



BANK OF FINLAND

Monthly Bulletin

Economic situation

**Monetary policy and financial
developments**

Decisions concerning the lowering of
interest rates

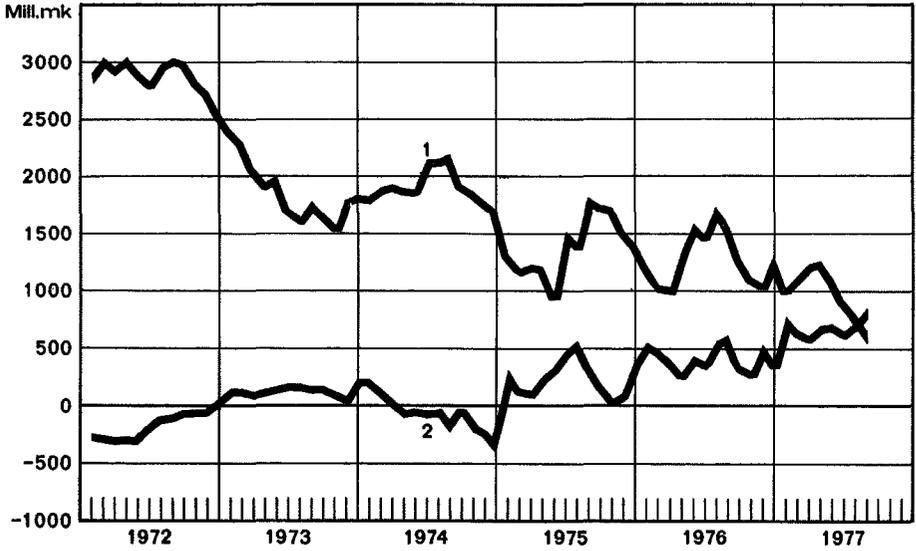
The Bank of Finland investment inquiry
of June 1977

National income

OCTOBER 1977

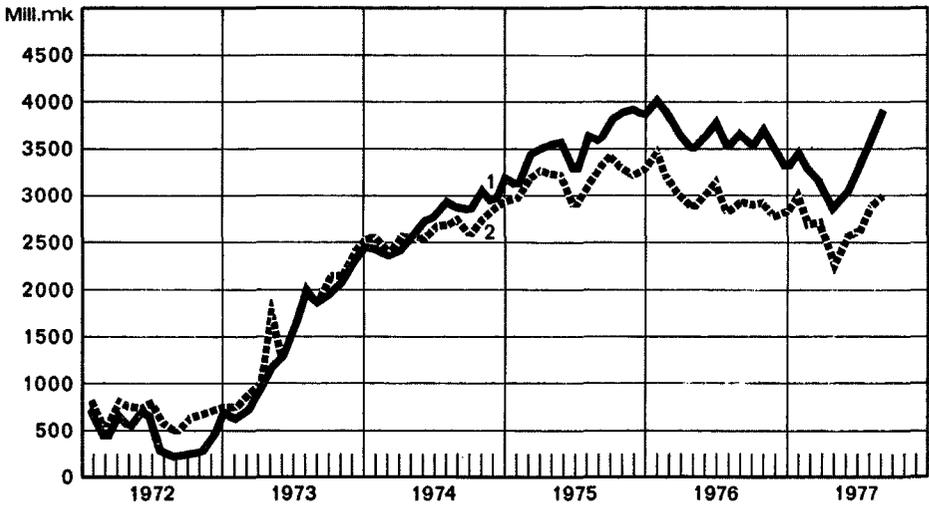
Vol. 51 No. 10

BANK OF FINLAND'S CONVERTIBLE AND NON-CONVERTIBLE FOREIGN EXCHANGE RESERVES, 1972 - 1977



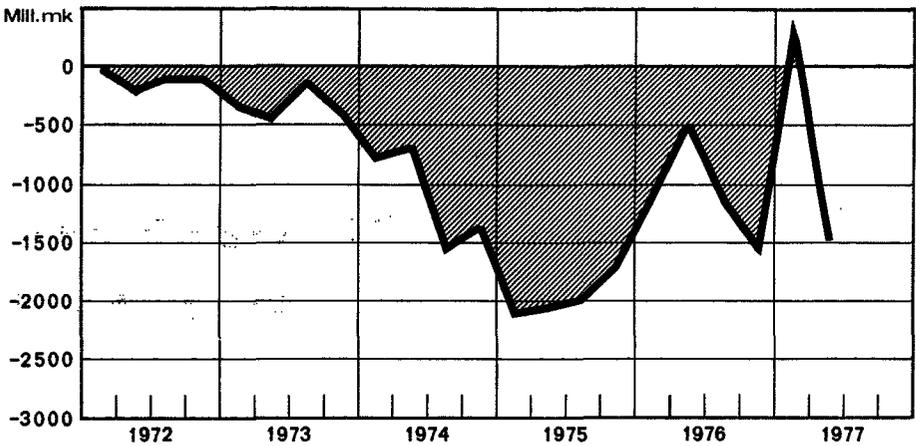
- 1. Gold and convertible currencies
- 2. Non-convertible currencies

BANK OF FINLAND'S POSITION WITH REGARD TO THE DOMESTIC FINANCIAL SECTOR, 1972 - 1977



- 1. Net receivables from the domestic financial sector
 - 2. Discounted and rediscounted bills
- Seasonally adjusted end-of-month figures

BALANCE OF PAYMENTS CURRENT ACCOUNT SURPLUS / DEFICIT, 1972 - 1977



Seasonally adjusted quarterly figures

ECONOMIC SITUATION

The recovery in output in West European countries has not continued at the expected rate during the current year. In particular, the growth prospects for this year are poor in two of Finland's major export markets, Sweden and the United Kingdom. Due to a deceleration in the growth of Finnish exports and a decline in domestic demand, the growth of output is expected — for the third successive year — to be very small. The employment situation has deteriorated, and is not expected to be improved by the rather modest expansion of production in the near future. The current account deficit has declined in line with the economic policy targets. Although domestic production costs have risen at a markedly slower rate than previously, the rise in consumer prices will still be substantial in this year.

After last year's clear revival, exports levelled off to some extent at the beginning of this year. It is estimated that the increase in the volume of total exports will be somewhat less than ten per cent as compared with 14 per cent last year. The demand for Finland's forest industry products is increasing only slightly, and the volume of these exports will grow less than last year. Owing to previously received orders, the volume of metal industry exports will continue to grow remarkably during the current year. There has been, however, a marked decline in the number of orders received, and next year's export prospects are much weaker.

The volume of private investment declined by 14 per cent last year, and the decline has continued in the current year. According to the Investment Inquiry conducted by the Bank of Finland in June, the volume of industrial investment will decline by nearly a fifth in 1977. Investment activity is weakened by a low rate of capacity utilization, poor profitability and pessimistic demand expectations. Owing to a slight easing of the financial market¹, the

volume of housing investment will probably be the same as last year with some 58 000 new dwellings being completed. In order to support employment, attempts are being made to concentrate public construction activity into the winter season. Also, industrial building projects will be granted a temporary exemption from sales tax in order to promote private building activity.

It is expected that there will be only a moderate decline in the household sector's disposable real income, despite the weakening in the employment situation and a rather small rise in nominal wages compared with the price increases. The decline in real income will be contained by an inflation adjustment to the tax schedules and by an increase in transfer payments to the household sector. A growth in deposits during the first half of the current year and a decline in the volume of retail sales indicate an increase in the rate of saving. Accordingly, the volume of private consumption will decline more sharply than income.

Industrial production picked up towards the end of last year, above all owing to an acceleration in the growth of forest industry output. However, weakening demand and the releasing of stocks led to numerous stoppages of production during the first half of this year and total production declined substantially. The forest industries were the only industrial sector in which the volume of output was higher in the first half of the year than in the corresponding period of last year. A decline in the metal industry's order books has resulted in a substantial curtailment of production and, in the near future, there will be neither domestic nor international demand to sustain growth.

The rapid rise in unemployment, which had started in 1976, continued during the first half of the current year. The unemployment problems has been aggravated by a decline, for the first time since the 1950s, in the number

¹ See the back article in this issue »Monetary Policy and Financial Developments».

of people employed in the service industries. It is expected that unemployment will grow further, although at a slower pace towards the end of the year and the beginning of next year. The average unemployment rate will probably be almost six per cent this year. So far this year, emigration has been nearly twice what it was in the corresponding period of 1976. However, it is expected that a deterioration in Sweden's employment situation will, to some extent, curb emigration during the latter half of the year.

From August 1976 to August 1977, consumer prices rose by 13.6 per cent in Finland. The collective agreements concluded in March/May imply a marked deceleration in the rise of unit labour costs. The increasing of indirect tax rates, the removal of state subsidies on certain foodstuffs, a rise in the price of coffee, and the devaluations of the Finnish mark of six per cent at the beginning of April and of three per cent at the end of August, however, will all combine to keep the annual rise in consumer prices at about 13 per cent¹. The fairly slow rise in industry's unit labour costs will bring costs more into line with those in Finland's competitor countries; together with the recent changes in foreign exchange rates, this should produce a slight improvement in international price competitiveness.

The volume of imports declined sharply in early 1977 and no recovery is expected during the rest of the current year. Raw material imports will be particularly reduced by the recession in the metal industry. A further fall in investment activity will substantially decrease imports of investment goods. The terms of trade will deteriorate this year by almost two percentage points. It is estimated that the trade in goods and services will show a small surplus in 1977. Because of the interest costs of the country's increased foreign debt, the current account will show a deficit of nearly

¹ See the front article in Bulletin 9/1977.

2 000 million marks, which will be less than half last year's deficit.

The balancing of the current account and the slowing-down of the rate of inflation have until recent months been given priority in economic policy. These targets, particularly the current account, have been mostly reached with the help of a tight monetary policy and curbing the growth of public demand. This has provided some scope for pursuing an economic policy supporting employment. In June the Government announced that it would start implementing various reflationary measures, so as to increase the profitability of enterprises, to raise the rate of capacity utilization and to promote employment.

Among other things, the Government has proposed to Parliament that the employer's social security contribution should be reduced by one percentage point between October 1, 1977 and April 30, 1978 and the employer's employment pension premium by one percentage point in 1978. It has also been suggested that the industrial building projects which are started between August 1, 1977 and March 31, 1978 and which will be completed by the end of 1979 be exempt from sales tax. Moreover, the Central Government will increase its lending to the corporate sector through the Investment Fund of Finland and the Regional Development Fund of Finland Ltd. In order to sustain the growth of the household sector's disposable income, the income tax schedules will be lowered next year, by a percentage corresponding to the rise in the consumer price index in 1977. The reflationary measures will be partly financed by borrowing abroad; however, this will be set so as not to endanger the current account or accelerate inflation. In connection with the devaluation at the end of August, it was decided to lower the level of interest rates by one percentage point to reduce capital costs¹.

¹ See the item in this issue.

