



# BANK OF FINLAND

*Monthly Bulletin*

**The budget proposal for 1979**

**Finnish interest rates: structure, policy  
and developments, 1960—1978**

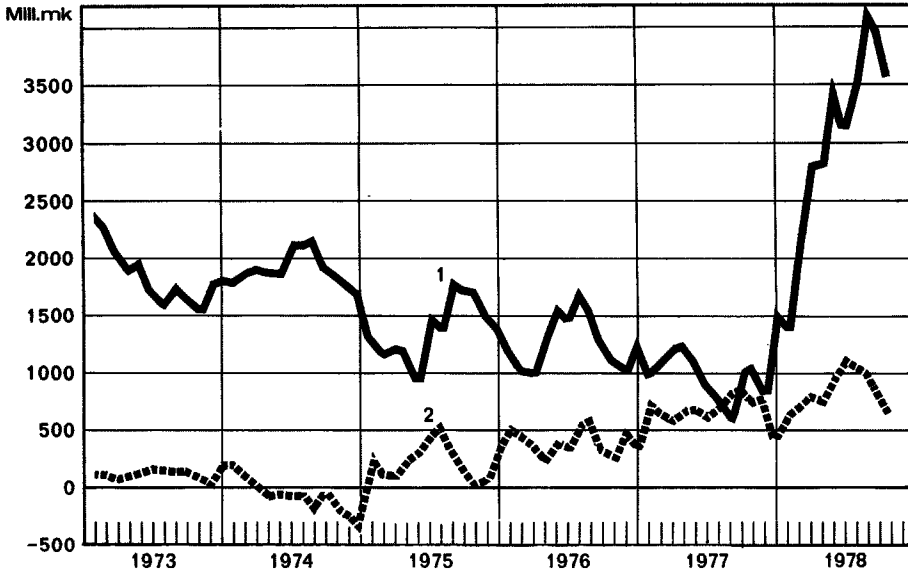
**Finland's gross long-term foreign debt  
in January-September 1978**

**Supplementary budget**

**DECEMBER 1978**

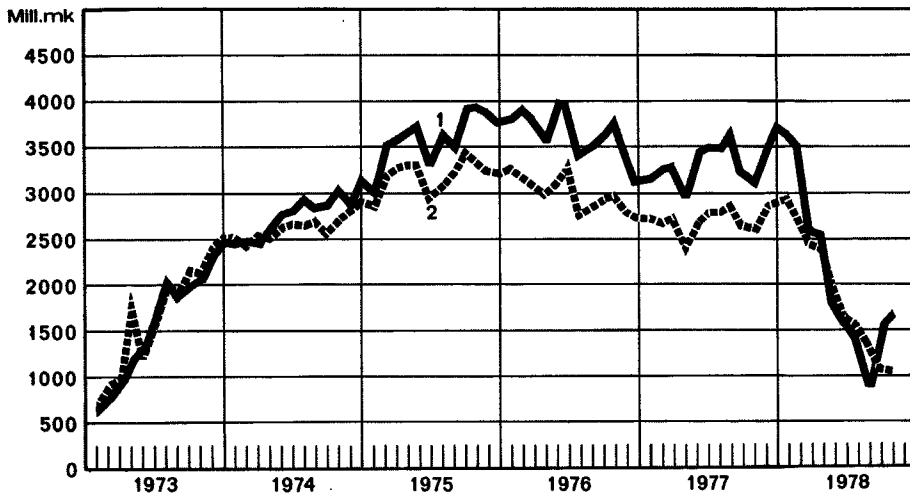
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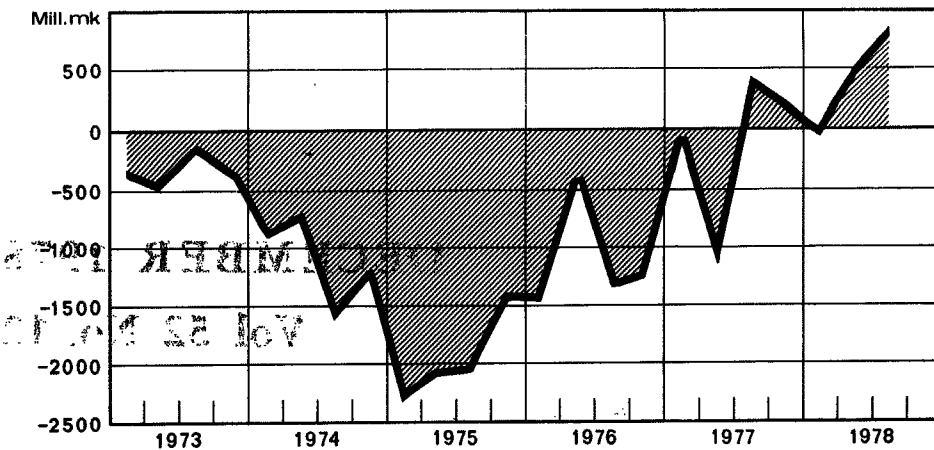
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## THE BUDGET PROPOSAL FOR 1979

In view of the currently high unemployment, fiscal policy has become increasingly reflationary during the course of 1978. The rapid improvement in the current account, which is in part a result of weak domestic activity, has removed much of the external constraint on expansionary policies. However, as continued growth of exports is a prerequisite for sustained growth and increased employment, special attention has been given to the restoration of the competitiveness of Finnish products. In addition to the three devaluations in 1977 and 1978, measures have been taken to reduce production and investment costs especially in the form of temporary tax reductions. Tax reductions have also been used to some extent to revive private consumption.

Economic policy has contributed to the small revival of economic activity during this year. Private demand is expected to be somewhat stronger than was forecast earlier in 1978. The growth rate of total production should rise to 2½ per cent. The unemployment rate may not rise as high as was expected but at 7.6 per cent for the year still presents the central problem for economic policy. In addition to the automatic effects of slack economic activity, discretionary measures, especially tax cuts, have weakened the financial position of the central government. (For recent economic policies and developments see Monthly Bulletin, June 1978, back article and October 1978, front and back articles).

Forecasts for 1979, made in August, when the budget proposal was prepared, point to a further, if slow improvement. Consumer demand is expected to grow at the same, albeit slow rate as in 1978. Private fixed investment is forecast to pick up somewhat, after three years of continuous decline. Though these developments will lead to an increase in import volume, the current account should remain in surplus. However, the projected

growth in total production, of 3½ per cent in 1979, will not bring about a reduction in unemployment. On the other hand, a strengthening of inflationary pressures is expected, due to the expiry of several temporary cost reducing measures.

According to the budget proposal for 1979 present reflationary policies will be continued. Since their impact on employment is rather slow, special measures are needed for those most severely affected, especially the young unemployed. A reduction in inflationary pressures is necessary in order to secure the further expansion of exports, deemed necessary for sustained growth in production.

Income and wealth taxation of households will be eased slightly more than would be necessary to compensate for inflation, thus reducing revenue by 1 000 million marks (2 per cent of the budget) relative to that which would accrue on current tax scales. The temporary reduction in social security payments by households will be maintained, though at a slightly lower rate (0.75 percentage points) than presently.

The temporary reduction in employers' social security payments (based on the wage bill) will be continued in 1979 at a rate of 0.5 percentage points. On the other hand, the temporary reduction of the electricity tax for certain industries will not be continued. After the presentation of the budget proposal to Parliament, the government has proposed several changes in business taxation to benefit small and medium sized enterprises especially.

The aim of the proposed tax measures, in addition to stimulating domestic demand, is to prepare the way for wage agreements, which will not endanger industrial competitiveness. (Most collective agreements will expire at the end of January 1979). For the

same reason, increases in indirect taxes will be limited. Charges for postal and rail services as well as prices of alcoholic beverages and tobacco will be increased roughly in line with the rise in the general price level. The increases in indirect taxes will raise the consumer price index by only one per cent, notably less than in recent years.

The total expenditure proposed, 43 513 million marks, is 16 per cent larger than in the 1978 ordinary budget. But after taking into account certain technical changes, which raise the budgeted level of expenditures by 2 percentage points, and this year's supplementary budgets, the proposal is likely to entail a two per cent increase in cash outlays, in volume terms, on this year's estimated cash expenditure. A notable part of the volume growth in consumption expenditures is due, as in previous years, to an increase in pensions paid by the central government, and to vocational training activities which will be expanded for employment reasons. A large part of transfer payments goes to municipalities to finance operating costs of various social, health, and educational services. Increases in these payments are due inter alia to the implementation of programmes expanding certain health services and day care of children. The proposal also contains allocations to municipalities for temporary increases in their personnel, including employment of young people on a part-time basis. Direct transfer payments to business and agriculture will decline in volume, and those to households remain about at their present level. Central government fixed investment, as well as loans for housing and other purposes will decline in volume. On the other hand, debt service payments will increase rapidly, due to recent heavy borrowing.

The relatively small increase in expenditure proposed for 1979 reflects the aim of current policy to increase exports, by improving competitiveness of private enterprises, and to

support private demand, rather than undertake a strong expansion in public demand. Hence no new social programmes are to be launched. However, efforts are being made to increase investment by local government and certain private organisations, by means of interest subsidies, loans from monetary institutions and also loans and grants from state funds, in order to create employment, whilst avoiding a permanent increase in expenditure.

Changes in the gross borrowing requirement (the difference between total budgeted expenditure, incl. lending and redemption of state debt, and total revenue, incl. repayments of loans granted by the central government) reflect changes in budgetary policy. In 1976, when it was very restrictive, the borrowing requirement was only 0.6 per cent of gross national product. In 1977 it rose to 1.7 per cent and this year is 4.3 per cent. One should note that central government debt at the end of 1977 was only 5½ per cent of gross national product, reflecting the relatively low indebtedness of the Finnish government by international standards.

In 1979, according to the budget proposal, the gross borrowing requirement (3½ per cent of gross national product) will be only a little smaller than this year. Thus the budget should continue to exert an expansionary effect on the economy, though on a slightly lesser scale than this year. However, many of the expansionary fiscal measures already taken will only have a tangible effect during the first half of next year. A minor part of the borrowing requirement will be covered by special arrangements with the central bank. The extent of external borrowing will be determined during the course of next year. Rapidly easing domestic financial markets make it possible to borrow from domestic sources without an undue crowding out effect.

