	1 814	- 259
July	1 799	2 159	- 360
Aug.	1 550	2 252	- 702
Sept.	1 780	2 420	- 640

Jan.-Sept.			
1973*	10 178	11 827	-1 649
1974*	14 921	18 747	-3 826

* New series, see explanations on page 18.

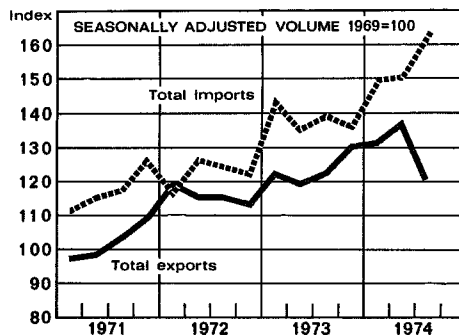
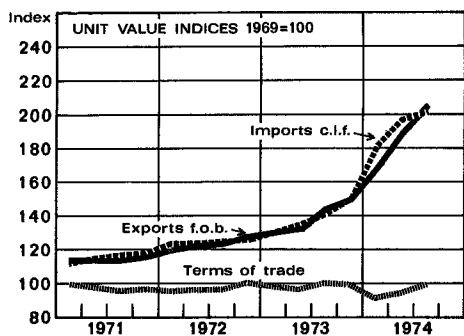
Indices of exports and
imports 1969 = 100¹

Period	Volume		Unit value		Terms of trade
	Exports	Imports	Exports	Imports	
	1970	107	121	108	
1971	103	119	115	116	99
1972	118	124	123	125	98
1973*	127	141	138	139	99

1972					
Jan.-Mar.	114	112	121	125	97
Apr.-June	112	124	123	125	98
July-Sept.	116	120	124	126	98
Oct.-Dec.	123	136	129	127	102

1973					
Jan.-Mar.	120	140	131	131	100
Apr.-June	115	133	133	136	98
July-Sept.	122	136	145	141	103
Oct.-Dec.	140	149	151	150	101

1974					
Jan.-Mar.	131	147	169	182	93
Apr.-June	131	147	190	198	96
July-Sept.	119	158	206	203	101

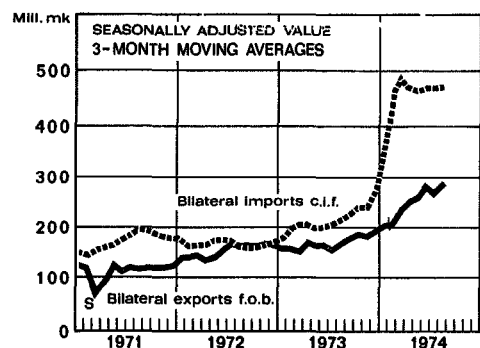
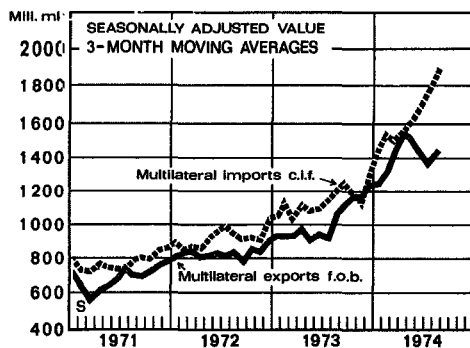


FOREIGN TRADE BY MAIN GROUPS

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	
1970	286	1 536	3 883	1 828	2 154	6 891	422	1 949	1 750	59
1971	313	1 643	3 797	1 764	2 380	7 037	570	2 333	1 746	48
1972	346	1 809	4 376	2 547	3 004	7 842	609	2 354	2 250	52
1973	432	2 458	5 266	2 921	3 528	9 916	729	2 921	2 968	67
1973*										
Sept.	27	260	494	246	339	918	80	229	255	0
Oct.	24	283	537	302	392	984	87	345	270	3
Nov.	21	282	524	376	355	1 046	98	243	230	6
Dec.	72	227	454	243	335	907	104	236	215	0
1974*										
Jan.	89	249	513	378	311	1 252	172	292	233	1
Feb.	21	249	540	316	345	1 195	199	244	247	1
March	94	229	605	258	413	1 173	170	262	260	0
April	22	291	671	351	444	1 372	146	325	276	9
May	47	314	595	414	478	1 498	138	313	320	4
June	10	262	557	340	386	1 246	119	236	210	3
July	18	302	656	456	367	1 346	146	422	244	1
Aug.	25	339	673	167	346	1 524	169	291	266	2
Sept.	32	248	756	275	469	1 511	187	388	334	0
Jan.-Sept.										
1973*	315	1 666	3 751	2 000	2 446	6 979	440	2 097	2 253	58
1974*	358	2 483	5 566	2 955	2 559	12 117	1 446	2 773	2 390	21

New series.



FOREIGN TRADE BY COUNTRIES

Mill. mk

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January—September				January—September			
	1973*		1974*		1973*		1974*	
	%	Mill. mk	%	Mill. mk	%	Mill. mk	%	Mill. mk
OECD countries in Europe	71.8	7 311	70.6	10 535	73.6	8 703	64.9	12 165
Austria	1.2	119	0.9	138	1.7	199	1.4	260
Belgium-Luxembourg	1.8	186	2.2	324	2.2	264	2.0	366
Denmark	4.3	443	3.8	573	3.6	425	3.4	629
France	4.1	419	4.4	658	3.4	406	3.2	591
Federal Republic of Germany	10.9	1 106	8.7	1 292	18.7	2 213	15.2	2 854
Italy	1.7	176	1.8	273	1.9	224	1.6	289
Netherlands	4.0	413	3.7	546	3.4	405	3.7	699
Norway	3.7	375	2.8	414	2.6	310	2.9	547
Portugal	0.4	38	0.4	57	0.8	98	0.7	138
Spain	1.1	109	1.3	202	0.7	76	0.4	83
Sweden	15.0	1 529	16.5	2 463	19.3	2 287	17.8	3 345
Switzerland	2.1	210	1.8	265	3.3	388	3.1	588
United Kingdom	19.9	2 022	20.3	3 035	11.4	1 344	9.3	1 739
Other	1.6	166	2.0	295	0.6	64	0.2	37
OECD countries outside Europe	6.6	676	6.6	980	8.0	940	8.6	1 614
Canada	0.6	61	0.7	105	0.4	40	0.4	65
Japan	0.7	73	1.0	143	2.5	299	1.4	267
United States	4.5	460	3.9	584	4.9	579	6.8	1 276
Other	0.8	82	1.0	148	0.2	22	0.0	6
CMEA countries	13.0	1 322	14.4	2 150	14.9	1 767	22.8	4 265
Czechoslovakia	0.4	38	0.4	58	0.5	64	0.4	67
Democratic Republic of Germany	0.6	57	0.5	78	0.5	62	0.5	99
Poland	0.9	93	0.8	120	1.3	154	2.1	387
Soviet Union	11.1	1 126	12.1	1 800	11.6	1 367	18.4	3 449
Other	0.0	8	0.6	94	1.0	120	1.4	263
Latin America	2.2	218	2.2	336	1.5	177	1.7	313
Argentina	0.4	41	0.5	82	0.0	5	0.1	11
Brazil	0.7	67	0.9	136	0.5	56	0.4	73
Colombia	0.1	13	0.1	20	0.5	60	0.5	91
Other	1.0	97	0.7	98	0.5	56	0.7	138
Other	6.4	651	6.2	920	2.0	240	2.0	390
GRAND TOTAL	100.0	10 178	100.0	14 921	100.0	11 827	100.0	18 747
of which								
EFTA countries	22.6	2 296	22.6	3 374	27.9	3 303	26.1	4 892
EEC countries	47.6	4 840	46.0	6 861	44.9	5 309	38.3	7 176
OECD countries	78.4	7 987	77.2	11 515	81.6	9 643	73.5	13 779

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
1971	9 845	11 762	-1 917	+660	+247	+66	-944	-477	- 1	-1 422
1972	12 012	13 087	-1 075	+731	+335	+72	+ 63	-586	+43	- 480
1973*	14 525	16 561	-2 036	+996	+341	+29	-670	-753	-57	-1 480

Jan.-March

1971*	2 168	2 536	- 368	+208	- 13	+19	-154	-135	- 1	- 290
1972	2 870	2 960	- 90	+217	+ 3	+ 1	+131	-142	-22	- 33
1973*	3 301	3 868	- 567	+257	- 5	+28	-287	-139	-14	- 440
1974*	4 589	5 663	-1 074	+281	+ 10	+28	-755	-233	-25	-1 013

Apr.-June

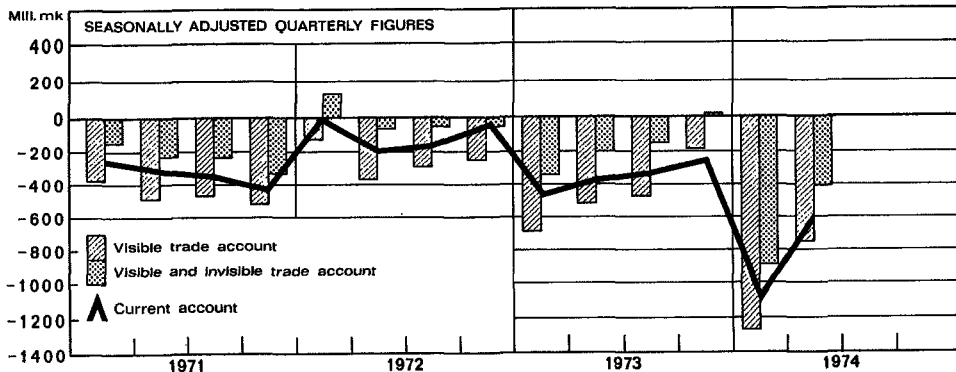
1971*	2 291	2 797	- 506	+141	+ 47	+21	-297	-118	- 1	- 416
1972	2 856	3 298	- 442	+162	+ 57	+46	-177	-155	- 8	- 340
1973*	3 182	3 842	- 660	+215	+ 48	+17	-380	-190	-22	- 592
1974*	5 160	6 224	-1 064	+199	+ 74	+72	-719	-239	-12	- 970

July-Sept.