September 21, 1977

	1976		1977			
	Sept. 30	Dec. 31	Sept. 8	Sept. 15	Sept. 23	Sept. 30
Assets						
Gold and foreign exchange receivables	1 826	1 801	1 869	1 736	1 860	1 994
Gold	121	121	127	127	127	127
Special drawing rights	251	236	191	191	191	191
Convertible currencies	1 042	1 004	519	431	608	754
Tied currencies	412	440	1 032	987	934	922
Other foreign receivables	1 533	1 660	1 867	1 871	1 872	1 856
Foreign bills	328	436	412	416	427	410
Foreign bonds	378	397	521	521	511	512
Currency subscription to Finland's quota in the IMF	827	827	934	934	934	934
Receivables from financial institutions	4 369	4 674	4 188	4 302	4 649	4 143
Cheque accounts of the commercial banks	185	174	142	133	140	140
Discounted bills	3 031	2 920	2 630	2 725	2 623	2 700
Bonds	361	332	363	365	545	394
Call money market advances	781	1 204	1 008	1 031	1 301	893
Other financial institution receivables	11	44	45	48	40	16
Receivables from the public sector	415	447	366	367	366	365
Bonds	71	67	66	66	66	64
Total coinage	276	279	297	298	300	300
Other public sector receivables	68	101	3	3	0	1
Receivables from corporations	1 342	1 400	1 448	1 439	1 439	1 476
New export bills	144	165	193	192	195	187
Financing of suppliers' credits	515	554	704	707	704	708
Bonds	204	198	178	177	176	232
Other corporate receivables	479	483	373	363	364	349
Other assets	49	53	76	76	76	77
Total	9 534	10 035	9 814	9 791	10 262	9 911
Liabilities						
Foreign exchange liabilities	199	101	103	105	98	95
Convertible accounts	142	50	62	61	57	51
Tied accounts	57	51	41	44	41	44
Other foreign liabilities	1 923	1 923	2 134	2 134	2 135	2 134
IMF mark accounts	1 665	1 665	1 772	1 772	1 772	1 772
Allocations of special drawing rights	258	258	258	258	258	258
Term liabilities	—	—	104	104	105	104
Notes and coins in circulation	2 840	2 885	3 001	3 021	3 054	3 079
Notes	2 597	2 635	2 739	2 759	2 792	2 817
Coins	243	250	262	262	262	262
Deposit certificates in circulation	—	—	180	180	180	180
Claims of financial institutions	785	1 143	965	942	1 384	1 015
Cheque account of Postipankki	0	2	0	1	0	0
Cheque accounts of the commercial banks	2	2	1	1	2	5
Call money market deposits	778	1 137	904	892	1 233	766
Other financial institution claims	5	2	60	48	149	244
Claims of the public sector	1 188	1 133	354	324	354	343
Cheque accounts	0	2	0	1	0	0
Counter-cyclical reserves	55	59	34	34	34	34
Import deposits	1 053	973	2	1	1	1
Other public sector claims	80	99	318	288	319	308
Claims of corporations	189	308	267	266	264	266
Investment deposits	62	58	43	43	42	42
Capital import deposits	120	242	210	210	209	209
Import levy deposits	4	6	14	13	12	14
Other corporate claims	3	2	0	0	1	1
Other liabilities	13	13	14	15	13	13
Equalization accounts	507	592	863	868	841	843
Capital accounts	1 890	1 937	1 933	1 936	1 939	1 943
Primary capital	1 400	1 400	1 400	1 400	1 400	1 400
Reserve fund	334	334	436	436	436	436
Undisposed profits	—	—	—	—	—	—
Net earnings	156	203	97	100	103	107
Total	9 534	10 035	9 814	9 791	10 262	9 911

End of year and month	Foreign sector						Public sector			Deposit certificates in circulation	
	Gold and convertible exchange receivables	Convertible exchange liabilities	Gold and convertible exchange reserve (1-2)	Non-convertible exchange reserve	Other receivables	Other liabilities	Net receivables (3+4+5-6)	Receivables	Liabilities		Net liabilities (9-8)
	1	2	3	4	5	6	7	8	9	10	11
1970	1 812	11	1 801	— 63	639	606	1 771	119	121	2	203
1971	2 620	30	2 590	—297	686	704	2 275	148	140	— 8	400
1972	2 613	43	2 570	— 6	757	788	2 533	175	49	—126	790
1973	1 928	65	1 863	210	803	788	2 088	200	534	334	1 450
1974	1 784	62	1 722	—388	1 123	788	1 669	302	560	258	1 040
1975	1 488	78	1 410	368	1 274	1 385	1 667	339	1 301	962	250
1976	1 361	50	1 311	389	1 660	1 923	1 437	447	1 133	686	—
1976											
Aug.	1 670	123	1 547	620	1 503	1 923	1 747	388	1 263	875	—
Sept.	1 414	142	1 272	355	1 533	1 923	1 237	415	1 188	773	—
Oct.	1 257	134	1 123	304	1 560	1 923	1 064	421	1 130	709	—
Nov.	1 197	123	1 074	529	1 595	1 923	1 275	432	1 215	783	—
Dec.	1 361	50	1 311	389	1 660	1 923	1 437	447	1 133	686	—
1977											
Jan.	1 074	53	1 021	768	1 636	1 923	1 502	440	979	539	—
Feb.	1 180	49	1 131	654	1 637	1 923	1 499	426	873	447	—
March	1 292	60	1 232	608	1 692	1 923	1 609	433	739	306	180
April	1 324	65	1 259	697	1 733	1 923	1 766	407	512	105	180
May	1 152	39	1 113	714	1 851	2 030	1 648	377	581	204	180
June	965	48	917	652	1 855	2 030	1 394	362	430	68	180
July	855	56	799	722	1 874	2 030	1 365	364	389	25	180
Aug.	697	50	647	841	1 857	2 131	1 214	360	353	— 7	180
Sept.	1 072	51	1 021	878	1 856	2 134	1 621	365	343	— 22	180

¹ The balance sheet of the Bank of Finland was revised in Dec. 1974. See explanations on page 18.

FOREIGN EXCHANGE SITUATION

Mill. mk

	Net holdings, Dec. 31, 1976			Net holdings, Aug. 31, 1977			Change	
	Bank of Finland	Other	Total	Bank of Finland	Other	Total	Aug.	Jan.—Aug.
Gold	121	—	121	127	—	127	—	+ 6
Special drawing rights	236	—	236	191	—	191	— 15	— 45
IMF gold tranche	—	—	—	—	—	—	—	—
Convertible currencies	954	—1 783	—829	328	—3 021	—2 693	— 82	—1 864
Total	1 311	—1 783	—472	646	—3 021	—2 375	— 97	—1 903
Non-convertible currencies	389	—27	362	842	— 12	830	+128	+ 468

End of year and month	Domestic financial sector						Corporate sector				Notes and coins in circulation
	Dis-counted and redis-counted bills	Cheque account receiv-ables ²	Other receiv-ables	Cheque account liabilities to the commer-cial banks ³	Cheque account liabilities to Posti-pankki ³	Other liabili-ties	Net receiv-ables (1+2+3-4-5-6)	Receiv-ables	Liabili-ties	Net receiv-ables (8-9)	
	1	2	3	4	5	6	7	8	9	10	11
1970	836	3	—	1	4	—	834	383	324	59	1 455
1971	849	—	—	9	2	—	838	355	385	— 30	1 413
1972	753	5	—	—	2	—	756	321	73	248	1 879
1973	2 556	61	—	—	2	—	2 615	372	259	113	2 082
1974	3 034	114	266	4	4	1	3 405	631	195	436	2 462
1975	3 385	133	646	3	1	25	4 135	933	539	394	2 855
1976	2 920	174	1 580	2	2	1 139	3 531	1 400	308	1 092	2 885

1976											
Aug.	2 749	169	926	3	0	531	3 310	1 297	301	996	2 858
Sept.	3 031	185	1 153	2	0	783	3 584	1 342	189	1 153	2 840
Oct.	3 148	164	1 566	3	0	1 005	3 870	1 356	297	1 059	2 882
Nov.	3 036	178	1 401	5	1	785	3 824	1 315	352	963	2 839
Dec.	2 920	174	1 580	2	2	1 139	3 531	1 400	308	1 092	2 885

1977											
Jan.	2 729	119	2 095	2	0	1 673	3 268	1 308	244	1 064	2 758
Feb.	2 604	176	2 405	1	1	1 865	3 318	1 306	353	953	2 790
March	2 769	123	1 690	2	0	1 322	3 258	1 321	307	1 014	2 845
April.	2 460	152	1 480	3	1	1 061	3 027	1 398	272	1 126	2 924
May	2 749	110	1 193	2	0	832	3 218	1 437	263	1 174	2 932
June	2 768	128	1 305	5	0	768	3 428	1 459	230	1 229	3 154
July	2 773	116	1 320	5	0	797	3 407	1 498	232	1 266	3 157
Aug	2 779	85	1 463	1	1	846	3 479	1 439	260	1 179	3 022
Sept.	2 700	140	1 303	5	0	1 010	3 128	1 476	266	1 210	3 079

¹ The balance sheet of the Bank of Finland was revised in Dec. 1974. See explanations on page 18.

² Including special index accounts.

³ Including cash reserve accounts.

SELLING RATES FOR FOREIGN EXCHANGE

Mk

Sept. 21, 1977

New York ¹	1 \$	4.174	Frankfurt o. M.	100 DM	180.20	Vienna	100 S	25.28
Montreal	1 \$	3.900	Amsterdam	100 Fl	169.40	Lisbon	100 Esc	10.37
London	1 £	7.275	Brussels ²	100 Fr		Madrid	100 Pta	4.96
Stockholm	100 Kr	86.10	Zurich	100 Fr	176.50	Tokyo	100 Y	1.570
Oslo	100 Kr	76.10	Paris	100 FF	84.90	Reykjavik	100 Kr	2.04
Copenhagen	100 Kr	67.75	Rome	100 Lit	0.476	Moscow ³	1 Rbl	5.687

¹ As from Dec. 20, 1971 also applied to clearing accounts with Berlin, Budapest and Sofia.

² 11.680 commercial rate; 11.680 financial rate.

³ Clearing account; also Bucharest.

DEPOSITS BY THE PUBLIC

Mill. mk

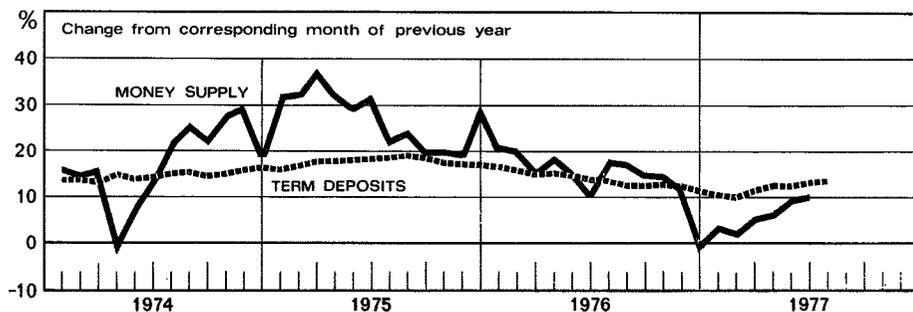
End of year and month	Sight deposits			Term deposits						Total (2 + 3 + 9)
	Cheque accounts		Postal giro accounts	Commer- cial banks	Savings banks	Co-op. banks	Posti- pankki	Co-op. stores	All credit institutions	
	Commer- cial banks	All credit institutions								
	1	2	3	4	5	6	7	8	9	10
1970	1 143	1 508	603	6 099	4 847	3 458	1 288	574	16 266	18 377
1971	1 343	1 734	754	6 962	5 446	3 877	1 491	642	18 418	20 906
1972	1 851	2 371	979	8 096	6 232	4 500	1 805	720	21 353	24 703
1973	2 144	2 892	1 360	8 989	7 109	5 237	2 159	805	24 299	28 551
1974	2 551	3 478	1 638	10 213	8 288	6 308	2 641	921	28 371	33 487
1975	3 447	4 642	2 301	11 764	9 751	7 538	3 170	1 094	33 317	40 260
1976*	3 028	4 386	2 332	12 789	11 066	8 622	3 578	1 255	37 310	44 028

1976*

Aug.	3 102	4 375	1 968	11 988	10 531	8 216	3 423	1 194	35 352	41 695
Sept.	2 856	4 094	1 935	11 896	10 545	8 286	3 426	1 213	35 366	41 395
Oct.	2 715	3 930	1 948	11 986	10 599	8 341	3 465	1 231	35 622	41 500
Nov.	2 933	4 170	1 913	12 031	10 769	8 477	3 480	1 248	36 005	42 088
Dec.	3 028	4 386	2 332	12 789	11 066	8 622	3 578	1 255	37 310	44 028