November 20, 1978

## BANK OF FINLAND

Mill. mk

	1977		1978			
	Nov. 30	Dec. 31	Nov. 8	Nov. 15	Nov. 23	Nov. 30
<b>Assets</b>						
Gold and foreign exchange receivables	1 749	2 139	4 232	4 131	4 402	3 889
Gold	127	133	133	133	133	133
Special drawing rights	176	204	132	132	145	155
IMF reserve tranche	—	—	246	246	246	246
Convertible currencies	600	1 265	3 081	3 009	3 164	2 718
Tied currencies	846	537	640	611	714	637
Other foreign receivables	1 912	1 959	2 540	2 531	2 561	2 553
Foreign bills	455	488	609	600	627	619
Foreign bonds	523	543	821	821	824	824
Mark subscription to Finland's quota in the IMF	934	928	1 110	1 110	1 110	1 110
Receivables from financial institutions	4 999	5 420	3 696	3 475	3 838	3 526
Cheque accounts of the commercial banks	132	110	73	86	125	169
Discounted bills	3 058	3 091	1 121	1 036	985	968
Bonds	687	354	362	361	360	373
Call money market advances	1 100	1 804	2 111	1 972	2 348	1 995
Other financial institution receivables	22	61	29	20	20	21
Receivables from the public sector	364	391	617	625	622	624
Government promissory notes	—	—	188	188	188	188
Bonds	59	60	94	99	99	100
Total coinage	303	304	333	334	335	335
Other public sector receivables	2	27	2	4	0	1
Receivables from corporations	1 428	1 416	1 308	1 305	1 307	1 297
New export bills	200	194	249	248	250	243
Financing of domestic deliveries	694	714	761	761	760	758
Bonds	233	214	218	217	217	217
Other corporate receivables	301	294	80	79	80	79
Other assets	79	85	64	64	64	65
<b>Total</b>	<b>10 531</b>	<b>11 410</b>	<b>12 457</b>	<b>12 131</b>	<b>12 794</b>	<b>11 954</b>
<b>Liabilities</b>						
Foreign exchange liabilities	95	94	66	61	49	46
Convertible accounts	46	53	48	43	34	31
Tied accounts	49	41	18	18	15	15
Other foreign liabilities	2 566	3 447	2 750	2 596	2 602	2 197
IMF mark accounts	1 772	1 838	2 051	1 897	1 897	1 897
Allocations of special drawing rights	258	300	301	301	301	300
Term liabilities	526	1 309	398	398	404	—
Notes and coins in circulation	3 075	3 167	3 394	3 407	3 444	3 492
Notes	2 806	2 892	3 095	3 107	3 144	3 191
Coins	269	275	299	300	300	301
Deposit certificates in circulation	180	200	1 359	1 040	890	890
Claims of financial institutions	1 143	1 194	1 793	1 955	2 730	2 276
Cheque account of Postipankki	0	1	1	0	0	1
Cheque accounts of the commercial banks	1	3	1	1	1	1
Call money market deposits	853	850	1 337	1 514	2 301	1 821
Capital import deposits	278	246	424	422	405	404
Other financial institution claims	11	94	30	18	23	49
Claims of the public sector	407	328	194	194	196	138
Cheque accounts	0	2	0	0	0	0
Counter-cyclical reserves	34	36	38	38	38	38
Capital import deposits	369	287	155	155	157	99
Other public sector claims	4	3	1	1	1	1
Claims of corporations	236	242	382	355	358	360
Deposits for investment and ship purchase	37	35	38	36	36	37
Capital import deposits	180	181	309	299	304	305
Import levy deposits	18	19	8	8	6	5
Other corporate claims	1	7	27	12	12	13
Other liabilities	13	13	15	15	15	21
Equalization accounts	850	671	453	457	447	459
Capital accounts	1 976	2 054	2 051	2 051	2 063	2 075
Primary capital	1 400	1 400	1 400	1 400	1 400	1 400
Reserve fund	436	436	545	545	545	545
Net earnings	140	218	106	106	118	130
<b>Total</b>	<b>10 531</b>	<b>11 410</b>	<b>12 457</b>	<b>12 131</b>	<b>12 794</b>	<b>11 954</b>

End of year or month	Foreign sector							Public sector			Deposit certificates in circulation
	Gold and convertible exchange receivables	Convertible exchange liabilities	Gold and convertible exchange reserves (1-2)	Tied exchange reserves	Other receivables	Other liabilities	Net receivables (3+4+5-6)	Receivables	Liabilities	Net liabilities (9-8)	
	1	2	3	4	5	6	7	8	9	10	11
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	-
1977	1 602	53	1 549	496	1 959	3 447	557	391	328	- 63	200
1977											
Sept.	1 072	51	1 021	878	1 856	2 134	1 621	365	343	- 22	180
Oct.	1 121	47	1 074	771	1 893	2 134	1 604	363	286	- 77	180
Nov.	903	46	857	797	1 912	2 556	1 010	364	407	43	180
Dec.	1 602	53	1 549	496	1 959	3 447	557	391	328	-63	200
1978											
Jan.	1 492	40	1 452	648	1 983	3 360	723	399	320	-79	180
Feb.	2 236	36	2 200	730	2 093	3 393	1 630	401	297	-104	180
March	2 854	40	2 814	822	2 142	3 391	2 387	405	288	-117	0
April	2 890	51	2 839	785	2 187	3 408	2 403	382	289	-93	-
May	3 596	38	3 558	995	2 636	3 914	3 275	382	229	-153	-
June	3 284	98	3 186	1 149	2 641	3 046	3 930	393	222	-171	400
July	3 583	40	3 543	1 084	2 659	3 038	4 248	404	203	-201	760
Aug.	4 237	43	4 194	1 019	2 407	2 786	4 834	453	202	-251	859
Sept.	4 039	53	3 986	842	2 428	2 756	4 500	464	199	-265	1 209
Oct.	3 620	48	3 572	663	2 551	2 729	4 057	614	191	-423	1 359
Nov.	3 252	31	3 221	622	2 553	2 197	4 199	624	138	-486	890

## FOREIGN EXCHANGE SITUATION

Mill. mk

	Net holdings, Oct. 31, 1978			Change	
	Bank of Finland	Other	Total	Oct.	Jan.—Oct.
Gold	133	-	133	-	-
Special drawing rights	149	-	149	-	-55
IMF reserve tranche	246	-	246	-	+246
Convertible currencies	3 044	-1 891	1 153	-104	+2 726
Total	3 572	-1 891	1 681	-104	+2 917
Tied currencies	663	159	822	-144	+180

CURRENCY INDEX<sup>1</sup>

1974 = 100

1978	
July	118.5
August	118.5
Sept.	118.5
Oct.	118.7
Nov.	118.5

<sup>1</sup> See page 19, CURRENCY



End of year or month	Domestic financial sector						Corporate sector				Notes and coins in circulation
	Dis-counted and redis-counted bills	Cheque account receiv-ables	Other receiv-ables	Cheque account liabilities to the commercial banks	Cheque account liabilities to Posti-pankki	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
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
1977	3 091	110	2 219	3	1	1 190	4 226	1 416	242	1 174	3 167
1977											
Sept.	2 700	140	1 303	5	0	1 010	3 128	1 476	266	1 210	3 079
Oct.	2 722	122	1 691	1	0	1 376	3 158	1 467	305	1 162	3 072
Nov.	3 058	132	1 809	1	0	1 142	3 856	1 428	236	1 192	3 075
Dec.	3 091	110	2 219	3	1	1 190	4 226	1 416	242	1 174	3 167
1978											
Jan.	3 060	139	2 575	1	0	1 900	3 873	1 439	239	1 200	2 990
Feb.	2 658	149	2 698	1	0	2 440	3 064	1 504	331	1 173	3 040
March	2 454	123	2 288	1	0	2 340	2 524	1 477	386	1 091	3 333
April	2 346	157	2 012	3	0	1 985	2 527	1 483	389	1 094	3 302
May	2 004	120	1 710	1	0	2 223	1 610	1 386	416	970	3 271
June	1 607	109	1 870	2	0	2 042	1 542	1 311	386	925	3 572
July	1 571	84	1 782	1	0	2 031	1 405	1 297	304	993	3 520
Aug.	1 320	80	1 596	1	0	2 102	893	1 288	505	783	3 414
Sept.	1 107	79	2 053	1	0	1 731	1 507	1 311	372	939	3 538
Oct.	1 113	70	2 395	1	5	1 877	1 695	1 298	344	954	3 431
Nov.	968	169	2 389	1	1	2 274	1 250	1 297	360	937	3 492

## SELLING RATES FOR FOREIGN EXCHANGE

Mk

November 20, 1978

New York <sup>1</sup>	1 \$	4.065	Frankfurt o. M.	100 DM	209.85	Vienna	100 S	28.70
Montreal	1 \$	3.470	Amsterdam	100 FI	193.70	Lisbon	100 Esc	8.74
London	1 £	7.845	Brussels <sup>2</sup>	100 Fr		Madrid	100 Pta	5.69
Stockholm	100 Kr	91.90	Zurich	100 Fr	230.40	Tokyo	100 Y	2.074
Oslo	100 Kr	79.20	Paris	100 FF	91.70	Reykjavik	100 Kr	1.31
Copenhagen	100 Kr	75.90	Rome	100 Lit	0.478	Moscow <sup>3</sup>	1 Rbl	6.113

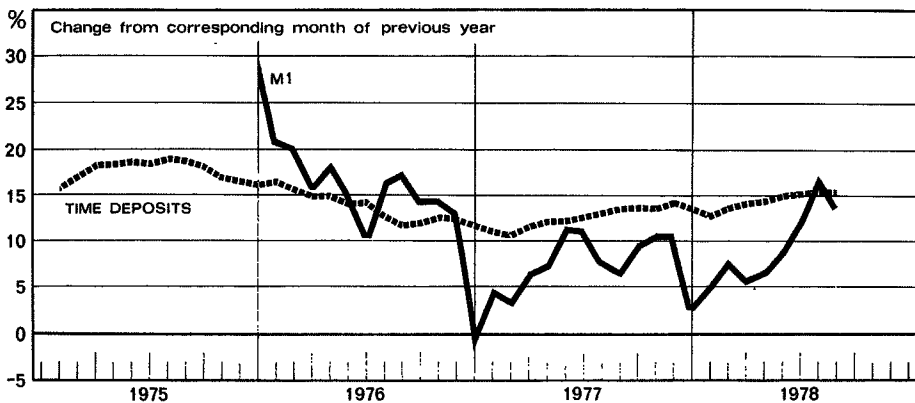
<sup>1</sup> Applied also to clearing accounts with Berlin, Bucharest, Budapest and Sofia.<sup>2</sup> 13.370 commercial rate; 13.220 financial rate.<sup>3</sup> Clearing account.