1971*	2 501	2 864	- 363	+159	+166	+16	- 22	-119	- 4	- 145
1972	2 978	3 195	- 217	+170	+191	+19	+163	-140	+20	+ 43
1973*	3 638	4 086	- 448	+268	+240	+10	+ 70	-173	- 9	- 112

Oct.-Dec.

1971*	2 885	3 565	- 680	+152	+ 47	+10	-471	-105	+ 5	- 571
1972	3 308	3 634	- 326	+182	+ 84	+ 6	- 54	-149	+53	- 150
1973*	4 404	4 765	- 361	+256	+ 58	-26	- 73	-251	-12	- 336

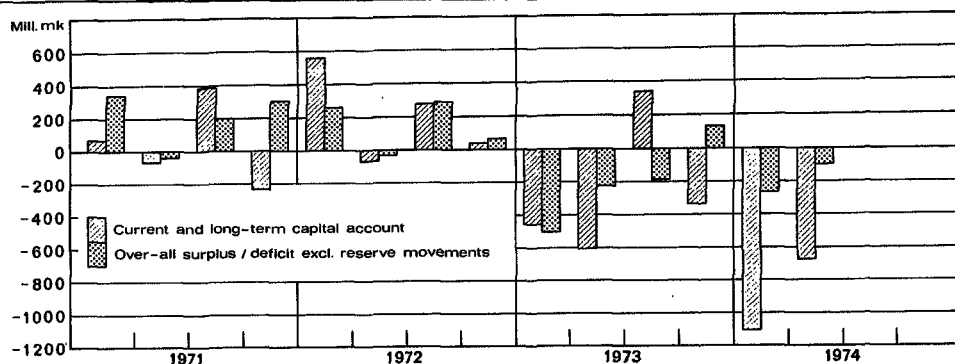


Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net ¹	Long-term capital account	Current and long-term capital account	Short-term import credits and prepayments, net	Short-term export credits and prepayments, net	Miscellaneous short-term capital items incl. errors and omissions	Over-all surplus/deficit excl. reserve movements	Reserve movements	
										Bank of Finland	Other foreign exchange holders
+2 730	- 855	-208	- 85	+1 582	+ 160	+387	+197	+ 62 ²	+806	-555	-251
+3 014	-1 228	-376	-106	+1 304	+ 824	+104	- 90	-247 ²	+591	-271	-320
+1 858	-1 366	+ 34	-114	+ 412	-1 068	-246	+561	- 31	-784	+491	+293
+ 609	- 228	- 5	- 17	+ 359	+ 69	+ 21	+329	- 77	+342	-314	- 28
+ 968	- 273	-115	+ 17	+ 597	+ 564	-152	- 27	-124 ²	+261	-327	+ 66
+ 365	- 396	+ 34	- 24	- 21	- 461	+ 20	+ 7	- 73	-507	+353	+154
+ 481	- 522	- 23	- 26	- 90	-1 103	+270	+285	+279	-269	+138	+131
+ 596	- 201	- 11	- 30	+ 354	- 62	-140	+146	+ 19	- 37	+ 99	- 62
+ 655	- 180	-192	- 5	+ 278	- 62	+ 92	+ 25	- 84	- 29	+ 37	- 8
+ 308	- 265	- 48	- 9	- 14	- 606	+ 94	+323	- 38	-227	+301	- 74
+ 758	- 362	-115	+ 15	+ 296	- 674	+369	+182	+ 27	- 96	- 99	+195
+ 869	- 252	- 89	+ 5	+ 533	+ 388	- 60	+ 21	-150	+199	- 35	-164
+ 628	- 327	- 41	- 25	+ 235	+ 278	+265	-124	-131	+288	-314	+ 26
+ 774	- 370	+ 60	- 16	+ 448	+ 336	-401	-257	+136	-186	+ 66	+120
+ 656	- 174	-103	- 43	+ 336	- 235	+566	-299	+270	+302	-305	+ 3
+ 763	- 448	- 28	- 93	+ 194	+ 44	-101	+ 36	+ 92	+ 71	+333	-404
+ 411	- 335	- 12	- 65	- 1	- 337	+ 41	+488	- 56	+136	-229	+ 93

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.



PRICE INDICES

Period	Wholesale prices 1949 = 100									Building costs 1964 = 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			
1971	312	315	302	309	361	304	346	295	303	149	162	134
1972	338	342	325	330	400	334	370	318	332	161	182	141
1973	398	401	385	403	447	378	435	395	378	188	202	176
1973												
Dec.	436	440	418	459	481	394	481	442	404	209	214	200
1974												
Jan.	452	453	448	479	487	407	509	452	417	214	217	209
Feb.	462	461	466	492	496	413	514	471	424	222	217	222
March	471	472	468	500	507	423	517	480	437	225	217	227
April	480	481	478	508	517	434	528	490	446	233	235	229
May	487	489	477	518	521	436	539	495	450	235	235	230
June	489	491	481	519	537	438	541	495	454	235	235	230
July	500	503	488	528	544	451	567	505	456	235	235	231
Aug.	505	507	497	532	549	457	567	510	463	235	235	231
Sept.	515	521	495	538	554	475	573	514	481	239	239	237
Oct.	524	531	497	549	570	478	595	510	489	241	239	238

Period	Cost of living Oct. 1961 = 100	Con- sumer prices Oct.-Dec. 1967 = 100	Consumer prices 1972 = 100									
			Total	Food	Bever- ages and tobacco	Clothing and foot- wear	Rent	Heating and lighting	Furniture, household equip. and operation	Traffic	Education and recreation	Other goods and services
1973	284	223	111	112	107	111	116	110	109	109	105	111
1973												
Dec.	303	237	118	161	107	117	131	129	116	115	109	116
1974												
Jan.	305	239	119	116	107	118	133	132	119	116	110	118
Feb.	314	246	122	117	107	121	135	162	122	124	114	118
March	317	248	123	118	108	123	137	158	123	124	114	121
April	324	255	126	126	108	124	140	159	125	126	115	121
May	328	257	127	128	108	126	141	160	127	127	115	124
June	329	258	128	129	108	126	141	150	128	128	116	125
July	335	263	130	131	108	127	146	151	129	129	119	130
Aug.	340	267	132	135	108	129	146	171	130	130	120	130
Sept.	348	273	135	142	109	133	147	172	131	130	121	132
Oct.	351	275	136	139	111	137	153	175	133	131	121	134

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							
1970	181	170	170	164	161	165	164	157	169	164
1971	210	195	195	180	176	178	188	171	195	185
1972	253	222	222	196	189	194	212	188	220	206
1973*	317	260	261	223	213	223	247	214	258	239
1973*										
Jan.-March	287	235	238	206	197	206	224	196	234	217
Apr.-June	331	260	248	227	215	226	249	216	259	241
July-Sept.	313	268	271	229	220	230	259	220	271	249
Oct.-Dec.	340	275	286	231	221	230	261	222	273	251
1974*										
Jan.-March	361	283	292	233	226	233	265	224	278	254
Apr.-June	388	316	319	265	251	263	298	251	314	286
July-Sept.	404	319	325	268	254	267	303	254	319	290

PRODUCTION

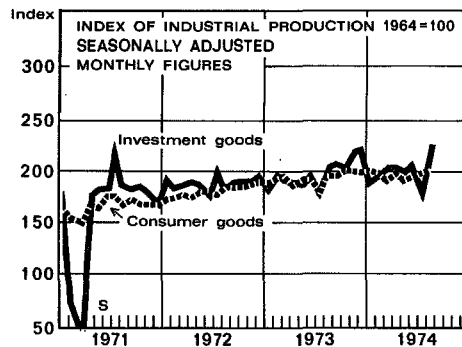
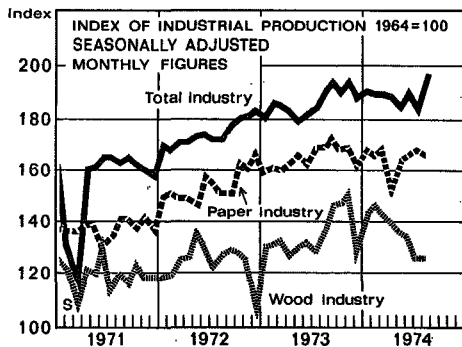
Volume indices of production 1964 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communications	Commerce, banking and insurance	Ownership of dwellings	Public admin. and defence	Services
1971	136	157	96	106	138	99	134	140	135	135	140
1972	145	177	94	95	149	103	143	155	142	143	148
1973*	153	188	96	96	161	104	154	169	150	148	156
1973*											
Jan.-March	152	197	53	130	131	105	145	163	147	147	156
Apr.-June	147	180	68	107	131	103	154	162	148	148	156
July-Sept.	153	169	169	53	198	105	159	165	149	149	156
Oct.-Dec.	160	204	64	96	184	101	159	186	153	150	158
1974*											
Jan.-March	157	204	55	126	138	103	153	168	155	152	163
Apr.-June	153	189	63	106	142	109	163	169	156	153	164