1977*

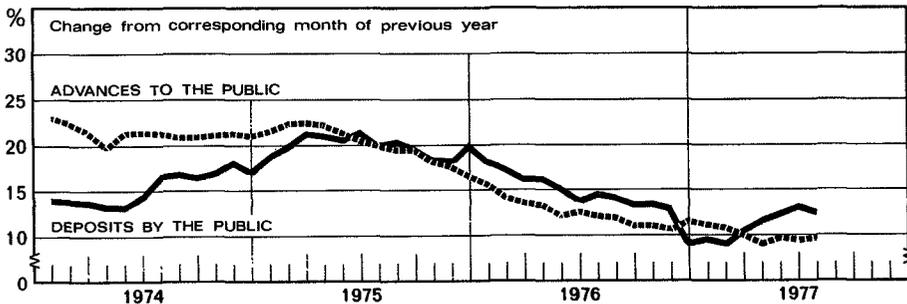
Jan.	2 969	4 190	2 370	12 718	11 166	8 721	3 616	1 282	37 503	44 063
Feb.	2 827	4 103	2 495	12 719	11 273	8 821	3 673	1 296	37 782	44 380
March	2 911	4 265	2 346	12 783	11 362	8 885	3 737	1 307	38 074	44 685
April	2 923	4 234	2 382	12 988	11 443	9 183	3 758	1 324	38 696	45 312
May	3 163	4 536	2 221	13 108	11 597	9 081	3 787	1 331	38 904	45 661
June	3 199	4 617	2 219	13 222	11 826	9 219	3 822	1 337	39 426	46 262
July	2 928	4 342	2 115	13 339	11 995	9 327	3 894	1 348	39 903	46 360
Aug.	3 153	4 646	2 021	13 428	12 122	9 478	3 937	1 348	40 313	46 980



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
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Mortgage banks	Loans & Bills	Cheque credits		
	1	2	3	4	5	6	7	8	9
1970	7 963	4 342	3 404	1 342	1 454	17 815	690	18 505	3 445
1971	9 234	4 795	3 834	1 747	1 799	20 640	769	21 409	4 025
1972	10 667	5 503	4 483	2 245	2 374	24 473	799	25 272	4 959
1973	13 365	6 497	5 302	3 399	2 696	30 286	973	31 259	6 115
1974	15 869	7 716	6 456	4 617	3 264	36 782	1 140	37 922	7 283
1975	17 773	9 108	7 798	5 488	4 129	43 002	1 294	44 296	9 450
1976*	19 090	10 616	9 256	6 012	4 582	47 965	1 591	49 556	9 268
1976*									
Aug.	18 309	9 965	8 505	5 885	4 507	45 652	1 519	47 171	8 830
Sept.	18 453	10 148	8 683	5 937	4 470	46 092	1 599	47 691	8 504
Oct.	18 658	10 279	8 855	5 939	4 475	46 617	1 589	48 206	8 422
Nov.	18 791	10 418	9 000	6 046	4 494	47 168	1 581	48 749	8 565
Dec.	19 090	10 616	9 256	6 012	4 582	47 965	1 591	49 556	9 268
1977*									
Jan.	19 176	10 683	9 271	6 044	4 625	48 168	1 631	49 799	8 960
Feb.	19 204	10 762	9 276	6 071	4 619	48 281	1 651	49 932	9 001
March	19 208	10 804	9 279	6 095	4 589	48 330	1 645	49 975	9 076
April	19 296	10 888	9 296	6 078	4 642	48 624	1 576	50 200	9 177
May	19 332	11 057	9 404	6 197	4 673	49 091	1 572	50 663	9 319
June	19 514	11 145	9 539	6 196	4 760	49 490	1 664	51 154	9 572
July	19 563	11 265	9 671	6 153	4 796	49 846	1 602	51 448	9 231
Aug.	19 792	11 433	9 791	6 175	4 827	..	..	52 018	..



STATE FINANCES

Mill. mk

Revenue	Jan.—July		Expenditure	Jan.—July	
	1976	1977		1976	1977
Income and property tax (net)	6 796	5 577	Wages, salaries, pensions etc.	3 040	3 357
Gross receipts	(13 892)	(15 565)	Repair and maintenance	396	444
Refunds & local authorities	(—7 096)	(9 988)	Other consumption expenditure	1 351	1 577
Other taxes on income and property	121	82	Total consumption expenditure	4 787	5 378
Employers' child allowance payments	524	617	State aid to local authorities	3 231	3 851
Sales tax	3 486	4 252	State aid to industries	2 505	2 665
Revenue from Alcohol Monopoly	939	922	of which: agric. price subsidies	(1 432)	(1 484)
Customs duties & import charge	315	342	Child allowances	392	515
Counter-cyclical tax	—	—	Share in national pensions and health insurance	152	171
Excise duty on tobacco	403	443	Other transfer expenditure	1 893	2 293
» » on liquid fuel	785	983	Total transfer expenditure	8 173	9 495
Other excise duties	413	788	Machinery and equipment	609	693
Tax on autom. and motor cycles	447	497	House construction	307	342
Stamp duties	353	412	Land and waterway construction	884	820
Special diesel etc. vehicles tax	51	84	Total real investment	1 800	1 855
Other taxes and similar revenue ¹	484	494	Interest on State debt	155	242
Total taxes	15 117	15 493	Index compensations	25	23
Miscellaneous revenue	935	1 011	Net deficit of State enterprises	368	135
Interest, dividends etc.	328	419	Other expenditure	23	27
Sales and depreciation of property	3	5	Total other expenditure	571	427
Redemptions of loans granted	238	189	Increase in inventories	—3	106
Total revenue	16 621	17 117	Lending	1 344	1 661
Foreign borrowing	169	153	Other financial investment	425	317
Domestic borrowing	480	537	Total expenditure	17 097	19 239
Total borrowing	649	690	Redemption of foreign loans	87	66
Deficit (+) or surplus (—)	122	1 743	Redemption of domestic loans	208	245
			Total redemptions	295	311
			Total	17 392	19 550

¹ Including supplementary turnover tax and import-equalization tax from June 1971.

State debt	1975	1976	1977			
	Dec.	Dec.	May	June	July	Aug.
Foreign debt	1 603	2 248	2 384	2 520	2 537	2 525
Loans	1 645	2 175	2 371	2 407	2 450	2 631
Compensatory obligations	1	1	1	1	1	1
Short-term credit	85	287	202	221	150	..
Cash debt (net)	—242	—643	37	—220	—138	..
Domestic debt	1 489	1 820	2 611	2 409	2 463	..
Total State debt	3 092	4 068	4 995	4 929	5 000	..
Total debt, mill \$	798	1 069	1 223	1 206	1 243	..

FOREIGN TRADE

Mill. mk

Value mill. mk

Period	Value mill. mk		
	Exports f. o. b.	Imports c. i. f.	Surplus of exports (+) or imports (-)
1972	12 082	13 107	-1 025
1973	14 605	16 599	-1 994
1974	20 687	25 666	-4 979
1975	20 247	28 002	-7 755
1976	24 505	28 555	-4 050

1976			
June	2 232	2 441	- 209
July	2 256	2 543	- 287
Aug.	1 758	2 357	- 599
Sept.	2 119	2 632	- 513
Oct.	2 395	2 361	+ 34
Nov.	2 463	2 783	- 320
Dec.	2 610	3 305	- 695

1977*			
Jan.	2 469	2 389	+ 80
Feb.	1 917	1 992	-75
March	2 621	2 404	+ 217
April	2 084	2 169	- 85
May	2 233	2 421	- 188
June	2 542	3 120	- 578
July	2 833	2 443	+ 390

Jan.-July			
1976	13 160	15 121	-1 961
1977*	16 699	16 938	- 239

Indices of exports and imports 1975 = 100¹

Period	Volume		Unit value		Terms of trade
	Exports	Imports	Exports	Imports	
	1972	113	82	53		57	93
1973	121	93	60	64	94
1974	121	100	85	92	92
1975	100	100	100	100	100
1976	117	96	103	107	97

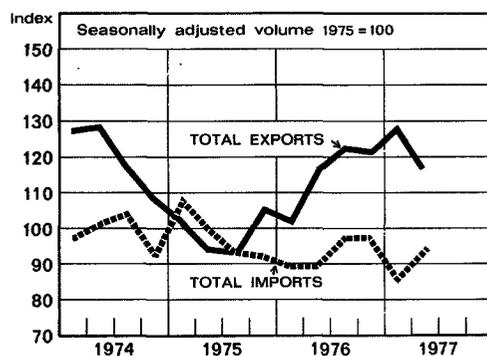
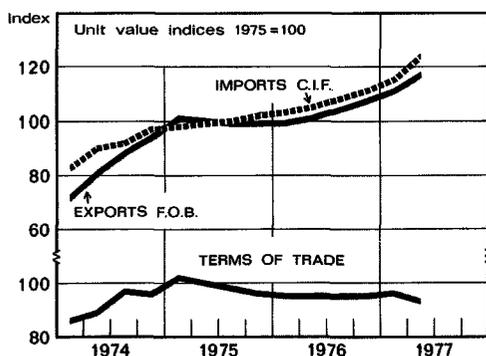
1974					
July-Sept.	114	105	89	94	95
Oct.-Dec.	119	101	96	98	98

1975					
Jan.-Mar.	100	107	102	99	103
Apr.-June	92	95	101	100	100
July-Sept.	89	94	100	101	99
Oct.-Dec.	116	100	100	103	97

1976					
Jan.-Mar.	99	87	100	104	96
Apr.-June	114	84	102	106	96
July-Sept.	116	98	105	109	96
Oct.-Dec.	136	107	108	112	96

1977*					
Jan.-Mar.	124	83	112	116	97
Apr.-June	115	88	118	125	95

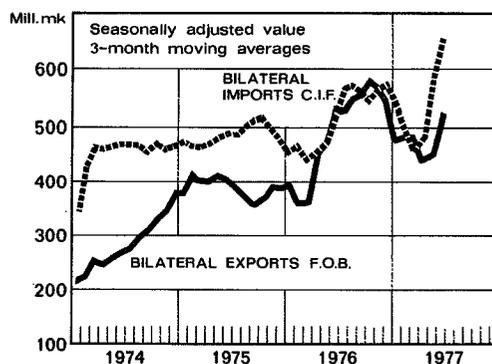
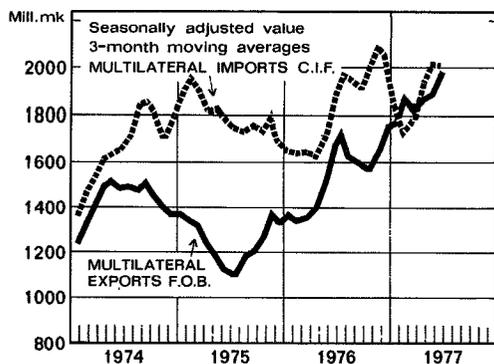
¹ New series.