DEPOSITS BY THE PUBLIC<sup>1</sup>

Mill. mk

End of year and month	Demand deposits				Time deposits					Total (4+9)
	Commer- cial banks	Savings banks & Co-op. banks	Posti- pankki	All depos- it banks	Commer- cial banks	Savings banks	Co-op. banks	Posti- pankki	All depos- it banks	
	1	2	3	4	5	6	7	8	9	
1974	2 723	913	1 638	5 274	10 811	8 279	6 299	2 646	28 035	33 309
1975	3 472	1 181	2 309	6 962	12 176	9 743	7 530	3 200	32 649	39 611
1976	3 071	1 357	2 336	6 764	13 282	11 051	8 610	3 665	36 608	43 372
1977	2 948	1 506	2 212	6 666	14 999	12 671	9 846	4 177	41 693	48 359
1977										
April	3 013	1 299	2 388	6 700	13 557	11 428	9 007	3 825	37 817	44 517
May	3 287	1 359	2 253	6 899	13 598	11 594	9 074	3 850	38 116	45 015
June	3 267	1 406	2 231	6 904	13 740	11 815	9 211	3 909	38 675	45 579
July	3 031	1 407	2 131	6 569	13 828	11 995	9 330	3 954	39 107	45 676
Aug.	3 271	1 486	2 049	6 806	13 960	12 120	9 474	3 989	39 543	46 349
Sept.	3 042	1 431	2 053	6 526	13 966	12 101	9 471	3 978	39 516	46 042
Oct.	3 147	1 495	2 027	6 669	14 167	12 152	9 491	4 012	39 822	46 491
Nov.	3 342	1 508	2 027	6 877	14 382	12 350	9 697	4 066	40 495	47 372
Dec.	2 948	1 506	2 212	6 666	14 999	12 671	9 846	4 177	41 693	48 359
1978										
Jan.	3 096	1 351	2 330	6 777	14 890	12 747	9 903	4 203	41 743	48 520
Feb.	3 106	1 468	2 478	7 052	15 191	12 901	9 996	4 243	42 331	49 383
March	2 922	1 420	2 340	6 682	15 350	13 058	10 107	4 363	42 878	49 560
April	3 068	1 414	2 415	6 897	15 596	13 190	10 225	4 368	43 379	50 276
May	3 550	1 541	2 304	7 395	15 975	13 287	10 277	4 393	43 932	51 327
June	3 713	1 517	2 359	7 589	16 210	13 523	10 458	4 485	44 676	52 265
July	3 712	1 594	2 352	7 658	16 440	13 679	10 567	4 600	45 286	52 944
Aug.	3 716	1 718	2 237	7 671	16 323	13 956	10 796	4 681	45 756	53 427

<sup>1</sup> New series. See explanations on page 18.

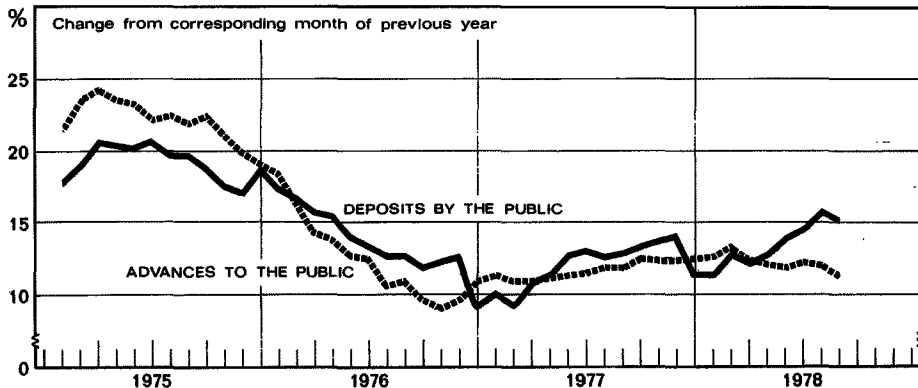


# ADVANCES TO THE PUBLIC<sup>1</sup>—MONEY SUPPLY<sup>1</sup>

Mill. mk

End of year and month	Advances granted by				Types of advances				Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency	Total (1 to 4) (5 to 7)	M <sub>1</sub>	M <sub>1</sub> +Quasi-Money
	1	2	3	4	5	6	7	8	9	10
1974	17 462	7 715	6 457	4 653	33 261	1 136	1 890	36 287	7 549	35 943
1975	20 799	9 108	7 797	5 597	38 285	1 281	3 735	43 301	9 772	43 165
1976	22 077	10 615	9 247	6 120	42 617	1 569	3 873	48 059	9 601	47 014
1977	24 679	12 312	10 547	6 609	47 355	1 690	5 102	54 147	9 872	52 581
1977										
April	23 175	10 885	9 313	6 242	43 243	1 551	4 821	49 615	9 620	48 164
May	23 240	11 055	9 405	6 337	43 679	1 545	4 813	50 037	9 786	48 845
June	23 469	11 154	9 544	6 352	43 929	1 639	4 951	50 519	9 996	49 380
July	23 475	11 263	9 668	6 312	44 229	1 575	4 914	50 718	9 651	49 509
Aug.	23 598	11 430	9 791	6 351	44 670	1 660	4 840	51 170	9 818	50 103
Sept.	24 063	11 640	9 962	6 476	45 328	1 659	5 154	52 141	9 670	50 258
Oct.	24 149	11 823	10 120	6 598	45 946	1 717	5 027	52 690	9 732	50 614
Nov.	24 440	12 004	10 283	6 676	46 592	1 723	5 088	53 403	9 933	51 436
Dec.	24 679	12 312	10 547	6 609	47 355	1 690	5 102	54 147	9 872	52 581
1978										
Jan.	24 843	12 421	10 575	6 852	47 794	1 763	5 134	54 691	9 875	52 716
Feb.	25 472	12 509	10 636	6 731	47 977	1 787	5 584	55 348	10 137	53 709
March	25 599	12 553	10 650	6 500	47 817	1 732	5 753	55 302	10 058	54 272
April	25 820	12 661	10 743	6 488	48 095	1 641	5 976	55 712	10 272	54 990
May	25 841	12 816	10 878	6 537	48 575	1 655	5 842	56 072	10 679	55 962
June	26 123	12 914	11 023	6 707	48 930	1 771	6 066	56 767	11 247	57 365
July	26 017	13 048	11 148	6 753	49 217	1 761	5 988	56 966	11 351	58 025
Aug.	25 771	13 241	11 367	6 650	49 649	1 659	5 721	57 029	11 177	58 501

<sup>1</sup> New series. See explanations on page 18.



## STATE FINANCES

Mill. mk

Revenue	Jan.—Sept.		Expenditure	Jan.—Sept.	
	1977	1978		1977	1978
Income and wealth tax (net)	7 566	6 421	Wages, salaries, pensions etc.	4 296	4 685
Gross receipts	(19 979)	(19 995)	Repair and maintenance	597	615
Refunds & local authorities	(-12 413)	(-13 574)	Other consumption expenditure	2 020	2 360
Other taxes on income and wealth	183	196	Total consumption expenditure	6 913	7 660
Employers' child allowance payments	880	765	State aid to local authorities	5 266	6 051
Sales tax	5 791	6 774	State aid to industries	3 503	3 540
Customs duties and import charges and levies	646	647	of which: agric. price subsidies	(2 007)	(1 876)
Excise duties <sup>1</sup>	4 099	4 623	Child allowances	772	854
Excise duty on alcoholic beverages <sup>1</sup>	1 299	1 464	Share in national pensions and sickness insurance schemes	221	241
Excise duty on tobacco	611	639	Other transfer expenditure	2 924	3 356
Excise duty on liquid fuel	1 422	1 647	Total transfer expenditure	12 686	14 042
Other excise duties <sup>1</sup>	767	873	Machinery and equipment	906	986
Tax on autom. and motor-cycles	625	639	Construction of buildings	426	501
Stamp duties	532	582	Land and waterway construction	1 073	1 084
Special diesel etc. vehicles tax	99	116	Total real investment	2 405	2 571
Other taxes and similar revenue <sup>1</sup>	635	595	Interest on State debt	334	382
Total taxes	21 056	21 358	Net deficit of State enterprises	25	-46
Miscellaneous revenue	1 381	1 617	Other expenditure	36	36
Interest, dividends etc.	470	553	Total other expenditure	395	372
Redemptions of loans granted	240	352	Increase in inventories	10	-80
<b>Total revenue</b>	23 147	23 880	Lending	2 236	1 961
Foreign borrowing	295	2 488	Other financial investment	444	416
Domestic borrowing	850	1 513	<b>Total expenditure</b>	25 089	26 942
<b>Total borrowing</b>	1 145	4 001	Redemption of foreign loans	87	118
<b>Deficit (+) or surplus (-)</b>	+1 159	-382	Redemption of domestic loans	275	439
			<b>Total redemptions</b>	362	557
<b>Total</b>	25 451	27 499	<b>Total</b>	25 451	27 499

<sup>1</sup> New series.

State debt	1975	1976	1977	1978		
	Dec.	Dec.	Dec.	July	Aug.	Sept.
<b>Foreign debt</b>	1 603	2 248	3 679	5 617	5 982	6 404
Loans	1 645	2 175	2 963	3 675	3 787	3 853
Compensatory obligations	1	1	1	1	1	1
Short-term credit	85	287	175	408	313	312
Cash debt (net)	-242	-643	-669	316	-385	-346
<b>Domestic debt</b>	1 489	1 820	2 470	3 768	3 716	3 820
<b>Total State debt</b>	3 092	4 068	6 149	9 385	9 698	10 224
Total debt, mill \$	798	1 069	1 493	2 230	2 358	2 508

# FOREIGN TRADE

Mill. mk

Value mill. mk

Period	Value mill. mk		
	Exports f. o. b.	Imports c. i. f.	Surplus of exports (+) or imports (-)
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
1977	30 931	30 708	+223

1977

Aug.	2 240	2 398	-158
Sept.	2 901	2 849	+ 52
Oct.	2 991	2 583	+408
Nov.	2 960	2 891	+ 69
Dec.	3 141	3 050	+91

1978\*

Jan.	2 511	2 631	-120
Feb.	2 524	2 188	+336
March	2 750	2 570	+180
April	2 894	2 426	+468
May	2 942	2 935	+7
June	2 823	2 668	+155
July	2 677	2 636	+41
Aug.	2 401	2 473	-72
Sept.	3 240	2 721	+519

Jan.-Sept.