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 industry	Non-metallic mineral industry	Metal industry	
1972	114	116	114	111	111	109	112	142	115	118	113
1973*	121	123	122	120	114	118	120	151	124	128	121
1973*											
Feb.	121	127	122	118	97	118	117	151	124	131	121
March	134	138	134	133	109	133	128	165	141	142	120
April	116	117	115	117	104	112	101	157	127	122	119
May	128	132	126	131	126	133	124	151	96	140	116
June	110	121	108	114	110	113	95	131	71	125	119
July	85	56	92	73	110	65	120	115	116	59	120
Aug.	122	118	122	125	130	105	126	145	141	125	123
Sept.	122	126	123	118	114	121	126	157	132	129	126
Oct.	138	146	138	138	139	143	133	166	144	151	124
Nov.	135	145	134	135	126	134	128	161	143	148	126
Dec.	117	119	118	113	109	113	111	146	116	122	122
1974*											
Jan.	134	134	135	131	118	139	132	166	134	141	124
Feb.	124	127	125	121	106	134	121	155	127	132	123
March	134	139	136	128	107	139	136	179	140	144	123
April	123	133	121	126	121	130	95	160	137	138	122
May	132	140	132	131	127	139	123	156	135	145	120
June	113	122	111	113	114	110	97	145	116	126	124
July	86	58	91	79	120	65	121	129	88	61	120
Aug.	123	125	122	126	127	92	123	154	136	131	127
Sept.	123	129	123	122	116	106	123	150	134	133	122



LABOUR—TIMBER FELLINGS—INTERNAL TRADE—TRAFFIC

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 ¹	Retailers' sales volume index 1968 = 100	Wholesalers' volume index 1968 = 100
1969	3 480	2 189	2 127	62	2.8	40 107	108	117
1970	3 492	2 194	2 153	41	1.9	44 671	114	130
1971	3 507	2 199	2 150	49	2.2	41 264	118	137
1972	3 409	2 173	2 118	55	2.5	34 954	128	151
1973*	3 442	2 215	2 164	51	2.3	35 123	138	167
1973*								
Oct.	3 451	2 222	2 181	41	1.8	2 684	149	191
Nov.	3 453	2 220	2 180	40	1.8	3 219	142	180
Dec.	3 455	2 216	2 168	48	2.2	3 433	185	187
1974*								
Jan.	3 471	2 187	2 134	53	2.4	3 510	119	156
Feb.	3 474	2 194	2 140	54	2.5	3 923	122	160
March	3 476	2 183	2 138	45	2.1	4 014	131	174
April	3 478	2 199	2 154	45	2.0	3 976	137	169
May	3 480	2 236	2 200	36	1.6	3 527	143	175
June	3 483	2 432	2 397	35	1.4	2 308	140	163
July	3 485	2 447	2 409	38	1.6	1 305	146	155
Aug.	3 487	2 355	2 318	37	1.6	1 545	148	185

¹ New series.

CONSTRUCTION OF BUILDINGS

Period	Building permits granted					Buildings completed					Buildings-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											
1971	42.63	19.54	3.10	15.18	2.60	37.35	15.79	3.16	13.88	2.91	37.64
1972	47.73	20.56	3.08	16.50	4.28	40.00	18.15	2.84	14.19	2.99	40.57
1973*	54.96	24.68	3.82	20.96	2.81	40.20	18.81	2.91	13.63	2.82	51.42
1973*											
Jan.-March	10.62	3.99	0.80	4.85	0.50	8.46	3.86	0.43	3.38	0.51	38.65
Apr.-June	16.97	7.85	1.73	5.82	0.62	6.51	3.27	0.33	2.08	0.37	47.39
July-Sept.	16.23	7.86	0.84	6.06	0.76	10.34	4.65	0.91	3.31	0.78	55.01
Oct.-Dec.	11.13	4.98	0.45	4.09	0.92	13.85	6.66	1.11	4.51	1.13	51.42
1974*											
Jan.-March	10.33	3.65	0.68	4.79	0.76	8.72	3.98	0.45	3.31	0.69	48.27

EXPLANATIONS RELATING TO THE STATISTICAL SECTION

BANK OF FINLAND

Page 4. Since Dec. 31, 1969. *Gold and foreign exchange* = Gold (valued on basis of the value of the mark) + Special drawing rights + IMF gold tranche + Foreign exchange. *Liabilities on foreign exchange and mark accounts* = Foreign exchange accounts + Mark account of holders abroad. *Other foreign assets* = Foreign bills + Foreign bonds + Currency subscription to Finland's quota in the IMF. *Other foreign liabilities* = Foreign term liabilities + IMF mark accounts. *The Treasury cheque account* = The cheque account of the Treasury with the Bank of Finland; while *Treasury term liabilities* = Export levies + Governmental counter-cyclical fund + Counter-cyclical tax account — Treasury's IMF and IBRD bills (net). *Foreign exchange situation*: Gold holdings are valued on basis of the par value of the mark. Gold tranche position measures that part of Finland's quota which may be drawn essentially automatically in convertible exchange against payment in marks.

Page 5. *Other advances* = Inland bills discounted in foreign currency + Loans + Other claims (excl. Treasury's IMF and IBRD bills). *Liabilities* = Other cheque accounts + Other sight liabilities + Domestic term liabilities (excl. Export levies + Governmental counter-cyclical fund + Counter-cyclical tax account + Deposit certificates + Cash reserve accounts). *Deposit certificates* are interest bearing, freely transferable, term liabilities of the Bank of Finland. Their maturities range from one week to one year.

DEPOSITS BY THE PUBLIC —

ADVANCES TO THE PUBLIC — MONEY SUPPLY

Figures for deposits and advances are supplied by the Central Statistical Office. From the beginning of 1974 the figures include deposits by and advances to other credit institutions.

Page 6. *Cheque accounts in all credit institutions* relates to commercial banks, savings banks and co-operative banks.

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

STATE FINANCES

Page 8. Official 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 9—11. Figures supplied by the Board of Customs. *Indices* (p. 9). 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. 11): imports by countries of purchase exports by countries of sale.

BALANCE OF PAYMENTS

Pages 12—13. 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.

PRICE INDICES

Page 14. All indices calculated by the Central Statistical Office.

WAGES — PRODUCTION

Pages 15—16. Figures supplied by the Central Statistical Office.

Page 16. *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 — INTERNAL TRADE — TRAFFIC — CONSTRUCTION OF BUILDINGS

Page 17. *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

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 for three 6-year periods. His last term of office was extended by four years and will end on March 1, 1978.

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 1972 is as follows: Social Democrats 56, People's Democrats 37, Centre Party 35, Conservatives 33, Finnish People's Unification Party 13, Swedish Party 9, Liberal Party 6, Finnish Farmers Party 5, Christian League 4 and Finnish People's Constitutional Party 2.

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 and OECD 1969.

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 (88.4 %) 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 (1973): 4.7 million. Sweden 8.1. Switzerland 6.4, Denmark 5.0 and Norway 4.0 million.

DENSITY OF POPULATION (1973): In South Finland 44.9, in East and Central Finland 14.0, in North Finland 3.9 and in the whole country an average of 15.3 inhabitants to the square kilometre.

DISTRIBUTION BY AREA (1973): 57 % of the population inhabit the rural areas, 43 % towns and urban districts. The largest towns are: Helsinki (Helsingfors), the capital 505 700 inhabitants, Tampere (Tammerfors) 164 400, Turku (Åbo) 162 200.

EMPLOYMENT (1973): Agriculture and forestry 17 %, industry and construction 35 %, commerce 16 %, transport and communications 7 %, services 25 %.

LANGUAGE (1971): Finnish speaking 93.2 %, Swedish speaking 6.6 %, others 0.2 %.

EDUCATION (1974): Practically all persons over 15 years of age are literate. There are 6 universities (the oldest founded in 1640) and 11 colleges of university standard.

CHANGE OF POPULATION (1973): births 12.2 ‰, deaths 9.3 ‰, change + 4.1 ‰, net immigration 1.2 ‰. Deaths in France 10.7 ‰ and Great Britain 12.0 ‰.

TRADE AND TRANSPORT

NATIONAL INCOME (1973, in million marks): Gross domestic product at factor cost by industrial origin: agriculture 3 378 (6 %), forestry and fishing 3 728 (6 %), manufacturing 18 561 (32 %),

construction 5 788 (10 %), transport and communication 5 617 (10 %), commerce, banking and insurance 7 620 (13 %), public administration 2 624 (4 %), ownership of dwellings 2 770 (5 %), services 8 490 (14 %), total 58 576. Index of real domestic product 153 (1964 = 100).

FOREST RESOURCES (1973): The growing stock comprised of 1 501 million m³ (solid volume with bark), of which 44 % was pine and 38 % spruce, the remaining 18 % being broad-leaved trees, chiefly birch. Of the growing stock, 618 million m³ was up to the standard required for logs, 56 % of these being pine. The annual growth was 56.9 million m³ and the total removal, calculated on the basis of roundwood consumption, was 55.4 million m³.