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	
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	2 919	2 968	67
1974	464	3 153	7 872	4 245	4 953	16 525	1 978	3 857	3 282	24
1975	449	2 177	7 225	5 357	5 039	17 058	1 670	5 222	3 989	63
1976	804	2 892	7 860	6 891	6 058	17 828	1 581	4 966	4 103	77
1976										
June	38	302	804	529	559	1 604	100	390	347	0
July	29	320	693	739	475	1 725	164	342	307	5
Aug.	42	257	645	324	490	1 483	163	381	308	22
Sept.	47	276	665	554	577	1 564	166	515	386	1
Oct.	71	255	741	749	579	1 448	177	380	346	10
Nov.	66	273	724	826	574	1 849	157	371	397	9
Dec.	161	311	741	797	600	2 145	144	583	422	11
1977*										
Jan.	204	286	655	748	576	1 384	144	546	308	7
Feb.	45	232	625	476	539	1 297	102	271	320	2
March	181	261	802	692	685	1 488	85	381	448	2
April	54	246	630	600	554	1 277	107	373	405	7
May	106	350	681	435	661	1 451	148	370	441	11
June	90	366	750	770	566	1 984	202	565	353	16
July	87	352	701	1 045	648	1 609	178	319	316	21
Jan.-July										
1976	417	1 520	4 344	3 641	3 238	9 339	774	2 740	2 244	24
1977*	767	2 093	4 844	4 766	4 229	10 490	966	2 825	2 591	66



FOREIGN TRADE BY COUNTRIES

Mill. mk

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January—July				January—July			
	1976*		1977*		1976*		1977*	
	%	Mill. mk	%	Mill. mk	%	Mill. mk	%	Mill. mk
OECD countries in Europe	64.5	8 489	65.1	10 866	66.1	9 996	64.8	10 987
Austria	0.6	85	0.8	136	1.5	227	1.3	218
Belgium-Luxembourg	1.6	209	1.9	315	1.9	280	1.8	311
Denmark	3.8	505	3.6	593	3.0	456	3.0	510
France	4.0	524	3.6	604	2.8	422	2.8	480
Federal Republic of Germany	9.7	1 280	11.2	1 864	16.4	2 477	15.7	2 659
Italy	1.7	227	1.2	203	2.1	313	1.9	319
Netherlands	3.0	394	3.6	599	2.9	432	3.2	546
Norway	3.4	451	4.1	688	3.3	492	3.2	538
Portugal	0.4	49	0.3	52	0.3	46	0.4	69
Spain	1.0	134	0.9	156	1.4	218	1.5	261
Sweden	17.9	2 358	16.8	2 812	18.7	2 831	16.8	2 840
Switzerland	1.7	216	1.9	321	3.4	521	3.5	587
United Kingdom	14.5	1 903	12.7	2 113	8.2	1 244	9.4	1 593
Other	1.2	154	2.5	410	0.2	37	0.3	56
OECD countries outside Europe	4.9	638	6.7	1 115	8.8	1 317	8.3	1 399
Canada	0.7	90	0.7	109	0.4	60	0.3	48
Japan	0.7	96	0.8	141	1.6	240	1.9	318
United States	2.7	351	4.4	740	6.7	1 009	6.1	1 025
Other	0.8	101	0.8	125	0.1	8	0.0	8
CMEA countries	22.8	3 005	20.5	3 423	20.6	3 121	21.5	3 646
Czechoslovakia	0.5	71	0.4	70	0.5	77	0.4	73
Democratic Republic of Germany	0.8	98	1.0	170	0.5	71	0.5	91
Poland	1.2	163	0.8	129	1.6	240	1.9	329
Soviet Union	19.4	2 556	17.5	2 917	17.3	2 621	18.1	3 059
Other	0.9	117	0.8	137	0.7	112	0.6	94
Latin America	2.0	265	1.9	325	1.9	287	2.7	455
Argentina	0.3	34	0.2	31	0.1	12	0.1	13
Brazil	0.5	71	0.4	79	0.5	76	0.2	39
Colombia	0.1	9	0.1	13	0.6	90	1.4	239
Other	1.1	151	1.2	202	0.7	109	1.0	164
Other	5.8	763	5.8	970	2.6	400	2.7	451
GRAND TOTAL	100.0	13 160	100.0	16 699	100.0	15 121	100.0	16 938
of which								
EFTA countries	24.1	3 176	24.1	4 029	27.3	4 133	25.3	4 280
EEC countries	38.8	5 110	38.2	6 384	37.3	5 640	38.0	6 438
OECD countries	69.3	9 127	71.7	11 981	74.8	11 313	73.1	12 386

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
1974 ^r	20 605	25 598	-4 993	+1 075	+326	+105	-3 487	-1 006	-69	-4 562
1975	20 181	27 939	-7 758	+ 984	+105	+217	-6 452	-1 414	-108	-7 974
1976	24 372	28 472	-4 100	+1 193	+ 22	+245	-2 640	-1 749	-118	-4 507

1974

Oct.-Dec.	5 753	6 879	-1 126	+204	- 1	+89	- 834	-291	-29	-1 154
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1975

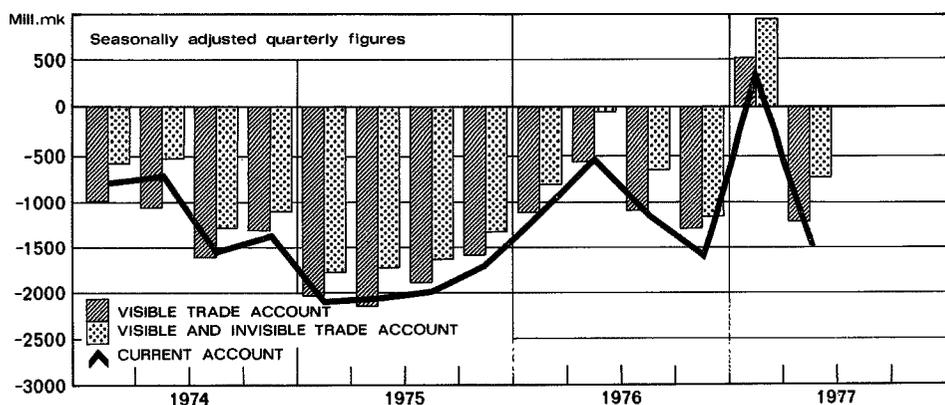
Jan.-March	5 143	7 368	-2 225	+292	- 43	- 44	-2 020	-316	-57	-2 393
Apr.-June	4 695	6 688	-1 993	+221	+ 13	- 2	-1 761	-379	-15	-2 155
July-Sept.	4 482	6 649	-2 167	+237	+142	+ 57	-1 731	-308	- 6	-2 045
Oct.-Dec.	5 961	7 234	-1 373	+234	- 7	+206	- 940	-411	-30	-1 381

1976

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

1977*

Jan.-March	6 981	6 764	+ 217	+348	- 80	+ 75	+ 560	-506	-46	+ 8
Apr.-June	6 821	7 705	- 884	+325	+ 10	+ 34	- 515	-726	-12	-1 253

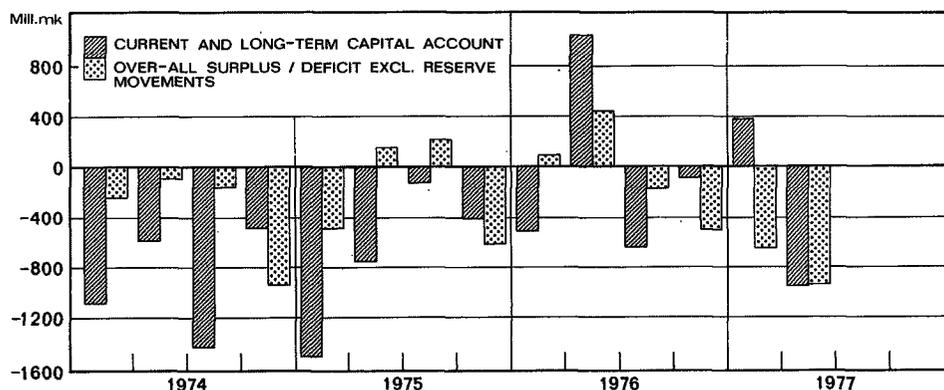


Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net ¹	Long-term capital account	Current and long-term capital account	Short-term import credits and prepayments, net	Short-term export credits and prepayments, net	Miscellaneous 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	-1 537	-223	- 23	+ 947	-3 616	+930	+337	+ 873	-1 475	+739	+ 736
+6 729	-1 445	-214	+ 62	+5 132	-2 842	+638	+1 449	+ 8	- 747	-444	+1 191
+6 130	-1 785	-191	+ 48	+4 202	- 305	+138	-1 288	+1 327	- 128	+ 78	+ 50
+942	-274	- 24	+ 15	+659	- 495	-209	-157	- 86	-947	+498	+449
+1 206	-310	- 24	+ 11	+ 883	-1 510	+310	+758	- 35	-477	- 32	+509
+1 870	-433	- 48	+ 9	+1 398	-757	-140	+758	+296	+157	-668	+511
+2 121	-287	- 3	+ 57	+1 888	-157	+131	- 34	+265	+205	+ 91	-296
+1 532	-415	-139	- 15	+ 963	-418	+337	- 33	-518	-632	+165	+467
+1 404	-374	+ 5	+ 11	+1 046	- 389	-628	+119	+996	+ 98	+373	-471
+2 096	-394	- 95	- 7	+1 600	+1 056	-158	+120	-560	+458	-485	+ 27
+1 239	-568	- 11	- 25	+ 635	- 696	+565	-764	+722	-173	+263	- 90
+1 391	-449	- 90	+ 69	+ 921	- 276	+359	-763	+169	-511	- 73	+584
+1 022	-550	-127	- 25	+ 320	+ 328	-802	+149	-308	-633	-140	+773
+1 273	-857	+ 36	- 35	+ 417	- 836	+471	+149	-716	-932	+407	+525

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 1973 = 100		
	Total	Origin		Purpose			Stage of processing			Total	Wages in building trade	Building materials
		Domes- tic goods	Im- ported goods	Pro- ducer goods	Machinery & transport equipm.	Con- sumer goods	Raw materials and com- modities	Simply pro- cessed goods	More elab- orately processed goods			
1975	562	575	513	570	637	532	629	536	539	139	131	142
1976	626	646	548	614	707	621	679	594	614	152	142	154
1976												
Nov.	656	678	570	646	727	651	706	627	645	159	146	163
Dec.	659	681	573	647	738	654	710	627	649	160	146	164
1977												
Jan.	669	692	584	653	770	665	710	629	672	165	149	169
Feb.	676	698	588	658	781	672	718	635	677	166	149	171
March.	682	706	591	660	777	687	727	645	680	167	149	172
April	686	708	601	665	790	688	730	646	686	168	149	173
May	688	709	607	666	795	690	727	648	691	169	150	174
June	692	714	610	667	802	698	725	659	694	172	158	176
July	697	719	613	671	807	704	736	661	697	173	158	176
Aug.	696	718	610	667	806	706	727	663	700	175	158	180
Period	Consumer prices 1972 = 100											
	Cost of living Oct. 1951 = 100	Con- sumer prices Oct.—Dec. 1957 = 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
1975	392	308	153	157	135	150	162	184	150	145	144	156
1976	449	352	174	182	164	166	171	200	164	174	162	185
1976												
Nov.	468	367	182	194	168	173	174	209	170	180	169	194
Dec.	469	368	182	195	168	173	174	209	170	181	171	195
1977												
Jan.	476	374	185	196	174	173	174	210	174	185	179	198
Feb.	482	378	187	200	174	176	175	210	176	187	180	201
March.	489	384	190	207	174	179	175	214	177	190	182	202
April	493	387	192	209	174	180	175	215	179	193	183	203
May	500	392	194	212	174	182	181	218	180	196	184	205
June	506	397	197	219	174	182	181	222	181	197	184	209
July	510	400	198	222	174	177	181	222	182	199	190	211
Aug.	518	407	201	226	174	179	190	223	183	202	191	213

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							
1975	508	383	389	313	312	307	362	300	384	347
1976*	597	441	427	360	361	353	417	346	441	399
1975										
July-Sept.	514	390	395	319	322	311	374	308	396	358
Oct.-Dec.	559	399	405	335	334	332	380	318	404	366
1976*										
Jan.-March	584	416	411	351	349	347	396	337	417	382
Apr.-June	591	448	427	362	364	355	422	348	448	404
July-Sept.	600	447	434	362	365	355	425	349	451	406
Oct.-Dec.	608	453	437	363	365	356	427	351	453	408
1977*										
Jan.-March	694	457	441	373	374	364	429	357	454	412
Apr.-June	700	485	454	386	388	378	454	373	481	434