1977	21 839	22 188	-349
1978*	24 762	23 248	+1 514

Indices of exports and  
imports 1975 = 100

Period	Volume		Unit value		Terms of trade
	Exports	Imports	Exports	Imports	
	1973	121	93	60	
1974	121	100	85	92	92
1975	100	100	100	100	100
1976	117	96	103	107	97
1977	129	88	119	124	96

1976

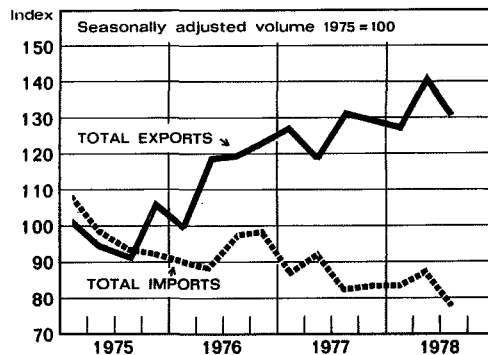
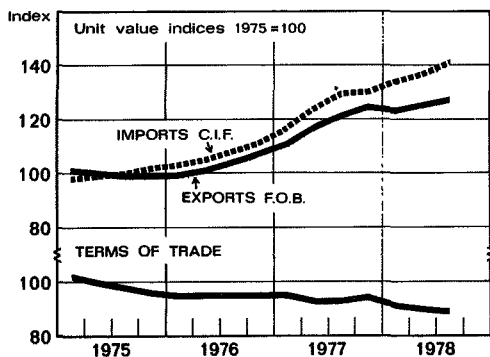
Jan.-March	99	87	100	104	96
Apr.-June	114	84	102	106	96
July-Sept.	116	98	105	109	96
Oct.-Dec.	136	107	108	112	96

1977

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

1978\*

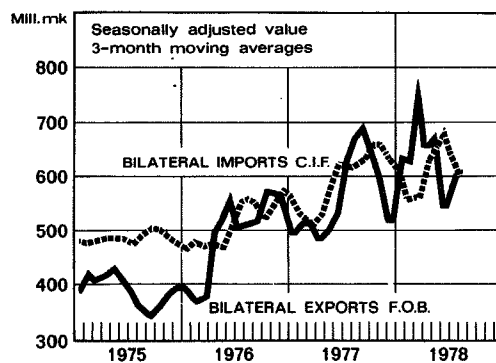
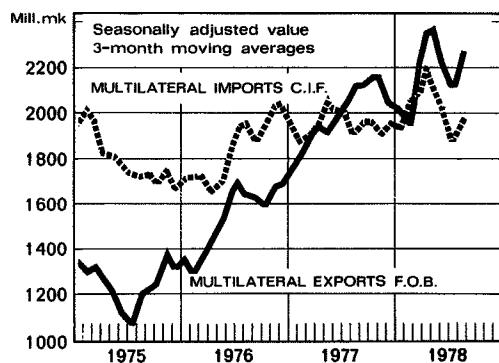
Jan.-March	124	78	124	135	92
Apr.-June	136	83	126	138	91
July-Sept.	128	79	128	142	90



# FOREIGN TRADE BY MAIN GROUPS

Mill. mk

Period	Exports, f.o.b.					Imports, c.i.f.				
	Agricultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Raw materials and producer goods	Fuels and lubricants	Finished goods		Other goods
								Investment goods	Consumer goods	
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
1977	1 087	3 854	8 798	9 184	8 008	19 128	2 066	4 828	4 603	83
1977*										
Aug.	48	339	674	605	574	1 590	166	276	356	10
Sept.	44	337	794	943	783	1 792	284	371	399	3
Oct.	41	321	753	1 106	770	1 650	222	321	389	1
Nov.	44	417	896	802	801	1 729	198	511	453	0
Dec.	143	346	836	963	853	1 876	230	526	415	3
1978*										
Jan.	160	322	721	656	652	1 567	193	493	376	2
Feb.	34	266	821	727	676	1 395	124	327	340	2
March	153	322	901	546	828	1 569	89	475	436	1
April	19	348	907	799	821	1 445	123	402	455	1
May	113	431	850	729	819	1 823	199	412	501	0
June	40	414	873	810	686	1 732	196	376	362	2
July	44	414	775	747	697	1 701	233	362	325	15
Aug.	33	330	750	553	735	1 558	215	328	370	2
Sept.	36	421	948	887	948	1 718	200	396	389	18
Jan.-Sept.										
1977	859	2 770	6 313	6 313	5 584	13 874	1 416	3 473	3 346	79
1978*	632	3 268	7 546	6 454	6 862	14 508	1 572	3 571	3 554	43



FOREIGN TRADE BY COUNTRIES<sup>1</sup>

Mill. mk

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January—September				January—September			
	1977*		1978*		1977*		1978*	
	%	Mill. mk	%	Mill. mk	%	Mill. mk	%	Mill. mk
<b>OECD countries in Europe</b>	63.4	13 850	62.1	15 376	56.9	12 639	58.4	13 570
Austria	0.9	188	0.7	176	1.4	308	1.3	312
Belgium and Luxembourg	1.9	406	1.9	460	1.8	411	1.8	419
Denmark	3.9	851	4.2	1 046	2.7	590	2.7	634
France	3.4	741	3.8	935	2.7	605	3.3	763
Federal Republic of Germany	10.3	2 244	10.1	2 511	13.8	3 060	13.6	3 158
Italy	1.2	268	1.7	412	2.1	476	2.3	542
Netherlands	3.6	800	3.7	918	2.7	602	2.9	668
Norway	5.5	1 205	4.5	1 120	3.3	727	2.8	648
Portugal	0.3	68	0.2	43	0.4	90	0.4	85
Spain	1.0	213	0.8	197	1.4	302	0.8	194
Sweden	15.5	3 397	14.5	3 588	13.4	2 977	14.5	3 365
Switzerland	1.6	352	1.7	419	2.0	437	2.1	486
United Kingdom	12.3	2 683	12.9	3 199	8.8	1 962	9.3	2 162
Other	2.0	434	1.4	352	0.4	92	0.6	134
<b>OECD countries outside Europe</b>	6.9	1 507	7.4	1 838	8.2	1 813	8.5	1 972
Canada	0.6	133	0.5	131	0.3	60	0.4	87
Japan	0.9	197	1.7	417	2.8	617	2.8	648
United States	4.6	1 000	4.1	1 019	4.9	1 081	5.1	1 180
Other	0.8	177	1.1	271	0.2	55	0.2	57
<b>CMEA countries</b>	21.3	4 653	20.8	5 160	23.0	5 101	23.3	5 427
Czechoslovakia	0.4	92	0.5	117	0.5	101	0.5	120
German Democratic Republic	1.0	222	0.7	183	0.6	127	0.6	145
Poland	0.8	173	0.6	156	2.1	480	2.4	562
Soviet Union	18.2	3 981	17.9	4 431	19.2	4 252	18.8	4 376
Other	0.9	185	1.1	273	0.6	141	1.0	224
<b>Latin America</b>	1.7	368	2.4	581	4.2	927	3.6	832
Argentina	0.2	43	0.2	49	0.2	47	0.2	55
Brazil	0.5	101	0.5	114	0.6	132	0.7	163
Colombia	0.1	16	0.1	33	1.4	304	1.2	277
Other	0.9	208	1.6	385	2.0	444	1.5	337
<b>Other</b>	6.7	1 461	7.3	1 807	7.7	1 708	6.2	1 447
<b>GRAND TOTAL</b>	100.0	21 839	100.0	24 762	100.0	22 188	100.0	23 248
of which								
<b>EFTA countries</b>	24.0	5 237	21.8	5 386	20.6	4 573	21.3	4 947
<b>EEC countries</b>	37.2	8 118	39.0	9 660	34.9	7 742	36.1	8 391
<b>OECD countries</b>	70.3	15 356	69.5	17 214	65.1	14 452	66.9	15 542

<sup>1</sup> New series. See explanations on page 18.

# BALANCE OF PAYMENTS

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

## 1975

July-Sept.	4 482	6 649	-2 167	+237	+142	+ 57	-1 731	-308	- 6	-2 045
Oct.-Dec.	5 861	7 234	-1 373	+234	- 7	+206	- 940	-411	-30	-1 381

## 1976

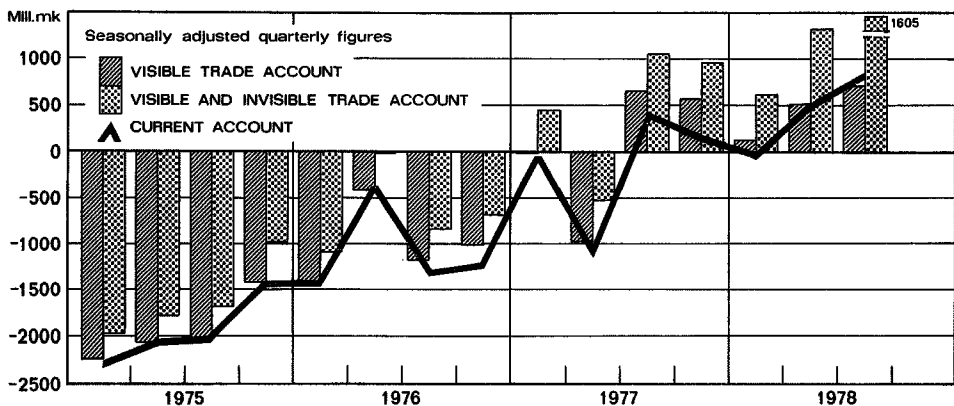
Jan.-March	4 987	6 307	-1 320	+252	- 50	+ 65	-1 053	-347	-35	-1 435
Apr.-June	5 864	6 224	- 360	+252	+ 49	+ 26	- 33	-485	-26	- 544
July-Sept.	6 098	7 515	-1 417	+365	+ 62	+110	- 880	-434	-17	-1 331
Oct.-Dec.	7 423	8 426	-1 003	+324	- 39	+ 44	- 674	-483	-40	-1 197