AGRICULTURE (1972): Cultivated land 2.7 million hectares. Number of holdings 286 500, of which 189 100 are of more than 5 ha. Measure of self-sufficiency in bread cereals 105 % in the crop year 1972/73.

INDUSTRY (1972): Gross value of industrial production 44 958 mill. marks, number of workers 404 033, salaried employees 114 534, motive power (1971) 5.7 mill. kW. Index of industrial production 114 for 1972 (1970 = 100).

STATE RAILWAYS (Jan. 1, 1974): Length 5 897 km.

MERCHANT FLEET (Sept. 30, 1974): Steamers 29 (21 300 gross reg. tons), motor vessels 363 (743 600 gross reg. tons) tankers 59 (775 700 gross reg. tons). Total 451 (1 540 600 gross reg. tons).

MOTOR VEHICLES (Dec. 31, 1973): Passenger cars 894 100, lorries and vans 119 900, buses 8 400, others 5 700. Total 1 028 100.

FINNISH AIRLINES (April 30, 1974): Finnair and Kar-Air have in use 4 DC-8-62s, 1 DC-6s, 8 Super Caravelles 8 DC-9s and 5 Convair Metropolitan. Companies have scheduled traffic outside of Finland to 27 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). Since Oct. 12, 1967, the par value of the mark is 0.21159 grams of fine gold per mark (equivalent to 4.20 marks per one SDR). On Feb. 15, 1973 a central rate of 3.90 marks to one U.S. dollar was set, and since June 4, 1973 the mark has been allowed to float.

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, 1973). There are two big and five small commercial banks with in all 846 offices, 298 savings banks, 398 co-operative banks, six mortgage banks, and Postipankki. The co-operative stores accept deposits from their members. The Social Insurance Institution and fifty-eight private insurance companies also grant credits.

RATES OF INTEREST (July 1, 1973). 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 9 ¼ %. The range of rates for other credits granted by the Bank of Finland is between 7 ½ and 10 ¼ %. Other credit institutions: term deposits 5 ¾ %; 6 month deposits 6 ¼ %; 12 month deposits 6 ¾ %; 24 month deposits 7 ¾ %; and sight deposits 1 ½ %; highest lending rate 12 ½ %.

FINANCING FINNISH INVESTMENT WITH DOMESTIC SAVING

by Sirkka Hämäläinen, M.Sc. (Econ.), Head of Domestic Office and
Seppo Kostiainen, M.Pol.Sc., Head of Monetary Office

Economics Department
Bank of Finland

Recently inflation in most of the industrialized countries of the West has been so rapid that the attractiveness of financial saving has been reduced markedly at a time when the financial requirements of industry have grown. The consequences of the continuation of high inflation can be serious in Finland where domestic savings have fallen short of investment needs since the 1960s. Although the share of gross saving in the gross domestic product has tended to rise throughout the entire post-war period, its growth has been slower than the growth of the share of gross investment in GDP (Chart 1). In the 1950s the average propensity to save was 26.6 per cent, which was more than adequate for financing investment but since the beginning of the 1960s, it has been necessary to borrow abroad to an increasing extent, even though the average share of gross saving in GDP rose to 27.8 per cent in the 1960s and to 30.2 per cent during the first four years of the 1970s. In the 1960s, net foreign borrowing for investment purposes amounted to 1.2 per cent of GDP on average and in the first years of the 1970s it came to 2.2 per cent.

This financial imbalance, which is reflected in the sharp growth of foreign debt, is linked with a number of complex problems. For example, it is necessary to aim at certain growth targets and to raise the standard of living in order to prevent emigration. The shortage of labour means that additional investment is needed just to maintain economic growth, even though it may be possible to alleviate the shortage temporarily through certain tax, wage and social policy measures. Thus continued capital imports will be needed in the short run.

When searching for a long-term solution to the country's financial problem, the main emphasis will be laid on raising the return on investment by increasing industry's share in total investment and by improving the general efficiency of investment. Since the average propensity to save in Finland is fairly high by international standards, it has been thought that it will not rise or even remain at its present level. The factors underlying recent developments in saving are examined in the following article, where an attempt is also made to cast light on the factors likely to affect the course of future developments.

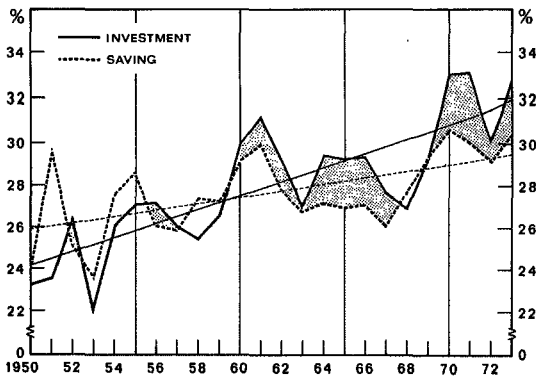
THE DEVELOPMENT OF SAVINGS IN 1950—1973

The rising trend in the rate of gross saving for the whole economy until the early 1960s was due both to the growth in the average propensity to save of households and to the growth in the share of corporate income in total disposable income. Since then the corporate and the public sectors have accounted for the rise in the total propensity to save.¹

The public sector was responsible for most saving in Finland during the exceptional post-war years. At the beginning of the 1960s, the share of the public sector in the domestic financing of gross capital formation settled at

¹ Public sector gross saving is obtained by deducting public consumption (= wages and salaries plus net purchases from companies and abroad) from public sector gross disposable income (= revenue from property and Government enterprises plus net current transfers from the private sector and abroad plus depreciation on buildings minus interest on public debt). Household saving is obtained by deducting personal consumption from household gross disposable income (wages and salaries plus income from unincorporated enterprises and property minus net current transfers to the public sector and abroad minus interest on consumer credit plus depreciation on houses). Gross corporate saving is the same as the corporate sector's disposable income or undistributed profits plus depreciation. Government enterprises are included in the corporate sector.

CHART 1. THE SHARE OF GROSS SAVING AND GROSS INVESTMENT IN GDP



an average of 30⁷ per cent (Chart 2). The share of corporate saving in total saving doubled at the beginning of the 1960s, mainly as a result of changes in depreciation allowances, and it too reached 30 per cent. As a consequence of a rising propensity to save, the household sector became the most important locus of saving in the 1960s, and its share rose to an average level of 37 per cent. Even though the rate of saving of the household sector has continued to rise, its share in gross saving has gone down since the late 1960s because its share in gross disposable income has fallen. At the same time, the shares of the public and corporate sector in gross disposable income and saving have grown.

THE HOUSEHOLD SECTOR

The growth in the share of the household sector in total saving from 1950 until the late 1960s was a result of a rise in the propensity to save within this sector (Chart 4) which accompanied the growth of household disposable income. The tax concessions favouring residential construction (see Appendix) also helped to raise the savings rate in the 1950s and particularly in the early 1960s. One reason for the rising trend in the rate of saving during the 1960s was the vigorous growth in statutory social security funds. The changes in these funds are included in the savings of the household sector, and in the 1950s they accounted an average for 1 ½ percentage points of household saving, and 2 ½ percentage points during

the first four years in the 1970s (Chart 4). This increase in social security funds has been the real reason for the slight rise in the savings rate of the household sector since the beginning of the 1960s, for the rate of voluntary saving of the household sector has remained at about 13.5 per cent.

The sharp decline in the number of unincorporated enterprises (mainly farms) which are considered to be a part of the household sector has tended to reduce the average rate of voluntary saving in this sector (Chart 4), because their propensity to save is higher than average. On the other hand, the rate of saving has been raised by increased purchases of dwellings, particularly since the late 1960s, when the large number of people born just after the war entered the labour market and needed dwellings and when migration to the growth centres of southern Finland was at its greatest. The central government has promoted the purchase of dwellings by granting a growing number of loans for residential construction (see Appendix).

CHART 2. SECTORAL BREAKDOWN OF GROSS SAVING, PER CENT

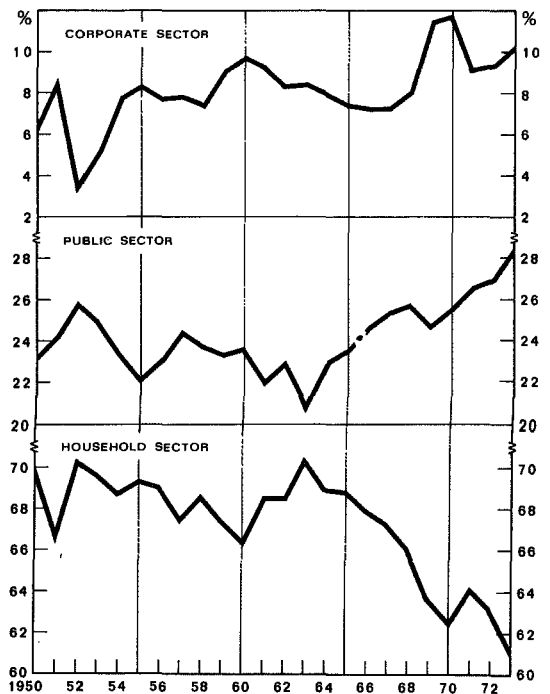
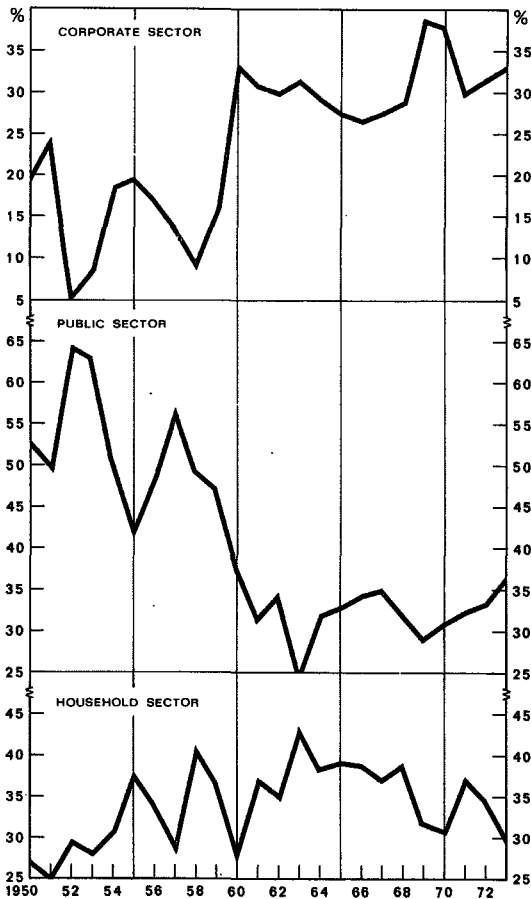