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
1974	160	197	90	96	168	103	163	179	158	159	165
1975	161	192	100	83	175	104	158	188	166	168	169
1976*	162	195	106	79	153	103	160	190	173	173	173
1976*											
Jan.-March	156	202	62	84	121	102	149	179	171	171	171
Apr.-June	161	195	103	91	134	106	157	187	172	172	172
July-Sept.	160	167	185	57	166	101	161	187	173	174	173
Oct.-Dec.	172	216	74	86	192	102	171	206	177	176	175
1977*											
Jan.-March	158	200	65	99	132	99	152	173	179	176	175
Apr.-June	161	189	100	94	142	103	160	188	180	176	175

PRODUCTION

Index of industrial production 1970 = 100

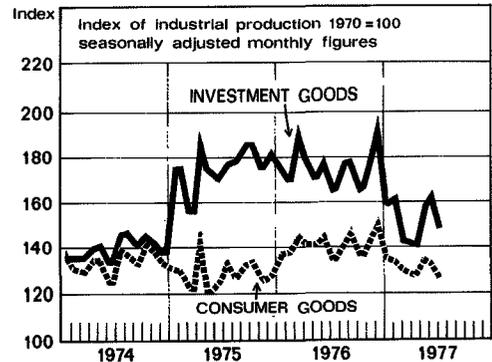
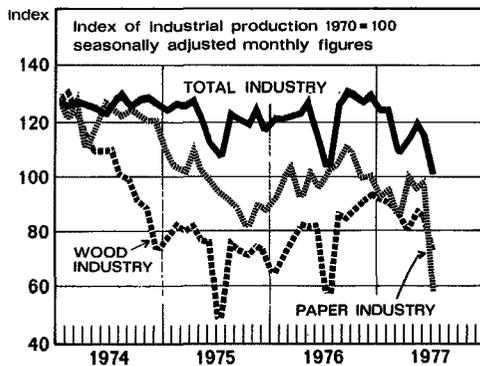
Period	Total	Investment goods	Other producer goods	Consumer goods	Special indices of manufacturing						Total, adjusted for seasonal variations
					Food industry	Wood industry	Paper industry	Chemical industry	Non-metallic mineral industry	Metal industry	
1974	127	141	122	135	112	107	124	154	136	141	127
1975	122	178	110	130	113	76	95	143	128	150	122
1976*	125	179	108	143	110	82	99	148	119	150	124

1976*

May	134	191	116	152	120	100	113	154	126	161	128
June	118	186	97	146	123	90	71	101	121	154	118
July	68	69	61	82	103	33	69	88	65	56	105
Aug.	123	167	107	143	113	75	109	135	118	140	127
Sept.	136	186	119	156	119	88	114	168	144	162	132
Oct.	135	185	119	151	118	88	119	140	140	159	130
Nov.	137	198	120	153	121	104	107	168	138	167	129
Dec.	133	188	116	149	106	90	96	177	125	161	130

1977*

Jan.	130	178	116	140	97	86	96	182	128	153	126
Feb.	126	171	112	138	92	88	100	164	117	149	125
March	125	160	112	140	101	101	94	147	115	146	111
April	115	151	102	127	98	92	90	136	96	136	115
May	130	180	114	147	114	114	102	133	127	158	121
June	118	176	101	137	104	95	79	106	123	154	116
July	64	62	58	77	94	41	58	77	61	51	102



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	Unemploy- ment, % of total labour force	Commercial timber fellings 1 000 solid cu. m	Retailers' sales volume index 1972 = 100	Whole- sellers' volume index 1972 = 100
1974	3 483	2 268	2 229	39	1.7	34 457	114	114
1975	3 513	2 272	2 221	51	2.2	29 133	118	119
1976*	3 530	2 244	2 158	86	3.8	27 305	110	120
1976*								
July ¹	3 532	2 416	2 317	99	4.1	1 047	114	106
Aug.	3 531	2 352	2 253	99	4.2	1 155	106	121
Sept.	3 533	2 215	2 144	71	3.2	1 839	109	133
Oct.	3 532	2 183	2 111	72	3.3	2 293	111	125
Nov.	3 534	2 183	2 099	84	3.8	2 787	102	125
Dec.	3 535	2 186	2 085	101	4.6	3 126	143	147
1977*								
Jan.	3 524	2 181	2 053	128	5.9	2 455	84	91
Feb.	3 528	2 163	2 032	131	6.1	2 934	87	103
March	3 527	2 161	2 030	131	6.1	3 564	99	120
April	3 524	2 152	2 016	136	6.2	3 227	101	113
May	3 523	2 186	2 054	132	6.1	2 856	..	..
June	3 531	2 402	2 266	136	5.7	1 870	..	..
July	3 524	2 410	2 264	146	6.1	..	..	..

¹ Revised figures since July 1976.

CONSTRUCTION OF BUILDINGS

Period	Building permits granted					Buildings completed					Buildings- works under con- struction
	Total	Residen- tial buildings	Farm buildings	Industrial and business buildings	Public buildings	Total	Residen- tial buildings	Farm buildings	Industrial and business buildings	Public buildings	
Million cubic metres											
1974	53.23	22.35	3.26	21.30	3.52	46.50	21.54	2.75	17.04	3.14	52.84
1975	51.42	19.65	3.79	21.62	3.39	47.85	20.59	2.80	18.68	3.64	52.45
1976*	46.90	19.95	3.93	15.81	3.83	40.95	17.60	3.12	15.32	2.58	52.48
1976*											
Jan.-March	8.52	3.04	0.73	3.29	0.86	8.40	3.70	0.53	3.53	0.34	48.82
Apr.-June	14.00	7.39	1.80	2.81	0.55	9.59	3.60	0.35	4.45	0.78	51.30
July-Sept.	12.42	5.43	0.71	4.44	0.97	8.89	3.59	0.97	2.95	0.67	54.82
Oct.-Dec.	11.96	4.09	0.69	5.12	1.45	12.85	6.16	1.15	3.94	0.80	52.48
1977*											
Jan.-March	6.73	2.92	0.66	1.91	0.83	9.08	3.50	0.45	4.33	0.54	48.54

EXPLANATIONS RELATING TO THE STATISTICAL SECTION

BANK OF FINLAND

The balance sheet of the Bank of Finland was revised on Dec. 31, 1974 in connection with the revision of accounting legislation. New series have been built according to the revision. When the figures are not fully comparable to the previous ones, the series is broken by a line.

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

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

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

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

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

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

Liabilities = Cheque accounts + Counter-cyclical reserves + Import deposits + Other public sector liabilities.

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

Page 5. *Domestic financial sector*: Other receivables = Call money market advances + Bonds + Other financial institution receivables. Other liabilities = Call money market deposits + Other financial institution claims.

Corporate sector: Receivables = New export bills + Financing of suppliers' credits + Other corporate receivables + Bonds.

Liabilities = Investment deposits + Counter-cyclical withholdings + Capital import deposits + Import levy deposits + Other corporate claims.

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.

From 1974 the money supply includes estimates of Finnish notes and coins held by the savings and co-operative banks. Exact figures are not available.

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 1975 is as follows: Social Democrats 54, People's Democrats 40, Centre Party 41, Conservatives 34, Swedish Party 10, Liberal Party 8, Christian League 9, Finnish Farmers Party 2 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, OECD 1969, and IDB 1977.

LAND

THE AREA is 337 000 square kilometres (Great Britain's area is 245 000 sq. km and Italy's area 301 000 sq. km). Of the total, inland waters form 9.4 %. Of the land area (1970) 2.7 mill. ha (9.6 %) are cultivated and 19.1 mill. ha (68.4 %) are covered by forests.

OWNERSHIP OF LAND (1970): The total land area was distributed among different classes of owners approximately as follows: private 60.7 %, State 29.4 %, joint stock companies etc. 8.0 %, municipalities and parishes 1.9 %.

POPULATION

NUMBER OF INHABITANTS (1975): 4.7 million. Sweden 8.2, Switzerland 6.4, Denmark 5.1 and Norway 4.0 million.

DENSITY OF POPULATION (1975.): In South Finland 46.1, in East and Central Finland 13.3, in North Finland 4.0 and in the whole country an average of 15.5 inhabitants to the square kilometre.

DISTRIBUTION BY AREA (1975): 41 % of the population inhabit the rural areas, 59 % towns and urban districts. The largest towns are: Helsinki (Helsingfors), the capital 496 872 inhabitants, Tampere (Tammerfors) 165 928, Turku (Åbo) 163 981.

EMPLOYMENT (1975): Agriculture and forestry 15 %, industry and construction 36 %, commerce 16 %, transport and communications 7 %, services 26 %.

LANGUAGE (1974): Finnish speaking 93.3 %, Swedish speaking 6.5 %, others 0.2 %.

EDUCATION (1976): Practically all persons over 15 years of age are literate. There are 6 universities (the oldest founded in 1640) and 12 colleges of university standard.

CHANGE OF POPULATION (1975): births 14.1 ‰, deaths 9.4 ‰, change + 3.8 ‰, net emigration 0.9 ‰. Deaths in France 10.4 ‰ and Great Britain 11.9 ‰.

TRADE AND TRANSPORT

NATIONAL INCOME (1976, in million marks): Gross domestic product at factor cost by industrial origin: agriculture 6 407 (6 %), forestry and fishing 4 950 (5 %), manufacturing 31 509 (31 %),

construction 9 233 (9 %), transport and communication 10 849 (11 %), commerce, banking and insurance 13 585 (14 %), public administration 5 264 (5 %), ownership of dwellings 3 639 (4 %), services 15 581 (15 %), total 101 017. Index of real domestic product 162 (1964 = 100).

FOREST RESOURCES (1975): The growing stock comprised of 1 513 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, 656 million m³ was up to the standard required for logs, 55 % of these being pine. The annual growth was 57.5 million m³ and the total removal, calculated on the basis of roundwood consumption, was 40.1 million m³.

AGRICULTURE (1975): Cultivated land 2.5 million hectares. Number of holdings 248 700, of which 167 800 are of more than 5 ha. Measure of self-sufficiency in bread cereals 133 % in the crop year 1975/76.

INDUSTRY (1975): Gross value of industrial production 89 210 mill. marks, number of workers 410 181, salaried employees 132 074, motive power (1975) 6.7 mill. kW. Index of industrial production 127 for 1975 (1970 = 100).

STATE RAILWAYS (Jan. 1, 1977): Length 5 920 km.

MERCHANT FLEET (June 30, 1977): Passenger vessels 118 (197 669 gross reg. tons), tankers 53 (1 159 495 gross reg. tons), dry cargo vessels 207 (845 343 gross reg. tons), other vessels 62 (9 863 gross reg. tons), total 440 (2 212 370 gross reg. tons).

MOTOR VEHICLES (Dec. 31, 1976): Passenger cars 1 032 900, lorries and vans 132 700, buses 8 800, others 7 100, total 1 181 500.

FINNISH AIRLINES (April 1, 1977): Finnair and Kar-Air have in use 4 DC-8, 1 DC-6-ST, 8 Super Caravelles, 9 DC-9s, 5 DC-9-51s, 2 DC-10-30 and 5 Convair Metropolitans. Companies have scheduled traffic outside of Finland to 32 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, 1976). There are two big and five small commercial banks with in all 856 offices, 280 savings banks 380 co-operative banks, six mortgage banks, Postipankki and five development credit institutions. The co-operative stores accept deposits from their members. The Social Insurance Institution and fifty-nine private insurance companies also grant credits.

RATES OF INTEREST (Oct. 1, 1977). 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 8 ¼ %. The range of rates for other credits granted by the Bank of Finland is between 6 ½ and 9 ½ %. Other credit institutions term deposits 4 ½ %; 6 month deposits 5 ½ %; 12 month deposits 6 %; 24 month deposits 7 %; 36 month deposits 8 ½ % + savings premium; 36 month deposits 7 ½ % + tax concession. The highest lending rate 11 ½ %.