## 1977

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

## 1978\*

Jan.-March	7 745	7 359	+ 386	+ 399	- 66	+165	+ 884	- 613	-63	+ 208
Apr.-June	8 610	8 018	+ 592	+ 305	+ 11	+213	+1 121	- 821	-21	+ 279



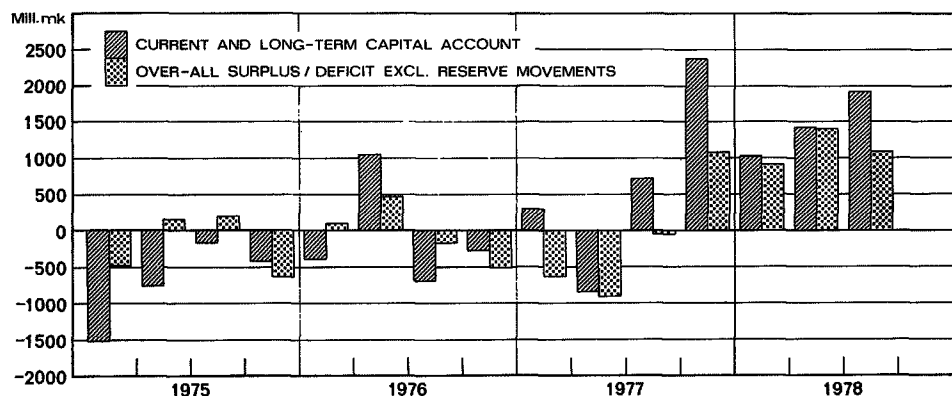


Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits net	Miscellaneous long-term capital items, net <sup>1</sup>	Long-term capital account	Current and long-term capital account	Short-term import credits and prepayments, net	Short-term export credits and prepayments, net	Miscellaneous short-term capital items, incl. errors and omissions	Over-all surplus/deficit excl. reserve movements	Reserve movements	
										Bank of Finland	Other foreign exchange holders
+6 729	-1 445	-214	+ 62	+5 132	-2 842	+ 638	+1 449	+ 8	- 747	- 444	+1 191
+6 130	-1 785	-191	+ 48	+4 202	- 305	+ 138	-1 288	+1 327	- 128	+ 78	+ 50
+6 454	-2 745	-241	-229	+3 239	+2 599	-1 547	- 470	-1 071	- 489	- 170	+ 659
+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	- 24	+ 321	+ 314	- 799	+ 149	- 269	- 605	- 140	+ 745
+1 273	- 857	+ 35	- 37	+ 414	- 838	- 333	+ 149	+ 116	- 906	+ 358	+ 548
+1 252	- 647	-156	- 89	+ 360	+ 733	+ 227	- 384	- 631	- 55	- 319	+ 374
+2 907	- 691	+ 7	- 79	+2 144	+2 390	- 642	- 384	- 287	+1 077	- 69	-1 008
+1 876	- 854	-170	- 14	+ 838	+1 046	- 568	- 402	+ 848	+ 924	-1 556	+ 632
+2 900	-1 733	+ 28	- 51	+1 144	+1 423	+ 232	- 402	+ 147	+1 400	- 687	- 713

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

<sup>1</sup> Including Direct investment, net.

<sup>2</sup> 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			
1976	626	646	548	614	707	621	679	594	614	152	142	154
1977	692	713	610	667	804	695	728	654	695	171	154	176
1977												
Dec.	705	724	634	677	833	710	735	666	713	176	157	182
1978												
Jan.	706	725	637	675	845	713	730	667	719	177	155	183
Feb.	711	730	639	679	853	719	736	665	727	177	155	183
March	716	731	658	683	869	719	736	670	733	178	155	184
April	717	733	658	683	869	725	740	669	736	178	156	185
May	721	734	669	687	877	726	737	675	741	180	160	185
June	721	734	674	687	884	725	737	673	743	180	160	185
July	730	742	685	691	902	739	752	677	752	180	160	186
Aug.	730	742	686	690	905	739	745	679	756	180	160	186
Sept.	735	747	688	696	909	743	744	681	765	184	168	188
Oct.	741	752	697	704	920	744	748	691	769	185	168	189

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	Trans- port	Education and recreation	Other goods and services
1976	449	352	174	182	164	166	171	200	164	174	162	185
1977	506	397	196	216	174	181	183	221	181	197	188	209
1977												
Dec.	525	412	204	225	174	186	192	233	187	205	196	217
1978												
Jan.	526	412	204	222	174	183	192	234	188	209	198	218
Feb.	532	417	207	223	190	187	192	235	188	212	198	222
March	533	419	207	224	190	190	192	235	189	212	198	223
April	536	420	208	224	190	192	192	236	190	213	200	223
May	544	427	211	224	204	193	195	235	190	218	201	229
June	544	427	211	224	204	193	195	235	190	218	201	230
July	545	428	212	225	204	187	195	236	190	219	201	234
Aug.	547	430	213	224	204	191	196	236	190	219	209	235
Sept.	551	433	214	227	204	195	196	237	191	219	209	239
Oct.	554	435	215	227	204	200	196	237	193	218	211	241

# 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							
1976	599	442	428	361	360	353	416	346	441	399
1977*	670	484	456	385	387	375	453	373	479	432
1976										
Oct.-Dec.	639	456	440	364	364	356	426	350	451	407
1977*										
Jan.-March	653	457	440	372	374	364	428	357	453	411
Apr.-June	665	488	454	385	390	378	456	374	484	436
July-Sept.	670	493	463	388	390	379	461	377	488	439
Oct.-Dec.	706	499	468	397	394	380	468	384	492	445
1978*										
Jan.-March	725	501	469	397	395	380	471	385	495	447
Apr.-June	734	509	475	402	401	384	481	391	507	456
July.-Sept.	741	528	485	412	410	393	498	402	525	471

# PRODUCTION<sup>1</sup>

## Volume indices of production 1975 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communications	Commerce	Public sector services	Others
1976*										
Apr.-June	100	103	89	108	70	102	99	100	105	102
July-Sept.	100	89	192	64	92	93	101	100	106	98
Oct.-Dec.	108	110	75	121	107	98	114	111	108	104
1977*										
Jan.-March	97	106	71	110	78	97	94	84	111	101
Apr.-June	100	103	87	112	74	96	97	95	110	103
July-Sept.	100	90	153	63	94	91	106	96	111	100
Oct.-Dec.	108	110	75	110	105	94	114	101	113	106
1978*										
Jan.-March	99	107	71	115	74	93	97	84	114	103
Apr.-June	103	108	89	104	75	96	109	93	113	105

<sup>1</sup> New series

# PRODUCTION

Index of industrial production 1970 = 100

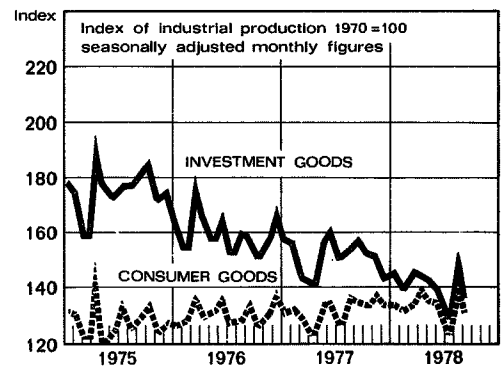
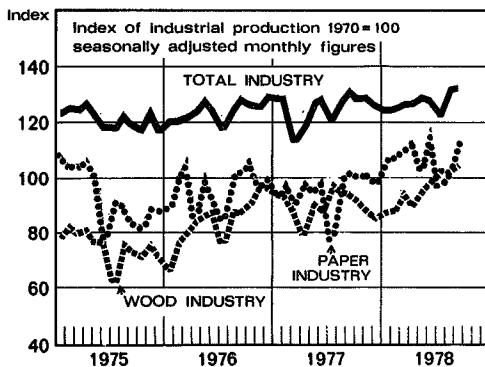
Period	Total	Investment goods	Other producer goods	Consumer goods	Special indices of manufacturing						Total, adjusted for seasonal variations
					Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
1974	127	141	122	135	112	107	124	154	136	141	127
1975	122	178	110	130	113	76	95	143	128	150	122
1976	125	162	116	132	110	85	99	153	121	150	125
1977*	127	153	119	133	108	91	98	152	119	151	127

1977\*

June	123	165	112	135	106	97	81	121	126	161	130
July	66	61	64	74	95	42	59	82	63	56	122
Aug.	129	146	122	140	115	90	111	151	125	146	128
Sept.	140	171	132	146	114	100	117	162	137	167	132
Oct.	139	168	132	145	123	94	113	154	133	165	130
Nov.	142	173	133	149	127	99	112	166	127	172	130
Dec.	129	149	122	135	111	84	94	164	108	152	127

1978\*

Jan.	136	159	130	139	103	88	111	175	122	158	126
Feb.	128	147	123	134	94	87	113	164	118	145	126
March	136	156	130	141	104	104	107	183	121	156	127
April	134	147	129	140	106	114	115	179	128	149	128
May	140	159	134	146	119	126	112	165	127	161	130
June	124	145	116	136	113	109	97	126	129	145	129
July	67	52	67	72	101	43	72	98	49	49	125
Aug.	134	145	128	145	124	97	112	177	117	150	133
Sept.	138	148	134	142	114	106	129	182	129	154	133



# LABOUR—TIMBER FELLINGS—INTERNAL TRADE

Period	Population of working age 1 000 persons	Total labour force, 1 000 persons	Employed 1 000 persons	Un-employed 1 000 persons	Unemployment, % of total labour force	Commercial timber fellings 1 000 solid cu. m	Retailers' sales volume index 1972 = 100	Wholesalers' volume index 1972 = 100
1975	3 513	2 272	2 221	51	2.2	29 133	122	127
1976	3 547	2 254	2 163	91	4.0	27 305	123	127
1977	3 561	2 248	2 111	137	6.1	27 814	113	120
1977								
Oct.	3 567	2 218	2 092	126	5.7	2 090	113	123
Nov.	3 567	2 195	2 050	145	6.6	2 355	111	125
Dec.	3 570	2 210	2 051	159	7.2	2 714	139	133
1978*								
Jan.	3 572	2 199	2 007	192	8.7	2 625	94	102
Feb.	3 571	2 187	2 001	186	8.5	3 076	92	110
March	3 572	2 195	2 007	188	8.5	3 641	105	123
April	3 576	2 172	2 004	168	7.7	3 443	107	120
May	3 575	2 228	2 073	155	7.0	2 436	112	124
June	3 576	2 420	2 241	179	7.4	1 379	111	120
July	3 579	2 418	2 243	175	7.2	613	109	95
Aug.	3 579	2 326	2 171	155	6.7	1 080	113	127
Sept.	3 580	2 233	2 086	147	6.6	1 829	..	..