CHART 3. SECTORAL BREAKDOWN OF GROSS DISPOSABLE INCOME, PER CENT



Although the rate of saving of the household sector has risen steadily, the share of this sector in total saving has declined since the late 1960s, because its share in total disposable income has fallen as a result of inflation and progressive tax scales. (Chart 3).

In the 1960s purchases of real assets accounted for about 80 per cent of household saving, and during the residential boom of the early 1970s roughly 90 per cent. Accordingly the share of the household sector in the financing of industrial investment declined to about half of its average for the 1960s. Bank deposits have made up the bulk of the financial claims held by this sector, the average rate of deposit saving was four per cent in the 1960s and more than six per cent during the first four

years of the 1970s. However, indebtedness rose significantly in this period mainly as a result of the growth of borrowing for the purchase of housing.

CORPORATIONS

The growth of gross corporate sector saving was faster than that of national income from 1950 to 1973. The share of the corporate sector in total saving doubled at the turn of the 1950s and 1960s, when depreciation allowances were increased notably (see Appendix) and when the devaluation of 1957 increased company profits. However, the increase in profitability achieved through the devaluation was rapidly worn away, as is indicated by the decline in the share of this sector in total disposable income and total saving from 1961 to 1967 (Charts 2 and 3). As a consequence of the devaluation of 1967, both these shares tended to rise until 1971 when wave of strikes caused a sharp temporary fall. Due to very strong investment activity, the financial deficit of the corporate sector rose from about 35

CHART 4. THE AVERAGE GROSS SAVINGS PROPENSITY OF THE HOUSEHOLD SECTOR

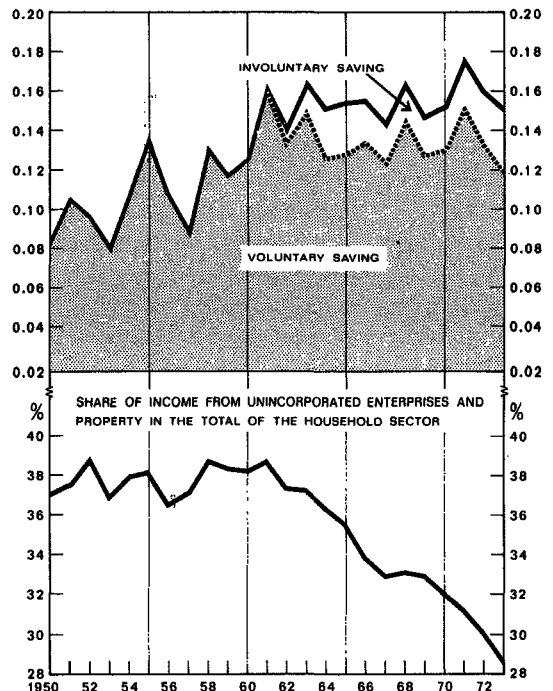
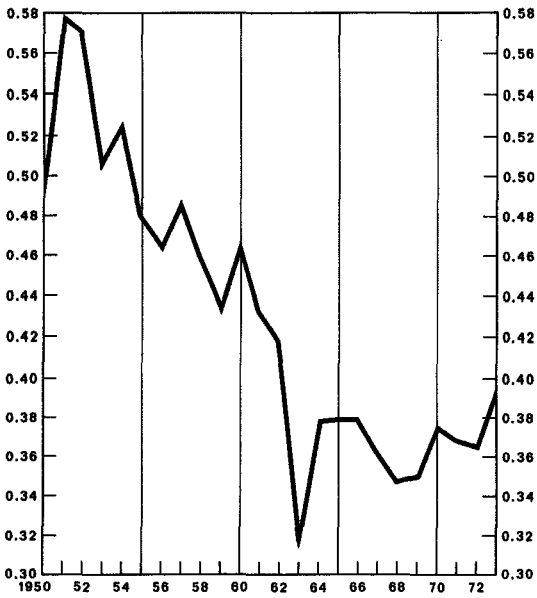


CHART 5. THE AVERAGE GROSS SAVINGS PROPENSITY OF THE PUBLIC SECTOR



per cent in the 1960s to about 40 per cent in the first four years of the 1970s.

THE PUBLIC SECTOR

After declining in the 1950s, the share of the public sector in total saving remained fairly stable in the 1960s (Chart 2). The decline in the rate of saving in the 1950s was the result of a fall in the share of this sector in total disposable income and a decline in the propensity to save resulting from the reduction in the need for investment following the exceptionally heavy post-war investment boom (Charts 3 and 5). Towards the end of the 1950s and at the beginning of the 1960s, the extension of the social security system and the strong growth of wage expenditure, together with a decline in the share of the public sector in total disposable income, weakened public sector saving. Despite the steadily increasing cost of public services, the substantial growth in public sector income has helped to stabilize the public sector savings rate at 0.36—0.37. The growth of income was a consequence of a rise in central government tax receipts, caused by changes in tax rates in the 1960s and by steeper effective progression since the late

1960s resulting from inflation and the absence of any revision in tax scales.

Throughout the period under review, the central government has played a predominant rôle in public sector saving, accounting for about two thirds of the total saving of this sector. Central government saving has clearly exceeded central government investment in all years of the period under review except 1963. In the 1960s, the average financial surplus of the central government was six per cent of central government disposable income, and during the first four years of the 1970s the figure was as much as 25 per cent. However, local authority investment exceeded corresponding savings by slightly less than a fifth in the 1960s and by one tenth in 1970—1973.

From the beginning of the 1960s, the financial surplus of the public sector was mainly used to finance industrial investment and partly to support residential construction. Greater emphasis has been laid on residential construction since the late 1960s.

THE PROSPECTS FOR DOMESTIC FINANCING

The development of the propensity to save for the economy as a whole depends on how fast total production and income grow, how the sectoral distribution of income changes and how the savings rates of the household and public sectors evolve.

Besides the growth of disposable income the most important determinants of the household sector's propensity to save are changes in the distribution of income within the household sector, changes in the age and regional structure of the population and the development of the social security system.

Greater equality in the distribution of income — which has been one of the goals of recent labour market agreements and taxation measures — may gradually reduce the average propensity to save, but up until now it has

been difficult to achieve this goal because of excess demand for skilled labour. A number of studies, e.g., the Bank of Finland savings inquiry of 1969 (see item page 31), show that the propensity to save is rather much higher in the upper income brackets than in the middle and lower brackets. On the other hand, greater equality in the distribution of income makes it possible for lower income households to save, primarily to buy their own homes. However, in all the net effect of this factor will be to reduce the propensity to save.

One of the factors affecting the average household saving's rate is the breakdown of income into entrepreneurial and wage components. As the fall in the number of farmers will probably slow down, the downward pressure on the propensity to save resulting from this structural change will be reduced.

During the current decade the great number of people born just after the war will come into the 25—35 age bracket. Since the propensity to save of those in this age bracket is higher than average because of the need to purchase housing¹, the growth in the share of this age group in the total population will tend to raise the need for housing and the propensity to save. On the other hand, the decline in migration and the aim of raising the share of the public sector in the financing of housing will lower the need of households to save before and after home purchase. However, in the years to come the propensity to save will be kept high by the repayment of the large number of housing loan taken in the late 1960s and the early 1970s.

The pronounced improvement in social security which has taken place since the 1950s, has reduced the need to save for a rainy day. However the desire to save for future expenses, e.g., to maintain one's standard of living during retirement or at a time when the expense of educating one's children is highest, has obviously grown. When the standard of living is rising, it is easier to pay attention to future

needs, and the improvement in social security may, for its part, have made households more conscious of these needs. It can be assumed that this kind of saving will mainly take the form of the purchase of financial claims, although pressure to acquire real property will strengthen in inflationary conditions.

One of the factors which is expected to maintain the growth of saving is the anticipated rise in the growth in social security funds which will result from the further development of the system.

It is difficult to assess the total impact of all the factors which affect the propensity to save of the household sector. Nonetheless it seems possible that the average household propensity to save may remain unchanged or even continue to rise slightly. A shift to financial saving can be expected if the rate of inflation is not substantially higher than during the last decade.

Although the propensity to save of the public sector depends on political decisions, it seems unlikely that it will rise during the current decade, as current expenditure, e.g., on education and health care, will increase sharply. The need for public sector investment will also limit the ability of this sector to help to finance corporate investment, if public sector income does not grow faster than national income.