MONETARY POLICY AND FINANCIAL DEVELOPMENTS

by Antero Arimo M.Pol.Sc.
and Olavi Rantala Lic.Pol.Sc.

Bank of Finland

So far there have been few signs of economic recovery in Finland. Export demand has grown more slowly than expected and aggregate production has stayed at a low level causing the employment situation to weaken¹. One of the major targets set for monetary policy in 1975 was a reduction in the current account deficit and hence a fall in the growth of foreign indebtedness. That growth has indeed slowed down markedly, but partly at the expense of the level of activity. Reducing the rate of inflation, the other main objective, has also been partially achieved, although inflation in Finland is still rather high by international standards. At the same time, production and employment objectives have, as far as possible, been taken into account in the formulation of monetary policy.

MONETARY POLICY

A stringent monetary policy has been pursued since 1975. In keeping the financial markets tight the Bank of Finland has relied upon two main instruments; regulation of the cost and availability of central bank finance to the commercial banks and control of long-term capital imports. In order to facilitate a consistent co-ordination of these instruments the Bank of Finland uses a financial framework in which the net inflow of foreign capital together with the net lending by the central bank are strategic aggregates.

The commercial banks' central bank finance was mainly regulated by reducing their basic quotas. By three separate decisions, the sum of the quotas fell from 2 500 million marks to 1 900 million marks; these reductions, of 200 million marks each, were effected on July 1st,

1976, January 1st, 1977 and May 1st, 1977. The reductions were designed primarily to offset the liquidity effects of the gradual release of import deposits. Import deposits were collected from spring 1975 until the end of 1976 and remaining deposits were returned to the firms by August of this year.

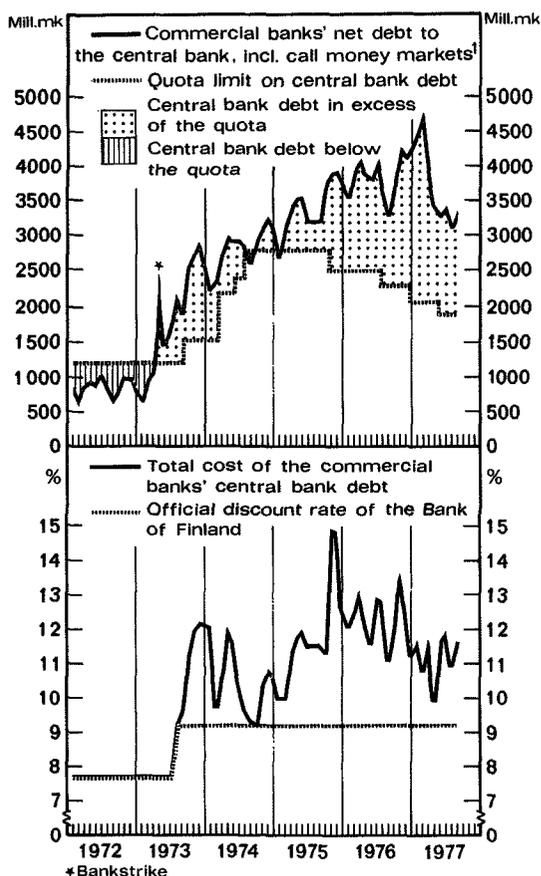
The commercial banks' central bank finance remained at a high level throughout 1976 and during the first two months of 1977. To a large extent this resulted from the central government's good liquidity position, which tightened the financial market. The government surplus was deposited in the Bank of Finland call money market via Postipankki and borrowed as call money advances by the commercial banks and was thus included in the commercial banks' central bank finance (Chart 1).

In December 1976 the Bank of Finland announced that it had imposed targets for the curtailment of the commercial banks' central bank financing for January—August 1977. Compliance with these targets was linked to a special bonus scheme designed to stimulate the commercial banks into reducing their central bank finance. From March 1977 onwards the banks' central bank financing fell sharply as can be seen from Chart 1. Part of this drop was also due to the central government's worsened liquidity position.

In the context of quota reduction, on May 1st, 1977, the right to exceed the quota was raised from 50 to 70 per cent of the quota. At the same time the penalty rate schedule of the supra-quota debt was adjusted to this change and was somewhat lowered. The daily limit on borrowing from the call money market was also raised from 100 to 125 per cent of the quota. The surveillance limit set at the begin-

¹ See the front article in this Bulletin.

CHART 1. COMMERCIAL BANKS' CENTRAL BANK FINANCING



¹ At the beginning of 1976, Postipankki became entitled to participate as a depositor in the Bank of Finland call money market, and therefore the figures from the beginning of 1976 onwards are not fully comparable with previous years.

ning of 1976 on each commercial bank's monthly average total of its central bank debt and call money advances was kept at 200 per cent of its basic quota.

In 1976 the average rate of interest paid by the commercial banks on their central bank financing was 12.4 per cent — 0.3 percentage points higher than in the previous year. Hence, as the basic lending rate of the Bank of Finland was 9 ¼ per cent, the average penalty rate was more than 3 per cent. At the beginning of November 1976 an interest equalization scheme was introduced, which reduced the interest expenses on the commercial banks' call money market transactions caused by state finance. From the beginning of 1977, the bonuses from the target level system also began to

reduce the cost of central bank financing (Chart 1). The Bank of Finland has, at times, also supported the call money market by making placements of its own.

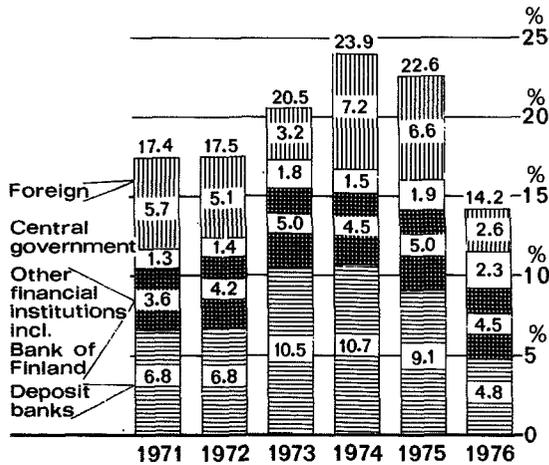
In November 1976 the financial institutions received new credit policy guidelines in which the Bank of Finland emphasized that even in the long run, lending could be expanded only within the range set by the growth of deposits. It was also announced that net imports of foreign capital would be substantially reduced. Moreover, the financial institutions were warned that the temporary scheme for the financing of surplus stocks of export products was to be dismantled during 1977. The financial institutions were reminded of the projects which should be given priority in granting credit and, on the other hand, the projects to which the strictest selective treatment should be applied. It was stressed that credit should be granted mainly to satisfy the need for operating capital and for financing investment projects already under way.

The Bank of Finland's permanent special financing arrangements were continued so as to provide credit facilities for exporting and import-substituting firms. In September 1977 the Bank of Finland decided to improve further the terms of these arrangements¹. As the revival in export demand has turned out to be weaker than had been expected, the Bank of Finland has continued to provide temporary domestic financing and to grant permits to use foreign loan capital, in order to support production and employment, mainly in the forest industries. The dismantling of these temporary arrangements has taken place at a somewhat slower pace than had earlier been planned.

In April 1977 a 5.7 per cent devaluation of the Finnish mark was effected following the devaluations of three other Nordic currencies. In June the government decided on measures to improve the competitiveness of export industries and contain the rise of unemployment.² An additional 3 per cent devaluation

¹ See the first item in this Bulletin.
² See front article in this Bulletin.

CHART 2. TOTAL CREDIT EXPANSION TO THE PUBLIC¹



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

was implemented at the end of August, in connection with further Nordic devaluations. In order to prevent an acceleration of the inflation rate leading to a possible repudiation of incomes policy agreements and also to reduce the costs of the corporate sector, this decision was supplemented by a lowering of the general level of interest rates from October 1st, 1977. The basic lending rate of the Bank of Finland, which was raised to 9 ¼ per cent in 1973, was lowered to 8 ¼ per cent. The lending rates of the deposit banks were generally lowered by 1 percentage point, but demand and short-term time deposit rates were reduced by more and rates for longer term deposits by less. The interest rates of new bond issues, which had risen during 1976 because of the stringent liquidity position of financial institutions and the general public, are also to be lowered.

So far the clear improvement in the current account has not led to a restoration of balance in the domestic financial markets. During the summer of 1977 there was pressure on foreign exchange reserves, which necessitated a tight stance in controlling domestic liquidity despite a clear revival in the growth of deposits (Chart 3). As long-term capital imports are expected to pick up after the latest devaluation,

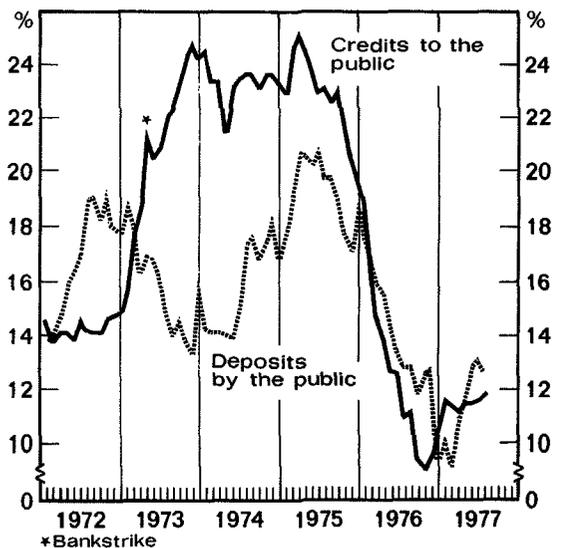
the domestic financial stringency should gradually begin to ease. As domestic investment activity has remained at a low level for a fairly long time, the demand for credit has declined and worked towards restoring an equilibrium in the financial markets.

FINANCING OF CORPORATIONS, HOUSEHOLDS AND THE PUBLIC SECTOR

The tight regulation of long-term capital imports and the reduced saving ratio in the economy accompanied by the diminished demand for credit, meant that the total credit expansion fell markedly in 1976. Credit grew by only 14 per cent, i.e. 8 percentage points less than in the previous year (Chart 2). In particular, the share of foreign capital and bank credit in total credit expansion fell substantially.

The long-term capital inflow remained distinctly less than what was available at reasonable terms in the international capital market. Also, the imports of short-term foreign credit were negligible, reflecting mainly the depressed state of foreign trade.

CHART 3. BANK CREDITS AND DEPOSITS: CHANGE FROM CORRESPONDING MONTH OF PREVIOUS YEAR



Last year the foreign debt of the private sector increased by 11 per cent which was only a third of the growth in the previous year. The growth of bank credit was only 11 per cent, as the increase in deposits was very small (Chart 3). The growth of credit from other financial institutions and central government was clearly higher, i.e. 18 per cent and 26 per cent respectively.

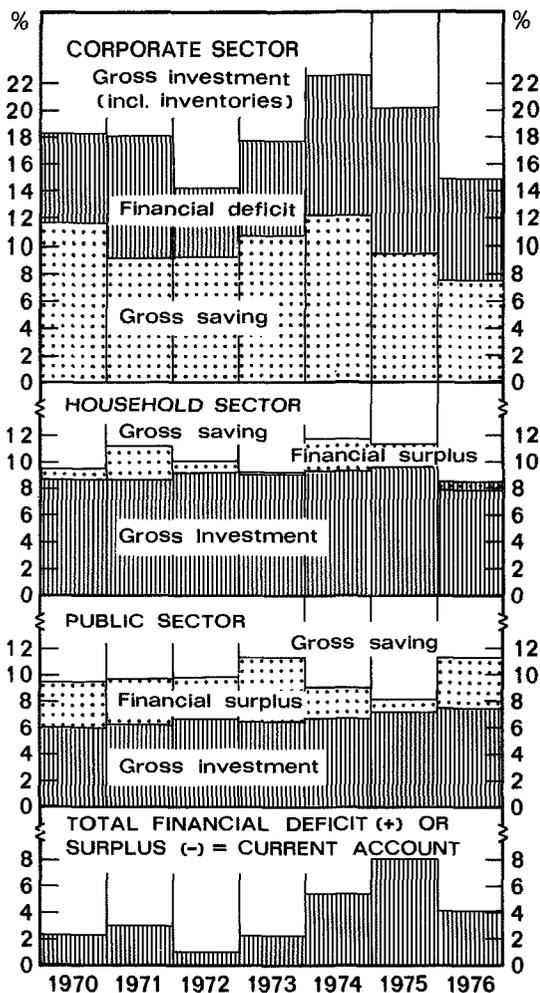
During the current year the inflow of foreign capital has diminished further, but the growth of bank credit has accelerated slightly. Total credit expansion is expected to be just less than it was last year.