## CONSTRUCTION OF BUILDINGS

Period	Building permits granted					Buildings completed					Building-works under construction
	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	
Million cubic metres											
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	46.89	19.95	3.93	15.81	3.84	41.25	17.74	3.16	15.40	2.59	51.85
1977*	41.62	18.82	4.23	11.90	3.72	43.12	17.89	3.01	16.57	3.28	48.38
1977*											
Jan.-March	6.73	2.92	0.66	1.91	0.83	9.43	3.59	0.47	4.51	0.57	47.95
Apr.-June	13.22	7.00	1.71	2.69	0.80	8.76	4.16	0.38	2.76	0.99	51.52
July-Sept.	11.20	4.67	1.06	3.70	0.91	10.92	4.04	1.05	4.02	0.99	52.69
Oct.—Dec.	10.47	4.23	0.80	3.60	1.18	14.01	6.10	1.11	5.28	0.73	48.38
1978*											
Jan.-March	10.21	3.72	1.02	4.06	0.92	8.36	3.81	0.66	2.80	0.75	45.37
Apr.-June	12.92	6.51	2.17	2.59	0.69	9.54	4.21	0.54	3.38	0.91	47.13

# 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 + Term liabilities.

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

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

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

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

Page 6. *Deposits by the public*. The central government and the financial institutions are mainly excluded from the public.

From 1974 deposits include domestic deposits denominated in foreign currency.

Page 7. *Advances to the public*. The central government and the financial institutions are not included in the public.

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

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

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

## STATE FINANCES

Page 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): from January 1978 imports by countries of origin exports by countries of consumption.

## 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 since 1956 and he was re-elected for the period March 1, 1978, to March 1, 1984.

Parliament, comprising 200 members, is elected by universal suffrage for a period of 4 years. The number of seats of the different parties in Parliament elected in 1975 is as follows: Social Democrats 54, Centre Party 41, People's Democrats 40, Conservatives 35, Swedish Party 10, Liberal Party 8, Christian League 8, 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 (1977): 4.7 million. Sweden 8.3, Switzerland 6.3, Denmark 5.1 and Norway 4.0 million.

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

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

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

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

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

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

## TRADE AND TRANSPORT

NATIONAL INCOME (1977, in million marks): Gross domestic product at factor cost by industrial origin: agriculture 6 308 (6 %), forestry and fishing 5 345 (5 %), manufacturing 33 593 (30 %), construction 9 979 (9 %), transport and communication 11 604 (11 %), commerce, banking and insurance 14 903 (14 %), public administration 5 956 (5 %), ownership of dwellings 4 030 (4 %), services 17 543 (16 %), total 109 281. Index of real domestic product 163 (1964 = 100).

FOREST RESOURCES (1977): The growing stock comprised of 1 520 million m<sup>3</sup> (solid volume with bark) of which 45 % was pine and 37 % spruce, the remaining 18 % being broad-leaved trees, chiefly birch. Of the growing stock, 637 million m<sup>3</sup> was up to the standard required for logs, 56 % of these being pine. The annual growth was 57.4 million m<sup>3</sup> and the total removal, calculated on the basis of roundwood consumption, was 40.7 million m<sup>3</sup>.

AGRICULTURE (1976): Cultivated land 2.3 million hectares. Number of holdings 242 700 of which 164 600 are of more than 5 ha. Measure of self-sufficiency in bread cereals 150 % in the crop year 1976/77.

INDUSTRY (1976): Gross value of industrial production 95 790 mill. marks, number of workers 412 718, salaried employees 136 890, motive power (1976) 6.8 mill. kW. Index of industrial production 125 for 1976 (1970 = 100).

STATE RAILWAYS (Jan. 1, 1978): Length 6 063 km.

MERCHANT FLEET (Sept. 30, 1978): Passenger vessels 119 (185 172 gross reg. tons), tankers 50 (1 153 350 gross reg. tons), dry cargo vessels 213 (980 962 gross reg. tons), other vessels 76 (10 041 gross reg. tons), total 458 (2 329 525 gross reg. tons).

MOTOR VEHICLES (Dec. 31, 1977): Passenger cars 1 075 400, lorries and vans 136 200, buses 8 800, others 7 200, total 1 227 600.

FINNISH AIRLINES (Aug. 1, 1978): Finnair and Kar-Air have in use 4 DC-8, 1 DC-6-ST, 8 Super Caravelles, 9 DC-9s, 6 DC-9-51s, 2 DC-10-30 and 4 Convair Metropolitans. Companies have scheduled traffic outside of Finland to 30 airports and to 20 domestic airports.

## FINANCE AND BANKING

CURRENCY. Since 1860, Finland has had its own monetary system. From 1877 until 1914 the country was on the gold standard, and returned to it in 1926. In 1931, the Central Bank's duty to redeem bank notes in gold was suspended and at the end of 1962 was entirely cancelled. The monetary unit is the mark (Finnish markka). The last par value of the mark was set on Oct. 12, 1967 and was 0.21159 grams of fine gold per mark (equivalent, at the time, to 4.20 marks per U.S. dollar). Since Nov. 1, 1977 the external value of the mark has been officially expressed in terms of a currency index. This index is trade-weighted and indicates the average change in the currencies which are important in Finnish foreign trade. The permissible range of fluctuation is 2.25 per cent on either side of the arithmetic mean. The fluctuation limits are 121.7 and 116.4.

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

OTHER CREDIT INSTITUTIONS (Dec. 31, 1977). There are two big and five small commercial banks with in all 858 offices, 280 savings banks 376 co-operative banks, six mortgage banks. Posti-pankki and three development credit institutions. The co-operative stores accept deposits from their members. The Social Insurance Institution and fifty-eight private insurance companies also grant credits.

RATES OF INTEREST (May 1, 1978). The official discount rate of the Bank of Finland (the basic rate applied by the Bank of Finland for discounts and rediscounts of commercial banks) is 7 ¼ %. The range of rates for other credits granted by the Bank of Finland is between 5 ½ and 8 ½ %. Other credit institutions time deposits 3 ¼ %; 6 month deposits 4 ¼ %; 12 month deposits 5 ½ %; 24 month deposits 6 ½ %; 36 month deposits 7 ¼ % + savings premium; 36 month deposits 7 ¼ % + tax concession. The highest lending rate 10 ¼ %.

# FINNISH INTEREST RATES: STRUCTURE, POLICY AND DEVELOPMENTS, 1960—1978<sup>1</sup>

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## THE STRUCTURE OF INTEREST RATES

### THE GENERAL FRAMEWORK

In Finland, interest rates are to a large extent administered, i.e. the degree of imbalance in the financial market is not immediately reflected in the major rates of interest. Throughout the post-war period and particularly since 1960, demand for finance has in general substantially exceeded domestic saving. Although net lending by the Bank of Finland together with imports of capital have covered part of the difference, the selective treatment of credit applications by financial institutions has been an important balancing factor in the credit market. Credit rationing has thus laid the basis for monetary policy, which from time to time has been supplemented by interest rate policy decisions.

When examining the general level of interest rates and their interrelationship, taxation of interest revenue and interest expenses must be taken into account. During the period under review, most bank accounts held by individuals in Finland have been exempt from income and property tax. The same applies to government bonds. Since 1969, bonds other than those issued by the Government may also be exempted from tax, subject to the decision of the Council of State.

The fact that deposits and bonds are exempt from tax is one reason why it has been possible to keep interest rates for these very low in real terms. Consequently, lending rates based on these rates have also been very low in real

terms, and the borrower's burden is further reduced since interest expenses are deductible from taxable income.

The use of indexation in the financial market in the 1960s, was designed to offset changes in the real value of total returns from saving by means of index bonuses paid to depositors. On the other hand, the incidence of these compensatory payments fell on the borrower, whose loan expenses were increased correspondingly.

Variable interest rate clauses constitute another central feature of the financial market in Finland. Changes in the general level of interest rates are not confined to new deposits and loans but also affect a substantial part of the interest rates applied in the financial market at the time.

The differentiation of lending rates in Finland is also subject to administration. Differentials have largely been determined by the priority of financial projects, while loan maturity and risk have had little impact on the interest rate structure.

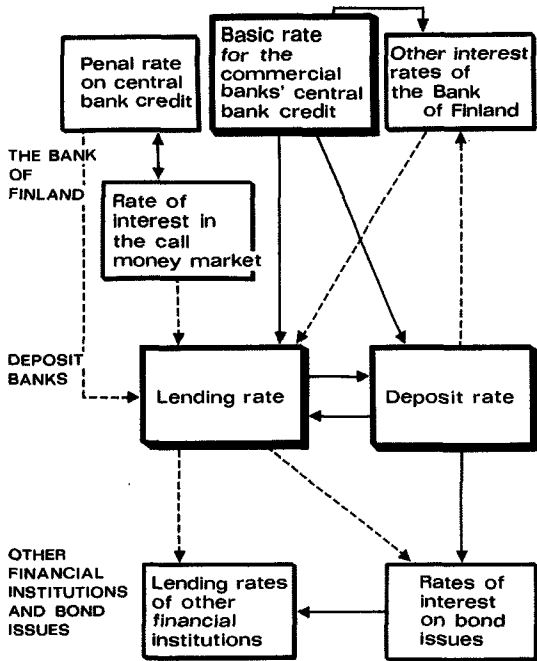
### THE RELATIONSHIP BETWEEN THE INTEREST RATES APPLIED IN THE FINANCIAL MARKET

In the Finnish interest rate system, the basic rate applied to the commercial banks' central bank credit constitutes the basic rate, to which the other interest rates are more or less firmly linked (Chart 1). The basic rate is decided by the Bank Supervisors delegated by Parliament on the basis of proposals by the Board of Management of the Bank of Finland.