Income growth and changes in the sectoral distribution of income are more important for the development of the savings rate for the economy as a whole than the factors mentioned above. However, at present it is difficult to forecast how these factors will develop. If the growth of production and income decelerates, as can be expected because of supply constraints, and if the distribution of income changes in favour of the household sector in reaction to the developments of recent years, the savings rate for the economy as a whole will fall. But if the rate of inflation remains higher than in the past, the share of both the public and corporate sectors in disposable income might continue to grow and thus help to raise the savings rate for the economy as a

¹ This view is supported by the Bank of Finland savings inquiry of 1969.

whole. On the other hand, inflation would tend to reduce household financial saving, and thus to put further strain on the financing of industrial investment.

THE PROMOTION OF SAVINGS

As was mentioned above, the most vital measures affecting the overall propensity to save are those which influence the intersectoral distribution of income and the goals for public sector consumption, investment and financing. Many of these measures clash with social and political considerations. For example, saving could be promoted by increasing the share of the public sector in total disposable income or by increasing disparities in the distribution of household income. The distribution of income between different sectors — particularly between the public and the private sector — as well as the savings rate and the financial surplus of the public sector have been influenced by considerations other than domestic financing of investment, although increasing stress is being placed on this goal.

The measures implemented in Finland to promote household saving can be divided into three major categories: first, those affecting the return on investments; secondly, those expanding the investment options for savers and thirdly, those indirectly affecting the propensity to save, which are primarily intended to curb consumption. The Appendix lists the major measures implemented in accordance with this classification.

Three different types of measures have been used to affect the return on investment: a) increasing the nominal return, b) allowing tax relief on the investment itself or the return on it and c) protecting the real value or the real return on investment against inflation with the help of index linkages. In the attempt to increase the nominal return, changes in the rate of interest have been of minor importance. General deposit rates were raised for the first time in sixteen years in May of

1971 (see Appendix). However, changes in nominal interest rates have a rather small impact on financial saving in an economy which is susceptible to inflation.

Tax concessions have had a greater impact on the yield of different financial assets than changes in the nominal return. They have been made for bank deposits, bonds, shares, construction of rental housing, home ownership, and interest expenses (see Appendix). The purpose of these measures has been in part to promote saving, particularly financial saving (deposits, bonds etc.), and in part to reach certain social policy goals (housing).

Index linkage have been used to secure the real value and real return on financial saving. In Finland the index clause has been used to a varying degree since the middle of the 1940s, and was generally applied to deposits, bonds and life assurance before the conclusion of the Incomes Policy Agreement of 1968. At present, the index clause is applied only to a limited extent, e.g., to life assurance contracts and to bonds floated before 1968. The rapid inflation of the recent past has given rise to the proposal that index clauses again be applied to financial claims, but it has met with some opposition because it is feared that the index clause itself may exacerbate inflation.

The savings promotion measures designed to widen the range of investment options available to households have included the introduction of deposit accounts with varying periods and returns, as well as the institution of facilities for financing housing (see Appendix).

The purpose of introducing deposit accounts with varying periods and returns has been to make it possible for households to place their money in accounts which pay a higher than average return on funds which are illiquid for a longer period. The introduction of deposit accounts with special incentives for certain types of savers (e.g., young people) has probably influenced the savings portfolio, but may also have channelled some funds from consumption or investment in real property into financial saving.

State housing loans have made it easier for middle and low income households to purchase a home. Recently about half of the dwellings completed have been partly financed by central government funds. The growth in the repayment of housing loans raises the household savings rate, but even then, it may merely mean that saving occurs at a certain stage of life rather than at another.

Counter-cyclical measures designed to affect consumption and the balance of payments constitute the third type of savings promotion measures. In general an attempt is made to divert household income from consumption to saving. These measures have included, e.g., a supplementary turnover tax on certain durable consumer goods, various increases in taxes on motor vehicles and the regulation of hire purchase terms (see Appendix). These measures have only been effective when

combined with reduced access to consumer credit.

If the household propensity to save is to be raised or kept at its present level, the purchase of dwellings must be further promoted, both by financial and taxation measures, since home ownership is the most important goal behind household saving. However, this type of saving leads to further investment in housing, even though the solution of the financial problems of the country would require that the financial surplus of the household sector be raised.

Financial saving and the development of the financial surplus of the household sector depend critically on inflation and expectations of further price rises. It would be important to make financial claims more competitive with real assets so that they would attract a larger share of total saving.

APPENDIX

1. MEASURES AFFECTING THE PROPENSITY TO SAVE OF THE CORPORATE SECTOR

1.1. CORPORATE TAXATION AND DEPRECIATION ALLOWANCES

Changes in corporate taxation and depreciation allowances are shown in the table below. However, this information alone does not indicate the total corporate tax burden because other payments such as counter-cyclical withholdings and export levies are not included.

Changes in corporate taxation and depreciation allowances 1950—1974

Year	Income tax, basic tax	Per cent surtax	Property tax, per cent	Depreciation allowances
1950	45	—	.8	— from 1944 a flat rate depreciation system was used, in which the minimum period for writing off movable fixed assets was about 13 years and about 40 years for factory buildings.
1951	32	—	»	
1952	»	—	»	
1953	»	—	»	— from 1953 corporations were allowed to make additional write-offs.
1954	38	—	1.0 ¹	
1955	»	—	»	— in 1956 a declining balance depreciation method was introduced for machinery and equipment.
1956	32	—	.8	
1957	38	—	1.0 ²	— in 1957 the minimum period for writing off machinery and equipment was reduced to about 6 years.
1958	»	—	1.0 ³	
1959	»	7 ⁴	»	— in 1958 the period for writing off for buildings was reduced to about 32 years.
1960	»	—	»	
1961	»	—	1.0 ⁵	— in 1959—1960 corporate depreciation allowances were extended temporarily by the introduction of employment depreciations.
1962	»	12 ⁴	»	
1963	»	—	1.0 ⁶	
1964	45	—	1.0 ⁷	
1965	42/48 ⁸	—	»	
1966	42/48 ⁸	—	»	— in 1969 the Law on the Taxation of Business and Professional Income came into force; the 12 per cent minimum write-off limit for machinery and equipment was removed, and a declining balance method was introduced for the depreciation of buildings. The limit on the undervaluation of stocks was lowered from 100 per cent to 50 per cent of their cost value.
1967	47/49 ⁸	—	»	
1968	47/49 ⁸	9 ⁹	—	
1969	43 ¹⁰	6 ⁹	—	
1970	»	4 ⁹	—	
1971	»	—	—	
1972	»	—	—	
1973	»	—	—	
1974	»	—	—	

¹ the tax value of real estate was raised
² additional taxes were collected from major property owners
³ property taxation was eased by raising the lower limit on property taxation
⁴ progressive scales used for supplementary taxes
⁵ tax bases for agricultural real estate lowered
⁶ tax bases for agricultural real estate were raised
⁷ supplementary property taxes were collected
⁸ for distributed profits/for undistributed profits
⁹ corporate income tax rates were temporarily raised when corporate property taxes were removed
¹⁰ basic tax rates were lowered as a result of the reform of business and professional income taxation, and the tax bases for the taxation of distributed and undistributed profits were made uniform.

1.2. THE USE OF COUNTER-CYCLICAL RESERVES

Various voluntary counter-cyclical reserve systems have been used in Finland primarily in order to even out fluctuations in export earnings. In 1951—1952 certain counter-cyclical withholdings were required in connection with exports of forest industry products. Certain tax concessions were made for these withholdings, which were collected to a lesser extent even after a permanent law on counter-cyclical reserves was passed in 1954. In 1955 an investment fund system was

introduced, which entitled certain firms to transfer part of their annual profits to an investment fund and to deduct the amount transferred from their taxable income. The firms had to deposit an amount equal to the reduction in their state tax liability on a special investment account at the Bank of Finland. No depreciation is allowed on fixed investment financed with these funds. In 1964 this system was extended by increasing transfer rights and the number of firms participating in the system. The investment fund deposits made by shipbuilding and mining companies were based on special acts which were passed in 1958 and 1964. Towards the end of 1969, the central government and different labour market organizations agreed to intensify and supplement the voluntary counter-cyclical reserve system. This agreement was based on the assumption that investment fund transfers and counter-cyclical deposits would total 400 million marks by the beginning of 1971. During 1974—1975, counter-cyclical withholdings totalling 300 million marks will be collected from the forest industries.

1.3. EXPORT LEVIES AND COUNTER-CYCLICAL TAXES

From the devaluation of 1957 until September 1958, a gradually declining scale was used to collect a special export levy on almost all exports. Export levies were also collected after the devaluation of 1967; at first they were 14 per cent of export value but subsequently a declining scale was used until the abolition of this levy in April 1969. In 1971 a special counter-cyclical tax was collected from the wood-processing industries; it was 2.5 per cent of the total value of goods exported between September 1969 and September 1970.

1.4. ASSISTANCE TO FIRMS IN THE DEVELOPMENT REGIONS

Since 1966 tax concessions have been granted and interest subsidies paid to enterprises investing in the development regions. The development region laws of 1969 increased these benefits and made more firms eligible for them.