The tight monetary policy together with regulation of long-term capital imports has especially reduced the expansion of credit to the corporate sector. On the other hand, an exceptional weakening in corporate income and the low level of capacity utilization reduced investment activity in 1976. Also the fact that the corporate sector had accumulated a heavy burden of debts and fixed costs in the past few years meant that firms were not able to borrow to as great an extent as they had done previously. As a result, the financial deficit of the corporate sector started to diminish (Chart 4), but it still accounted for 50 per cent of total corporate investments in 1976.

So far in 1977, production has not recovered and therefore the firms have not been willing to start new investment projects. Instead firms are trying to improve their liquidity and financial structure, which is shown by the increase in the growth of demand deposits during the first half of the current year. The release of import deposits, which were collected in 1975 and 1976, to some extent improved the financial position of the corporate sector.

One of the basic factors behind the fall in domestic credit expansion in 1976 was the low level of saving in the household sector. The household sector's real disposable income decreased slightly. However, households did not fully adjust their consumption and investment to this change in income, but started

CHART 4. SAVING, INVESTMENT AND FINANCIAL SURPLUSES AND DEFICITS BY SECTOR, PER CENT OF GDP



spending out of previous savings. Therefore the financial surplus of the household sector quickly vanished. Households' financial dis-saving was particularly reflected in a decrease of bank deposits in real terms. An additional factor for this was the Government's decision to postpone the repayment of excess income taxes from the usual time, December, to March 1977. Part of the increase of bank deposits during this spring can be ascribed to this factor.

During the first half of the current year household consumption decreased, which was reflected in the increase of bank deposits. At the same time banks have granted somewhat more

loans to households. In addition, the central government has continued a high level of lending for housing.

The liquidity position of the State remained fairly good in 1976. This was, however, achieved by using some special measures, such as the postponement of income tax repayments, collecting some extra taxes, increasing bond issues and, to some extent, curtailing public expenditure.

Government expenditure in the first half of the current year was 13 per cent higher than in the corresponding period of last year, but the growth of tax revenue has decelerated considerably and was only one per cent. Although domestic bond issues have been increased further, the central government's cash position has worsened considerably.

The slow down of taxable income also restrained the growth of local government expenditure in 1976 and the amount of credit granted to local governments was smaller than in 1975 because of the tightness in the financial market. The increase in tax revenue is going to be even smaller this year, but the growth of expenditure will probably stay almost the same as last year. The local governments' access to the credit market is expected to be better than in the previous year.

The rationing of long-term foreign capital imports and the weakening domestic demand, particularly in the corporate sector decreased the current account deficit from 8 000 million marks in 1975 to 4 500 million marks in 1976 (Chart 4). The deficit was almost completely financed by long-term foreign loans and the Bank of Finland's foreign exchange reserves diminished by a mere 78 million marks.

In the course of this year the current account deficit has decreased further and for the whole year the deficit is expected to be about half of that in 1976. So far, there has been an unwillingness to import long-term capital although permits have been granted, possibly because of speculation concerning the exchange rate.

This has put pressure on the foreign exchange reserves although trade has been almost in balance.

BANK OF FINLAND

Commercial banks' quota-related debt to the Bank of Finland decreased by more than 400 million marks in 1976. The strong liquidity position of the State at the turn of 1976 tightened the financial market and resulted in a rise of nearly 900 million marks in the commercial banks' demand for call money overdrafts between December 1976 and February 1977.

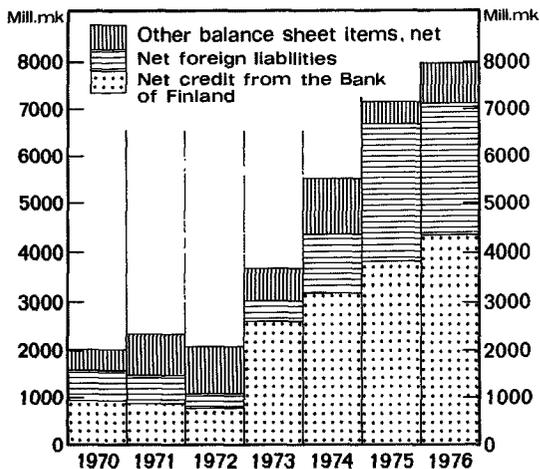
The release of import deposits amounted to 970 million marks from January to August of this year. This, together with the weakening of the central government's liquidity position since March resulted in a considerable increase in the liquidity of the private sector, which was only partly offset by the decrease of 930 million marks in the commercial banks' central bank finance during the first half of 1977.

Net claims of the Bank of Finland on the corporate sector grew by 700 million marks during 1976. The expansion in this item was due in part to a decline in liabilities resulting mainly from the drawing down of capital import deposits and in part to an increase of lending in the form of both permanent and temporary financing schemes designed to support production and employment.

DEPOSIT BANKS

Last year the liquidity position of the banking sector was rather weak as the growth of deposits remained small, especially in the commercial banks and in Postipankki. Towards the end of the year the commercial banks relied increasingly on central bank financing. The total increase of credits granted in excess of deposits by the commercial banks amounted to 830 million marks (Chart 5). Despite this, the growth of lending was smaller in the

CHART 5. THE FINANCING OF CREDITS GRANTED IN EXCESS OF DEPOSITS BY THE COMMERCIAL BANKS



commercial banks than in other deposit banks. This meant that the corporate sector's access to bank credit became more difficult, since, traditionally, the commercial banks grant more credit to firms than do savings banks, co-operative banks or Postipankki.

During the first two months of the current year the banks' liquidity position was still rather weak; central bank finance and the net foreign debt of the commercial banks increased further. Subsequently the financial position of banks improved considerably, as the deposits of the public grew rapidly during the first half of the current year (Chart 3). This did not lead to a significant increase in bank credit expansion, as the commercial banks diminished their central bank financing and foreign debt. According to the preliminary data for the first half of the current year, the excess of total bank credits over deposits widened by less than 100 million marks, but that of the commercial banks widened by 640 million marks (Chart 6).

OTHER FINANCIAL INSTITUTIONS

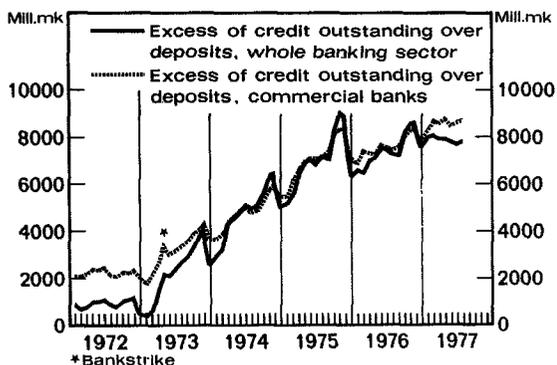
The growth of credit from non-bank financial institutions fell somewhat in 1976, but it was considerably faster than the growth of bank

credit. Credit from insurance companies and social security funds increased by 19 per cent. The growth was supported especially by the strong accumulation of employee pension funds. The public-owned development credit institutions increased their lending by 14 per cent. On the other hand the growth of lending by the mortgage banks was only 8 per cent, as their ability to obtain credit abroad and on the domestic bond market weakened substantially. Because the commercial banks' liquidity position weakened, their hire purchase companies could increase credit by only 6 per cent. In the current year the credit expansion from the non-bank financial institutions is expected to increase slightly.

CAPITAL MARKET

As the price level of shares was continuously decreasing in the market, companies' chances for successful new issues in 1976 were smaller than before, although their financial structure did need an improvement. Because investors' activity was rather small, while the central government made quite large bond issues to the general public on relatively good terms, there was not much room for either share issues or private bond issues. In fact both the new share issues of companies quoted on the Helsinki Stock Exchange and the private bond issues were smaller than in the previous year.

CHART 6. CREDIT OUTSTANDING IN EXCESS OF DEPOSITS



In the current year government bond issues have increased and the new issues by companies have declined further. In the secondary market, the increased supply of government bonds and the continued fall in share prices have caused the ratio of share transactions to the total turnover value at the Helsinki Stock Exchange to fall exceptionally low. The total turnover has also diminished further.

CURRENT PROSPECTS

The revival of foreign demand has turned out to be considerably weaker than expected, and no marked improvement is thought to be likely in the near future. Domestic activity has

remained sluggish, exacerbating the employment situation. Therefore a cautious and selective revival of domestic demand has been set as a goal for economic policy, designed so as not to hamper the slowing down of inflation or the improvement in the current account. The latest decisions, in the aftermath of the Nordic devaluations, were taken with this aim in mind. By having only a small devaluation combined with a reduction of interest rates it is hoped to keep the incomes policy agreement intact. Nevertheless, as long as foreign demand continues to be weak and corporate income stays at a low level, the business sector will be unwilling to invest and consequently it will be difficult even to preserve the present level of employment.

ITEMS

Decisions concerning the lowering of interest rates. In line with the Government's economic policy programme, the Bank of Finland decided to lower the general level of interest rates by one percentage point as from the beginning of October. Accordingly, the Bank Supervisors Delegated by Parliament made a decision on September 20, 1977, to lower the basic rate applied to central bank credit from 9 ¼ to 8 ¼ per cent, as from October 1, 1977.

In negotiations between the banks and the Bank of Finland it was agreed that the banks would lower their lending rates, similarly, by one percentage point, as from October 1, 1977. As a result of separate discussions between the Joint Delegation of the Banking Institutions and the Bank of Finland, the Council decided to implement a differential reduction in deposit rates.

The lowering of interest rates was aimed at reducing cost pressures and thereby curbing inflation. The Bank of Finland deemed that the lowering of interest rates would foster such incomes policy developments as would improve industry's competitiveness.

In addition, the Bank of Finland decided to intensify its arrangements for the financing of domestic suppliers' credits, short-term export credits and new export credits. In the financing of domestic suppliers' credits — a system particularly designed to promote the competitiveness of the domestic heavy metal industry — the Bank of Finland's share in the financing was increased from 30 to 40 per cent. Moreover, the Bank of Finland decided that, in case of fairly large deliveries, it would, to an increasing extent, also participate in the financing during the process of manufacture. The Bank of Finland also announced that it would be prepared to consider the use of foreign credit to cover part of the financing of domestic capital goods deliveries.

In order to improve the financing prospects of small and medium-sized industries, the Bank of Finland raised the upper limit on any new export credit granted to an individual firm, from 3 million marks to 4 million marks, and extended the system of financing short-term export credits to cover exports payable within 24 months, instead of within 12 months. The latter extension was aimed at easing the post-delivery financing of exports of light capital goods.

As a result of the lowering of interest rates, the rate on domestic suppliers' credits fell from 9 ¼ per cent to 8 ¼ per cent, that on short-term export credits and that charged to exporters on new export credits from 8 ½ per cent to 7 ½ per cent.

The Bank of Finland investment inquiry of June 1977. According to the investment inquiry conducted by the Bank of Finland in June 1977, the volume of industrial investment declined by 19 per cent last year. The previous inquiry, conducted in November 1976, indicated that the volume of investment would decline by 25 per cent. The fact that investment was more vigorous during the last quarter of 1976 than had been previously estimated was obviously attributable to a temporary improvement in the firms' cyclical expectations. In particular, it seems that some of the investment plans made by the forest and the metal industries for the current year were implemented during the second half of 1976.