<sup>1</sup> See also: »Financial Markets in Finland» A series of articles which appeared in the Bank of Finland Monthly Bulletin in 1970—72. Revised in 1978.



**CHART 1. RELATIONSHIP BETWEEN THE INTEREST RATES APPLIED IN THE FINANCIAL MARKET**



In the chart, direct and strong influences are denoted by unbroken arrow lines, whereas indirect or weak influences are indicated by broken arrow lines. As a creditor, the Bank of Finland has stipulated that commercial banks may draw central bank credit continuously only if certain interest rates conditions are fulfilled. These conditions have been confined to the lending rates applied by the commercial banks. Some have been presented in the form of recommendations, to other financial institutions. Although the Joint Delegation of the Banking Institutions has concluded comprehensive interest rate agreements between the banking institutions on the deposit rates to be applied, all such agreements have been subject to negotiations with the Bank of Finland.

If a commercial bank exceeds its central bank credit quota, a progressively penal rate, is imposed. Penal rates tend to increase a bank's interest expenses and reduce profitability resulting in pressure to increase interest mar-

gins. For the additional financing, obtained on the call money market, the commercial banks have from time to time paid a comparatively high price. As quota overdrafts and call money market advances are alternative sources of financing, the penal rate and the rate of interest on call money market advances are closely linked.

In Chart 1. »Other interest rates of the Bank of Finland» includes both interest revenue and interest expenses of the Bank. The former refers to credit which the Bank of Finland grants for certain purposes, in addition to the earlier mentioned central bank credit, or general financing. The interest rates applied on this type of credit are quite firmly linked with the basic rate. This linkage is particularly firm where permanent special financing arrangements for companies (arrangements made for the financing of domestic suppliers' credits, short-term export credits and new-export credits) are concerned. As lending based on these arrangements represents only a small share of the commercial banks' and Postipankki's total lending, their effect on the average rate of interest on the total lending of all deposit banks is of little importance.

Although the Bank of Finland primarily acts as a grantor of credit and, in this capacity, as a collector of interest, the Bank also accepts deposits on which it pays interest. The banks' and the Government's cheque accounts in the Bank of Finland are free of interest. The deposit certificates, which are mainly sold to the Government and to Postipankki constitute the most important form of interest-bearing deposit. The remaining deposits are mainly those associated with counter-cyclical policies and are either statutory or based on agreements. The broken arrow line leading from »Deposit rates» of deposit banks to »Other interest rates of the Bank of Finland» refers primarily to those interest rates on cash reserve deposits which are commensurate with the deposit rates of the banks.

Although the greater part of Finnish savings are channelled via the deposit banks to the borrow-

er, the bond market and lending by financial institutions other than deposit banks are not unimportant. As alternative investments, bonds especially compete with the long-term deposits of the banks. For this reason, the rates of issue on bonds intended for public subscription are determined in the light of the rates of interest on long-term bank deposits.

Links with deposit rates concern not only rates of interest on bonds intended for public subscription but also the interest rates on other bonds as well. The rates of interest on some bond issues intended for subscription by insurance companies and financial institutions are directly linked with the deposit rates so that the loan terms specify the interest rate as being a certain number of percentage points higher than the rate of interest paid on savings accounts by a certain commercial bank or the major commercial banks.

This kind of link also characterises those bonds, which the mortgage banks issue for subscription by their owner banks in order to finance their lending. On the other hand, the rates of interest on Government and corporate bond issues intended for subscription by insurance companies and financial institutions are usually fixed. These interest rates are primarily determined according to the rates of interest applied on other types of credit granted by the bond-purchasing institutions.

The box in the lower left-hand corner of the chart represents the lending rates applied by financial institutions other than deposit banks. Of these lending rates, those applied by the mortgage institutions are fixed according to the rates of interest they apply on their borrowing, i.e. bond issues, and where loans financed by domestic bond issues are concerned they are thus indirectly but firmly linked with the deposit rates applied by the deposit banks. On this category of loans the rates of interest applied by the credit-granting insurance companies follow the trends in the deposit banks' lending rates but are, in many cases, higher than these, due partly, to their long-term nature.

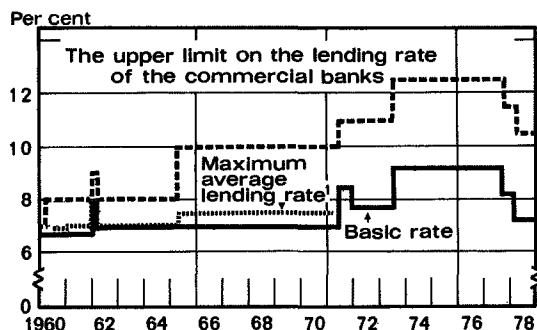
## INTEREST RATE POLICY DECISIONS

A brief account of the interest rate policy decisions made by the Bank of Finland and of the major interest rate developments in 1960—1978 is given below. Interest rate policy decisions have mainly concerned the basic rate applied to the commercial banks' central bank credit and have often included an upper limit on the commercial banks' lending rates and a maximum average rate of interest.

Chart 2 shows that the basic rate was kept practically unchanged throughout the 1960s. During the 1970s, the basic rate has been raised twice and lowered three times. The continuous excess demand for finance compared with the prevailing market supply has discouraged the reduction of the interest rates. Short-term cost and price effects have again limited the possibilities of raising the general level of interest rates. As changes in the interest rates, moreover, have a strong effect on income distribution, there has been little scope for carrying out an active interest rate policy.

The level of interest rates abroad has had little impact on interest rate policy decisions in Finland. The difference between domestic and foreign interest rates does not usually cause speculative capital flows, sufficiently strong to endanger domestic economic policy. The reason for this is, firstly, that the Finnish

**CHART 2. THE BASIC RATE OF THE BANK OF FINLAND AND LIMITS ON THE LENDING RATES OF THE COMMERCIAL BANKS**



<sup>1</sup> The use of a percentage figure to indicate the maximum lending rate was abandoned in 1971.

mark is seldom used in international transactions. Secondly, the regulation of capital movements which is carried out by the Bank of Finland reduces the effect of the differences between interest rates in Finland and abroad on the inflow and outflow of capital.

The increases in the general level of interest rates have usually been associated with tighter monetary policy, aiming to reduce the growth in total demand and strengthen the balance of payments. When the interest rates have been lowered, the intention has normally been to reduce direct cost and price pressures. The last two reductions in the interest rates were directly linked with income agreements.

The upper limit on the commercial banks' lending rate set by the Bank of Finland has been higher than the basic rate throughout the period under review. Until the mid-1960s, the difference was approximately one percentage point. In 1965, the upper limit was raised by two percentage points, while the basic rate remained the same as before. The difference has since then been about three percentage points. By raising the upper limit in relation to the basic rate, the banks have been given more opportunity than before to differentiate their lending rates according to the purpose and the type of credit.

In order to improve the regulation of the commercial banks' central bank credit, the Bank of Finland has also set limits on the variations in the average lending rates. The use of a uniform percentage figure to indicate the upper limit was abandoned in 1971. Since then, the Bank of Finland has kept a close watch on the reported figures for the lending rates of the banks and it presupposes that no material upward drift in the average rate of interest occurs.

**INTEREST RATE DEVELOPMENTS, 1960—1978**

**LENDING RATES**

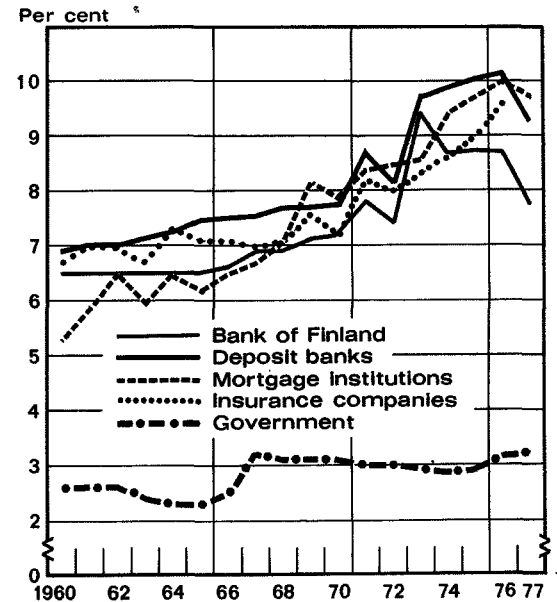
In Finland, a large part of the domestic credit of the private sector and local government is

granted by the deposit banks. The average lending rates of the deposit banks have usually been somewhat higher than those of other financial institutions.

It can be seen from Chart 3 that, in the 1970s, the average lending rate of the mortgage institutions, which grant loans mainly to companies and local government, has not been far below the average lending rate of the deposit banks. A large number of the loans granted by the mortgage institutions have fixed interest rates or rates which depend on those on bonds issued abroad to finance the credit. Therefore, the average rate of interest on total lending by mortgage institutions has not been adjusted to the general level of deposit banks' interest rates when the Bank of Finland has changed its basic rate.<sup>1</sup> Nor has the average level of interest on credit granted by the insurance companies quite followed the changes in the lending rates applied by the deposit banks. The insurance companies have generally applied slightly higher rates of interest than the deposit banks on their long-term loans to

<sup>1</sup> The same applies to the so-called development credit institutions, which channel credit to companies. Their lending was accelerated in the 1960s in association with structural and regional policy.

**CHART 3. LENDING RATES OF THE MAJOR GRANTORS OF CREDIT (WEIGHTED AVERAGE)**



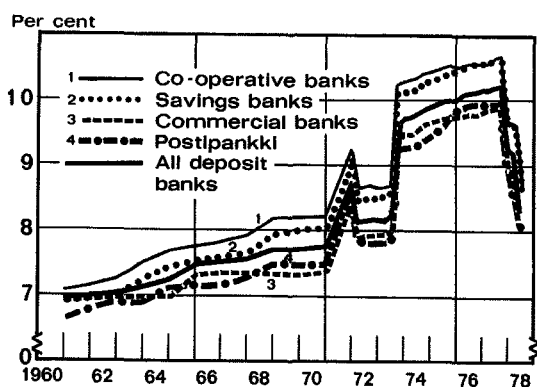
companies, households and local government, and, in the 1970s, they have to an increasing extent tended to apply variable interest rates and to implement the general interest rate policy of the Bank of Finland. On the other hand, the automatic re-lending of the compulsory employment pension contributions made by companies has usually been at a much lower interest rate, which has not changed with the basic rate of the central bank.