2. MEASURES DESIGNED TO AFFECT THE PROPENSITY TO SAVE OF THE HOUSEHOLD SECTOR

2.1. MEASURES AFFECTING THE RETURN ON INVESTMENTS

2.1.1. THE NOMINAL RETURN ON INVESTMENTS

Changes in interest rates. During the last two decades, Finnish interest rates have not been changed very frequently, and the changes have ranged between ¼ and 2 percentage points, as the following table shows.

Changes in interest rates paid on ordinary deposit (6-month) accounts in 1950—1974

Date of change	Interest rate	Date of change	Interest rate
1. 7. 1949	5	1. 10. 1958	5
1. 10. 1950	7	1. 4. 1959	4 1/2
1. 1. 1952	5	1. 3. 1969	4
1. 2. 1952	5 1/2	1. 6. 1971	5
1. 7. 1955	6	1. 1. 1972	4 1/4
1. 1. 1956	5 3/4	1. 7. 1973	5 3/4

The use of incentives paid to holders of deposit accounts. Incentives have been distributed by lot annually from state funds to holders of youth deposit accounts which were introduced at the beginning of 1967; these incentive payments are not less than one per cent of the sum of new minimum deposits (See item 2.2.1.).

A bill concerning a system of interest subsidies and savings incentives is under consideration at present. This system is scheduled to come into force from the beginning of 1975, and is designed to increase the nominal return on deposits by providing incentives and a $\frac{3}{4}$ per cent interest subsidy from state funds. The total amount of the savings incentives would be $\frac{1}{2}$ per cent of the annual growth of deposits in these accounts, and the deposits interest income and savings incentives would be exempt from taxes (See 2.2.1.).

2.1.2. TAXATION AND THE RETURN ON HOUSEHOLD SAVING

Taxation of deposits. Since the 1940s, various acts have made interest earnings on funds placed in deposit accounts exempt from income tax and the deposits exempt from wealth tax. The present act will be in force until the end of 1975, and under certain conditions, will extend into 1976 and 1977. The tax treatment of index-tied deposit accounts (See item 2.1.3. and 2.2.1.) has varied, but from the spring of 1964 until the abolition of index linkages in March, 1968 these accounts were tax exempt.

A special tax concession account system existed in 1959—1960; the holder of a 3-year tax concession account was allowed to deduct not more than 800 marks from his taxable income. Plans exist to implement a revised tax concession account system from the beginning of 1975; in each year from 1975—1978 the holder will be allowed to deduct 4 per cent of the amount deposited in tax concession accounts, but not more than 480 marks, from his income liable to state taxation. (See 2.2.1.).

Taxation of securities. Government bonds intended for public subscription were exempt from taxes throughout the 1950s, they were taxable in 1961 and 1962, but again exempt until 1967. Bonds floated by other issuers were taxable in all years up till 1967, except 1957 and 1958. All bonds floated in 1967 were 50 per cent tax exempt, and government bonds have been totally tax exempt since 1968 and bonds floated by other issuers since 1969.

Dividend income is subject to income taxation, but certain deductions are allowed. During 1956—1967, 15 per cent of dividend income received from domestic joint stock companies could be deducted. In 1968 the provisions were revised so that up to 400 marks could be deducted but limited percentage deductions were still allowed. In 1972 and 1973, percentage deductions were not permissible, and in 1973, the maximum deduction was raised to 500 marks.

Taxation of housing. Laws providing for tax concessions favouring residential construction were enacted in 1948, 1953, 1958 and 1962. On the basis of the first three laws, dwellings, shares and partnerships in housing corporations meeting certain conditions were totally exempt from both state and municipal taxes in 1948—1972. In the 1962 law only new owner-occupied dwellings were exempt from income and property taxation in 1963—1972. However, the favourable tax treatment of other dwellings was phased out by 1966.

The presumptive income derived from occupying a dwelling of one's own was subject to taxation until June 1973. Since then the presumptive income derived from an owner-occupied dwelling has been tax exempt if the tax value of the dwelling does not exceed 100 000 marks; 3 per cent of the amount exceeding this limit is subject to income tax. Other dwellings and summer cottages are taxable.

From the beginning of 1972, profits from the sale of dwellings have been exempt from taxes, if the owner of the dwelling has occupied it for at least one year, and if he buys a new dwelling for his own use within one year. The profits from the sale of other dwellings are taxable income, unless the shares in the housing corporation in question have been owned for five years or unless the single family house in question has been owned for ten years.

Before 1973 interest expenses on loans, used to purchase single family houses were totally deductible only in state taxation; they could only be deducted from the presumptive income from an owner-occupied dwelling in municipal taxation. Since 1973 interest expenses have been totally deductible from all income both in state and municipal taxation. An act concerning the right to make deductions for interest expenses in state taxation will come into force at the beginning of 1975; the right will be limited so that the maximum deduction will be 15 000 marks for housing loans and 5 000 marks for other loans.

2.1.3. MEASURES DESIGNED TO AFFECT THE REAL RETURN ON INVESTMENT

The application of index clauses to deposits. In 1955—1968 there were two types of index clause accounts in use, in which not less than 300 marks could be deposited at one time. (See 2.1.1. and 2.2.1.). The hundred per cent index-linked account, or Account A, was in use in two different periods, i.e. from May, 1955, until the end of 1958 and from June, 1963 to March 1968, when index clauses were abolished. The basic interest rate of Account A varied between $2\frac{1}{2}$ and $5\frac{3}{4}$ per cent, and interest income was taxable until May 1964, when it was made tax-free. The fifty per cent index-tied account, or Account B, was in use from the beginning of 1957 until June 1966; the basic interest rate on this account varied between $3\frac{1}{2}$ and $4\frac{3}{4}$ per cent, and interest income was tax-free throughout the whole period.

The application of index clauses to bonds. Index clauses were generally applied to government bonds intended for public subscription from the 1950s until the general abolition of the index linkage system in the spring of 1968.

The application of index clauses to life assurance policies. Index-linked life assurance policies were introduced to a limited extent in Finland in 1948, and covered the first three years of the insurance period. In 1957 the index clause was extended to cover the entire period. The general abolition of index linkages did not apply to index clauses in life assurance policies.

2.2. MEASURES AFFECTING THE RANGE OF OPTIONS AVAILABLE FOR INVESTORS

2.2.1. THE USE OF DIFFERENT TYPES OF DEPOSIT ACCOUNTS

Index-tied deposit accounts (see 2.1.2. and 2.1.3.) were in use from May 1955 until March 1968. A

special tax concession account (see 2.1.2.) was in use during 1959—1960. From April 1959 until March 1969 a 12-month, high-interest deposit account was in use; originally interest was paid at a rate of 5 per cent per annum, but it was subsequently raised to 6 per cent, after account A had been re-introduced. Since March 1969 three different high-interest, fixed-term deposit accounts have been in use; the rate of interest depend on the term: the interest rate for 6-month accounts is $1\frac{1}{2}$ percentage point higher than the rate paid on ordinary deposit accounts, while for 12-month accounts it is 1 percentage point and for 24-month accounts 2 percentage points higher.

In order to encourage young people between 15 and 30 years to place their money on deposit, a youth deposit account system was introduced at the beginning of 1967. The accounts bear interest equal to that paid on ordinary deposit account, and in addition, a number of incentives are allotted each year to the depositors. (See 2.1.1.) According to this system, not less than 25 marks had to be deposited in at least eight months of the year, or 200 marks per annum, and these deposits could not be drawn in the mean time if the depositor wanted to participate in the allotment of incentive payments in the future. At the beginning of 1972, the act concerning the youth deposit account system was revised so that the upper age limit was lowered to 27 years, and so that four deposits of not less than 75 marks, for a minimum of 300 marks per annum, had to be made. Two new 3-year term accounts will be introduced at the beginning of 1975. These will be interest subsidy and savings incentive accounts (see 2.1.1.) and tax concession accounts (see 2.1.2.). For both these accounts, the minimum deposit will be 100 marks in four subsequent quaters, while the maximum deposit will be 3 000 marks; the basic interest rate will be $8\frac{1}{4}$ per cent, and, in addition, a $\frac{3}{4}$ per cent state interest subsidy will be paid on interest subsidy and savings incentive accounts. The annual tax concession for the tax concession account will be 1.33 per cent.

2.2.2. INCREASING INVESTMENT OPTIONS

Since 1949 the central government has promoted the purchase of dwellings by granting long-term, low-interest loans. During the first two decades they were granted only to individual housing corporations, co-operative housing societies or for rental housing. However, since 1968 state loans have also been granted to private persons for the purchase of single family houses or shares in housing corporations. In 1973 loans to housing corporations accounted for

about 70 per cent of state housing loans outstanding. The period for state loans granted to housing corporations is 25 years and the interest rate 3 per cent per annum. The period for state loans granted to co-operative housing societies or for rental housing was previously 45 years, but since 1971 it has been 25 years; the interest rate for the first five years is 1 per cent per annum and 3 per cent per annum for the remaining period. The period for a single family house loan is 25 years and the interest rate 3 per cent per annum, and the period for a personal housing loan is between 15 and 25 years, depending on the amount of the loan, and the interest rate is 3 per cent per annum. In addition, the central government may grant additional loans to low-income individuals who are buying their own homes. No interest is charged and repayments are not required during the first eight years of the life of the loan, but thereafter the terms of ordinary state housing loans are applied.