Although investment activity strengthened slightly towards the end of 1976, it seems to have slackened again during the first half of the current year. According to the data obtained through this inquiry, the investment scheduled to be completed during the current year will be substantially less than was predicted in November 1976. The slackening in investment activity is probably due to the fact that demand has picked up more slowly than

TABLE 1. ANNUAL CHANGES IN THE VOLUME OF INDUSTRIAL FIXED INVESTMENT IN 1976, AND PLANNED CHANGES FOR 1977 AND 1978, IN THEIR ORIGINAL AND REVISED FORMS¹, PER CENT

Industrial sector	1976		1977		1978	
			orig.	revised	orig.	revised
Forest industries	-23	-25	-21	-42	-10	
Metal industry	-27	-45	-40	-2	0	
Other manufacturing	-26	-13	-6	-1	10	
Total manufacturing	-25	-29	-21	-18	0	
Electricity, gas and water	5	-22	-15	-25	-10	

TABLE 2. ANNUAL CHANGES IN THE VOLUME OF INDUSTRIAL FIXED INVESTMENT IN 1976, AND PLANNED CHANGES FOR 1977 AND 1978, IN THEIR ORIGINAL AND REVISED FORMS¹, PER CENT

Type of investment	1976		1977		1978	
			orig.	revised	orig.	revised
Building investment	-28	-38	-23	-20	5	
Investment in machinery and equipment	-14	-20	-16	-19	0	
Total	-19	-26	-18	-19	0	

¹ The revised planned changes and the forecasts of volumes presented in the text have been obtained by revising the original planned changes by means of realization functions for investment estimated on the basis of previous inquiries.

expected and profitability has been weakened by the low rate of capacity utilization. Allowing for the firms' output and income prospects for the second half of the year, the inquiry suggests that the volume of industrial investment will decline by nearly a fifth (Table 1). The volume of industrial investment in 1977 would then be at the level reached in 1966—1967.

During the current year, industrial investment activities will be centred on purchases of machinery and equipment. As the rate of capacity utilization is very low, hardly any actual expansion investments will be made. However, the granting of an exemption from sales tax to industrial building projects started between August 1, 1977 and March 31, 1978 — which had not been decided upon at the time when the inquiry was being conducted —

may encourage industry to start a slightly greater than estimated number of building projects during the second half of the current year. But, the full impact of the exemption from sales tax on building activities cannot be expected to be felt until next year.

According to the inquiry, the sharpest decline in investment this year will take place in the metal industry — an indication of the recent weak development of its order-books. The metal industry's purchases of machinery and equipment are expected to decline more sharply than its investment in buildings. The volume of the forest industries' investment will fall by a fifth, which is almost entirely the result of a sharp decline in building investment. On the other hand, the prospects for investment of other manufacturing industries are slightly more optimistic, although their volume of investment is expected to be slightly smaller than last year. In fact, it is estimated that building activities in other manufacturing industries will pick up this year, as building investment is expected to grow, particularly in the printing, publishing and allied industries, and in the textile industries.

The decline in domestic demand and in the volume of industrial output during the first half of the current year may have brought the expectation that industry's investment activity will remain sluggish next year. According to the inquiry, it seems that, even in 1978, there will not be any increase in the volume of investment. The data on investment plans obtained from the inquiry are probably too greatly influenced by the firms' difficulty in predicting next year's economic developments. The forest industry firms were particularly pessimistic: they estimated that the volume of their investment will decline for the third successive year. The firms are obviously expecting the expansion in capacity completed during the previous investment phase to be sufficient to meet the export demand which started to grow at the middle of last year. Firms in other manufacturing industries are expecting to start increasing their investment activities.

The curtailment of investment plans since November 1976 can be partly explained by the fall shown in the data on capacity utilization. According to the inquiry, the average rate of capacity utilization in industry will remain at last year's low level during the first half of this year and rise by no more than one percentage point during the second half of the year. Although in 1977 the rate of capacity utilization will rise most rapidly in the forest industries, the rate will still remain the lowest.

Half of the enterprises returning their questionnaires forecast that their capacity utilization rate will rise in 1978, during both the first and the second halves of the year, as

compared with the corresponding figures for the current year. Most of the enterprises which expected their capacity utilization rate to rise were in the forest industries, where 77 per cent of the firms (weighted by the number of persons employed) reported that their capacity utilization rate will rise during the first half of 1978, and 63 per cent reported that it will rise during the second half of the year.

National income. The Central Statistical Office has recently published the provisional figures for national income in 1976. The following tables indicate the developments of certain items of national income in the period 1973—1976.

TABLE 1. DISTRIBUTION OF THE NATIONAL INCOME, MILL. MK

	1973	1974	1975	1976*
Compensation of employees	34 868.6	43 885.7	54 507.4	62 235.7
Income from unincorporated enterprises	6 733.9	8 721.1	10 402.0	10 515.7
Household income from property	5 495.0	7 052.9	7 371.9	8 185.5
General government income from property and entrepreneurial activities	1 655.4	2 097.8	2 440.7	2 897.1
Corporate saving	3 047.8	4 734.5	3 721.2	2 782.8
Direct taxes on corporations	1 063.3	1 339.2	1 634.4	2 102.7
less: interest on the public debt	487.0	532.7	594.5	672.5
less: interest on consumers' debt	234.5	312.5	379.0	444.3
National income	52 142.5	66 986.0	79 104.1	87 602.7
Net factor income from abroad	704.1	925.4	1 409.5	1 624.3
Net domestic product at factor cost	52 846.6	67 911.4	80 513.6	89 227.0

TABLE 2. DISPOSABLE INCOME, CONSUMPTION AND SAVING, MILL. MK

	1973	1974	1975	1976*
Households:				
Disposable income	38 643.9	49 032.1	58 522.7	62 522.5
Consumption	34 025.2	41 063.7	49 783.4	56 582.9
Saving	4 618.7	7 968.4	8 739.3	5 939.6
Corporations:				
Disposable income (= saving)	3 047.8	4 734.5	3 721.2	2 782.8
General government:				
Disposable income	17 981.7	20 952.4	25 069.2	32 372.4
Consumption	11 162.3	14 219.8	18 331.6	21 464.5
Saving	6 819.4	6 732.6	6 737.6	10 907.9
Total:				
Disposable income	59 673.4	74 719.0	87 313.1	97 677.7
Consumption	45 187.5	55 283.5	68 115.0	78 047.4
Saving	14 485.9	19 435.5	19 198.1	19 630.3

TABLE 3. EXPENDITURE ON GROSS NATIONAL PRODUCT, MILL, MK

	1973	1974	1975	1976*
Private consumption expenditure	34 025.2	41 063.7	49 783.4	56 582.9
General government consumption expenditure	11 162.3	14 219.8	18 331.6	21 464.5
Gross private capital formation	15 484.4	20 264.8	25 687.9	24 382.9
Gross general government capital formation	3 038.6	3 680.6	4 474.3	4 939.3
Increase in stocks and statistical error	3 754.4	8 513.2	6 139.8	4 148.9
Exports of goods and services	18 245.2	24 923.7	24 868.6	29 645.2
less: imports of goods and services	18 964.1	28 491.9	31 325.0	32 409.8
Expenditure on gross domestic product	66 746.0	84 173.9	97 960.6	108 753.9
Net factor income abroad	-704.1	-925.4	-1 409.5	-1 624.3
Expenditure on gross national product	66 041.9	83 248.5	96 551.1	107 129.6

TABLE 4. ANNUAL CHANGES IN THE VOLUME OF FIXED CAPITAL FORMATION, PER CENT

	1973	1974	1975	1976*
Construction of buildings	+10	+4	+ 3	-14
Dwellings	+ 5	+6	- 4	-12
Other	+16	+1	+12	-18
Road and waterway construction	+ 3	-4	+ 3	- 8
Machinery and equipment	+ 2	+7	+13	-11
Volume of fixed capital formation	+ 5	+4	+ 7	-12

BANK OF FINLAND

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Senior officials

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Pekka Tukiainen Kari Pekonen
Domestic Financial Operations *Foreign Exchange Policy*

Raine Panula Raili Nuortila
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Antti Lehtinen J. Ojala
Capital Transfers *Foreign Exchange Control*

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Economics Dept. *Research Dept.*

Markku Pietinen Heikki T. Hämäläinen
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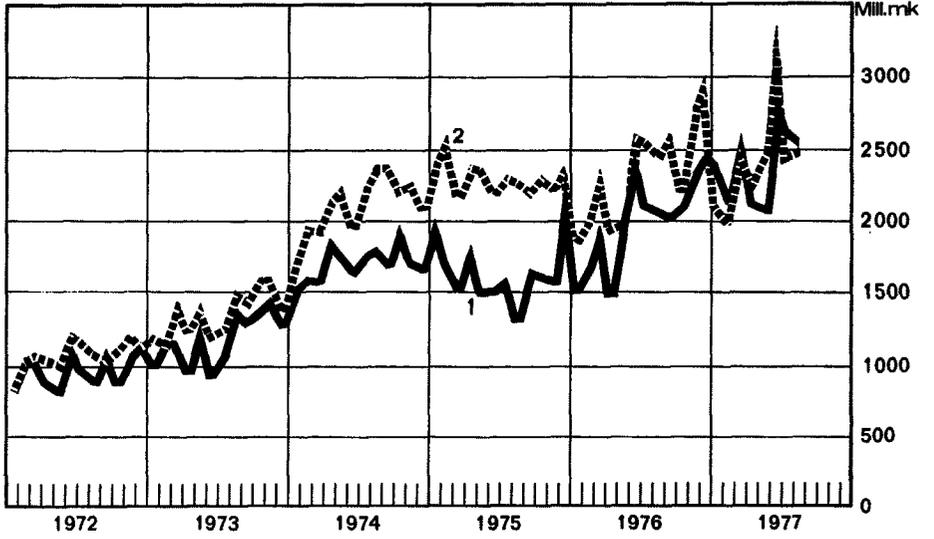
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Foreign Correspondence *Internal Audit*

K. Eirola Pauli Kanerva
Automatic Data Processing *Personnel Administration and General Affairs*

Stig G Björklund Antti Luukka
Banking Services *Cash*

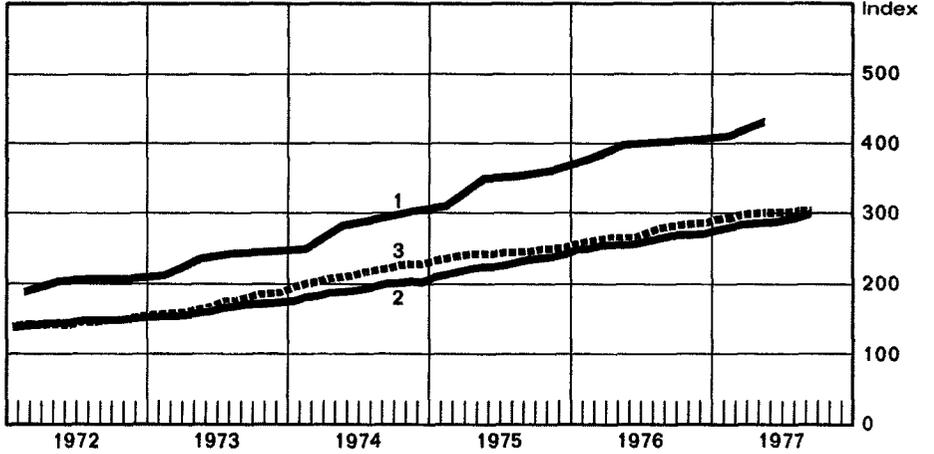
FOREIGN TRADE, 1972-1977

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



PRICES AND WAGES, 1972-1977

- 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, 1972-1977

- 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