2.3. CERTAIN MEASURES INDIRECTLY AFFECTING THE HOUSEHOLD PROPENSITY TO SAVE

Taxation. The major personal income tax measures have involved lowering or maintaining tax scales in times of strong inflationary pressure. In 1957 a supplementary income and property tax was collected from physical persons, and in 1964 a surtax of between 20 and 40 per cent was levied, but then credited or repaid to taxpayers in 1968 and 1969. In 1964 the turnover tax system was reformed entirely so that the total tax burden rose. A special supplementary turnover tax was collected between June and September 1971, primarily in order to hold back imports of consumer durables. The motor vehicle tax has been raised several times, so as to curb imports; the largest rise was in 1962 when the regulation of passenger car imports was abolished.

Control of hire purchase terms. Hire purchase terms have been changed several times; they were tightened in April 1965, eased in 1969, tightened in both July and November 1970, and eased again in July 1972. These measures were designed to regulate the growth of consumption and imports.

The use of the cash payment system for imports. A cash payment system, according to which import credits could not be used to finance the import of certain consumer goods, was in use from October 1962 until December 1967, and from November 1970 to June 1972. In June 1973 a new cash payment system was introduced, and it is still in force.

ITEMS

Direct investment in January—June 1974

In January—June of the current year, both the net inflow and net outflow of investment capital increased only slightly compared with the corresponding period of 1973. Capital flows relating to direct investment were clearly smaller than in the first half of 1972. The outflow of investment capital exceeded the inflow by almost 15 million marks, so that the direct investment account showed a deficit for January—June.

According to data on payments made, the inflow of investment capital in the form of own capital amounted to 35.5 million marks while the repatriation of capital came to 13.6 million marks. Drawings of loans by foreign subsidiaries in Finland totalled 23.1 million marks and amortizations 4.6 million marks. Thus the net inflow of investment capital came to 40.4 million marks during the period under review. In the corresponding period of 1973, the net inflow of investment capital was 33.1 million marks.

Of total foreign investment and lending, 6.5 million marks was invested in industry and the major part, or 35.8 million marks, in sales and marketing enterprises. The repatriation of investment capital used for other types of firms exceeded the corresponding inflow by 1.9 million marks. Of the net inflow of investment capital, 21.7 million marks came from the EFTA region, 17.2 million marks from the EEC countries, 0.7 million marks from North America and 0.8 million marks from other countries.

In all, 34 permits were granted to foreign firms for new investment in Finland, whereas 14 enterprises, which had been partly or totally foreign-owned, ceased their activities or were sold to Finnish nationals.

Finnish direct investment in foreign countries in the form of own capital amounted to 41.8

million marks during the first half of the current year. However, there was no repatriation of Finnish capital in this period. Drawings of loans amounted to 16.0 million marks and amortizations to 2.8 million marks. The total net outflow of investment capital thus came to 55.0 million marks, whereas it totalled 34.8 million marks in the corresponding period of 1973.

Of the total net outflow of Finnish investment capital, 28.3 million marks was invested in production, 6.5 million marks in trade and 20.2 million marks in other types of activities. The outflow of investment capital to the EFTA region amounted to 8.8 million marks and that to the EEC countries to 29.9 million marks; the outflow to North America came to 15.6 million marks and that to other countries to 0.7 million marks.

Finnish firms were granted 48 permits for new investment abroad. On the other hand, four enterprises which had been totally or partly Finnish-owned ceased their activities or witnessed the sale of the interest held by Finns to foreigners during January—June.

The net outflow of investment capital thus exceeded the net inflow by 14.6 million marks during the first half of the current year. In the corresponding period of 1973, the net outflow of investment capital exceeded the net inflow by only 1.7 million marks.

Trade between Finland and the USSR. On November 22, 1974 an agreement was signed in Moscow between Finland and the USSR governing the exchange of goods for the year 1975. This is the fifth annual agreement within the framework of the fifth five-year pact covering the period 1971—1975. The value of the total exchange of goods in 1975 is estimated to come to about 8 000 million marks (ca. 1 600 million roubles) which

involves an increase of some 10 per cent over the current year.

Finnish exports of machinery and equipment will amount to 500 million marks. Finland will deliver machines and equipment for the mechanical and chemical wood-working industries, machines and equipment for mining and the metallurgical industry, lifting and transport equipment, radiotelecommunication and electrical equipment, steel halls and machines and equipment for the cable industry. The export list further includes one ice braker, one passenger car ferry, one ocean tanker, 1—2 ro-ro-type carriers 21 000 dWt, three ro-ro-type carriers 5 500/6 500 dWt, three polar tankers and three housing boats. There will be an increase in exports of forest industry products, chemical products and consumer goods.

Solid fuels, crude oil, oil products, electric energy and natural gas will account for about three-fourths of Finland's imports from the USSR in 1975. The import quota for crude oil is 6 million tons, for mazout one million tons and for diesel fuel oil 1.75—2 million tons. Imports of machines and equipment from the Soviet Union will amount to 450 million marks. Soviet Union will export to Finland 9 000—10 000 passenger cars, machines, equipment

and fuel for nuclear power stations, rolling and metallurgical machines and equipment, machines and equipment for vessels and railway rolling stock. The list further includes e.g. timber, steel scrap, chemical products, fertilizers and cotton.

Publications of the Bank of Finland. The Bank of Finland Year Book for 1973 has been published in Finnish, Swedish and English. The first section reviews the Finnish economy in 1973. The following three sections deal with monetary policy, foreign exchange policy and the Bank of Finland's statements. In the fifth section, Finland's relations with international financial institutions are treated. The statistical annex provides information on the statements of the Bank and various banking transactions during the year under review.

The following publications have appeared in Series A: Tuomas Sukselainen, Finnish export Performance in 1961—1972, A Constant-Market-Shares Approach, 1974, 74 pp. (Series A: 36); Sirkka Hämäläinen, Palkansaajatalouksen säästämisestä, Suomen Pankin säästämistiedustelu vuodelta 1969 (A Study of the Savings Pattern of Wage and Salary Earners According to the Bank of Finland Savings Inquiry of 1969), in Finnish, 1974, 53 pp. (Series A: 37).

BANK OF FINLAND

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A. Simonen

Deputy Governor

Ahti Karjalainen

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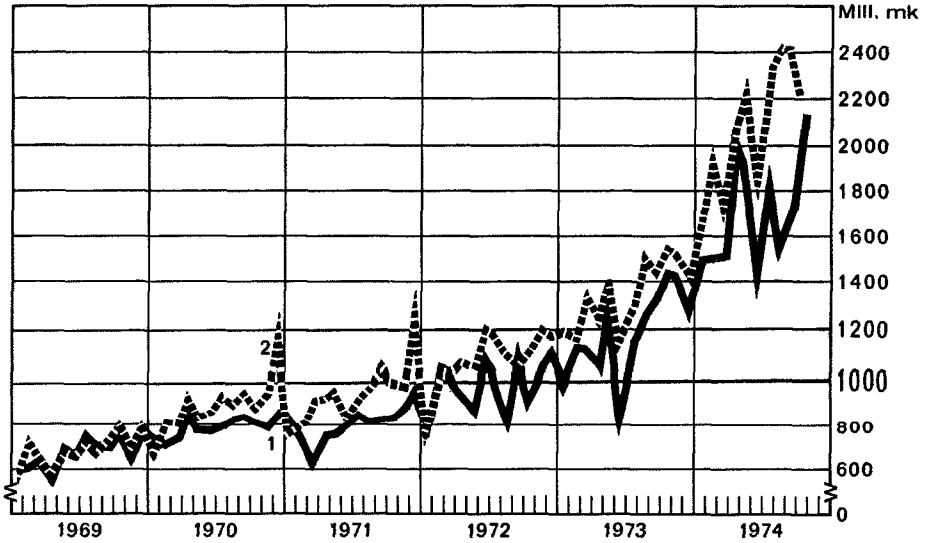
Banking Services

Eino Suomela

Internal Audit

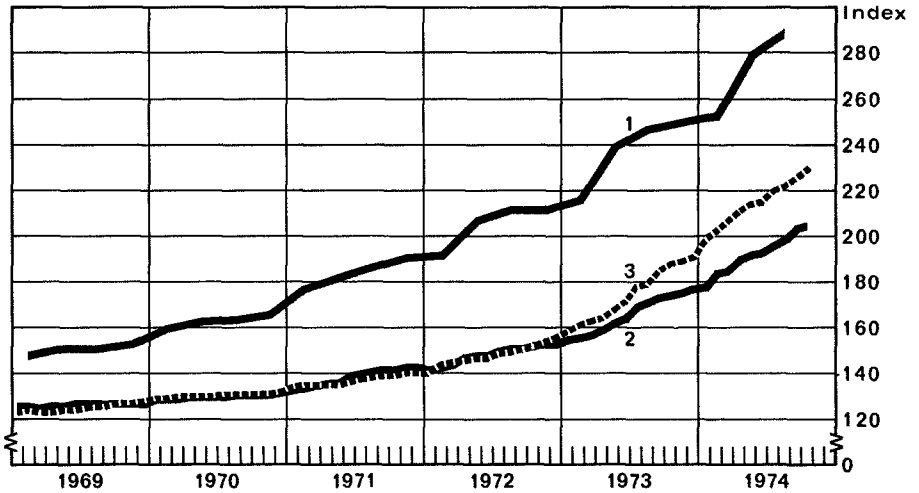
Foreign trade, 1969-1974

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



Prices and wages, 1969-1974

- 1. Index of salary and wage earnings 1964 = 100, quarterly
- 2. Cost of living index 1964 = 100, monthly
- 3. Wholesale price index 1964 = 100, monthly



Production, 1969-1974

- 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