On government loans, of which more than half are housing loans, interest rates have been consistently low, and have not been allowed to drift upwards in the same way as other lending rates. The last major change took place in 1967, when a new Housing Act came into force causing increases in the rates of interest on all outstanding housing loans granted by the Government.<sup>1</sup>

Chart 3 also shows the average rate of interest on company loans granted in accordance with the permanent special financing arrangements made by the Bank of Finland. Since this type of credit is granted in accordance with structural policy, a somewhat lower interest rate level than that on bank credits has been applied on these.

Chart 4 shows the average lending rates of the deposit banks, weighted by loans outstanding at the end of 1960—1971 and, after 1972, at the end of each quarter, excluding the rates of interest on bonds, and loans granted from government funds and domestic credits in foreign currency. It can be seen that the average lending rates of the savings banks and the co-operative banks, as a rule, have been higher than those of the commercial banks and Postipankki. The differences in the average deposit rates of the different categories of banks have contributed a great deal to the

**CHART 4. LENDING RATES OF THE DEPOSIT BANKS (WEIGHTED AVERAGE)**



differences in the average lending rates. The relatively higher deposit costs borne by the savings banks and the co-operative banks have also pressed their lending rates above those applied by the commercial banks and Postipankki. Besides, the commercial banks have been able to obtain much additional revenue, especially through their foreign transactions. Moreover, large institutions such as the commercial banks and Postipankki have been able to operate with lower unit costs than the much smaller, regional savings banks and co-operative banks, and have therefore managed to keep their lending rates lower. On the other hand, the margin of the commercial banks has been affected by costs incurred in paying penalty charges due to heavy central bank indebtedness.

#### DEPOSIT AND BOND RATES

Bank deposits have consistently been the most popular form of saving in Finland. According to the agreements concluded by the Joint Delegation of the Banking Institutions, all deposit banks are required to apply similar terms on deposit accounts, and the rates of interest on these are to be adjusted according to the changes in the general level of interest rates decided on by the Bank of Finland. The deposit rates are differentiated according to the minimum period of deposit stipulated for the various types of account. The types of

<sup>1</sup> The average lending rates of the deposit banks in Chart 3 are based on data published by the Central Statistical Office in Finland and represent a weighted average of the interest rates on loans outstanding at the end of the year. The average rates of interest on company loans granted by the Bank of Finland and on housing loans granted by the Government have been calculated by the same method. Since no data have been available on the average lending rates of the mortgage institutions and the insurance companies, these have been estimated by relating interest revenue to the average of loans outstanding for the year in question and the rates of interest on other government loans by relating interest revenue to loans outstanding at the beginning of the year.

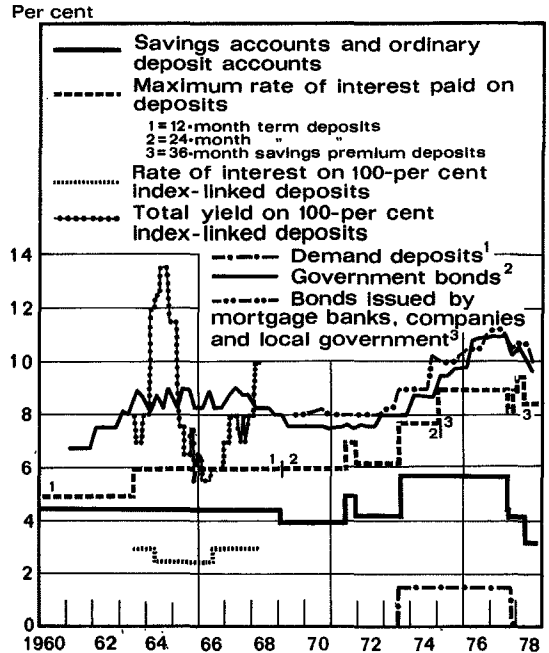
account in use at present range from demand deposits to 36-month deposits. The interest rates paid on the major accounts of the deposit banks are shown in Chart 5.<sup>1</sup>

Most of the demand deposits, i.e. cheque accounts and postal giro accounts, represent corporate funds. Because of the taxation of demand deposits, the household sector has tended to place its liquid assets mostly in the tax-free savings accounts, ordinary deposit accounts and deposit accounts with a cheque facility. From all of these accounts, fairly large sums can be drawn without notice — especially if several accounts are being used — and the rate of interest on these before the change in October 1977 almost reached the level of that of the markedly less liquid deposits.

The term deposits form an important investment option for long-term saving. In the 1950s and 1960s, deposits which were either 100 or 50 per cent linked with the cost of living index were available. An equivalent 12-month deposit, which yielded higher interest but was not index-linked was introduced in 1959. Index-linking has been banned in the financial market since the March 1968 Stabilization Agreement. Most of the present term deposit accounts have been in use since 1969 and the 36-month deposits (savings premium or tax concession deposits) since the beginning of 1975. When the fully index-linked deposits were still in use, they were naturally the most popular form of deposit during the heaviest inflation periods of the 1960s. Of the term deposits available at present, the 24-month deposit has been the most frequently used.

The rates of interest on bonds have in general been higher than those on bank deposits (Chart 5). The general level of interest on government bonds intended for public subscription started to rise in the early 1960s as the Government borrowing requirement grew and

**CHART 5. RATES OF INTEREST ON BANK DEPOSITS AND BOND ISSUES INTENDED FOR PUBLIC SUBSCRIPTION**



<sup>1</sup> Interest paid was calculated on the basis of the lowest balance during the month.

<sup>2</sup> The average rate of interest, weighted by the quarterly sales.

<sup>3</sup> The average rate of interest, weighted by the quarterly issues.

because the index-linked deposits had become serious competitors for the bonds. Until March 1968, the Government also issued 50 per cent index-linked bonds, but, during periods of highest inflation, they could scarcely compete with the fully index-linked deposits. On the other hand, high-interest Tax Payment Certificates intended for public subscription were issued in 1963—1967; the average loan period of which was only about one year. After the ease in the financial position in 1969—1974, the Government borrowing requirement has again increased. Accordingly, the rates of interest on government bonds have been raised, and the loan periods have been shortened. Contributory factors were the increase in the deposit rates in 1973 and the introduction of the high-interest 36-month deposit at the beginning of 1975. The latest reductions in the deposit rates have been reflected in similar changes in the rates of interest on bonds.

<sup>1</sup> The rates of interest on savings premium deposits in Chart 5 include an interest subsidy paid by the Government. The compensatory payments on the 100 per cent index-linked deposits have been taken into account as they were paid each month on deposits due. The rates of interest on index-linked bonds have not been included in Chart 5.

Only in 1969 were mortgage banks, companies and local government in practice given the right to issue bonds competitive with Government bonds. Since then, they have been granted permits to issue tax-free bonds intended for public subscription, although companies and local government have done so to only a limited extent. It can be seen from Chart 5 that borrowers other than the Government have usually had to pay somewhat higher rates of interest on their public loans, partly because their loans have been granted on longer terms than those issued by the Government.

**CHART 6. DEPOSIT RATES OF THE DEPOSIT BANKS (WEIGHTED AVERAGE)**

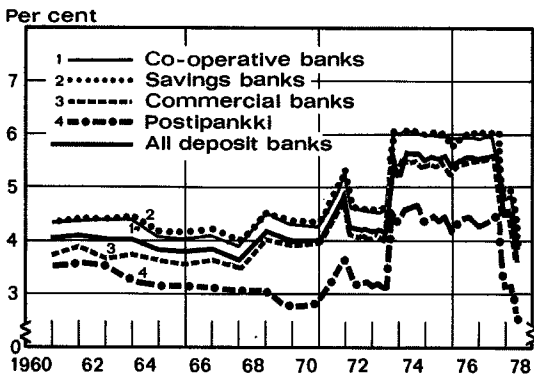
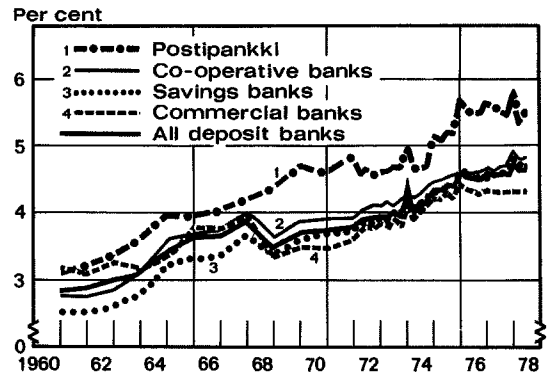


Chart 6 shows the average deposit rates of the deposit banks, weighted by the stocks of deposits (excluding those denominated in foreign currency) at the end of 1960—1971 and, after 1972, at the end of each quarter. It can be seen that the average deposit rates

**CHART 7. THE INTEREST MARGINS OF THE DEPOSIT BANKS**



of the savings banks and the co-operative banks have consistently been higher than the average deposit rates of the commercial banks and Postipankki. The reason for this is the fact that deposits yielding higher interest, in the former banks, constitute a larger share of the stock of deposits than in the latter.

#### THE INTEREST MARGINS OF THE DEPOSIT BANKS

Chart 7 shows the differences in the average lending and deposit rates. Interest margins have shown an upward trend and are now almost two percentage points larger than in 1960. This rise is mainly due to the continuous upward drift in the lending rates. The differences in the interest margins, by category of banking institution, seem to have decreased in the course of time. The only exception is Postipankki, whose interest margin has continuously remained considerably above those of the other deposit banks.

## ITEMS

**Finland's gross long-term foreign debt in January-September 1978.** At the end of September 1978, Finland's gross long-term

foreign debt was equivalent to 36 096 million marks. Of this, 1 342 million marks, represented reserve credits and oil credits, which the Bank

**FINLAND'S GROSS LONG-TERM FOREIGN DEBT IN JANUARY—SEPTEMBER 1978,  
MILLION MARKS**

	Debt <sup>1</sup> Dec. 31, 1977	Drawings <sup>1</sup>	Redemp- tions <sup>1</sup>	Net change	Impact of exchange rates	Debt <sup>1</sup> Sept. 31, 1978	Interest, expenses, commis- sions and dividends
FINANCIAL LOANS	22 695	6 510	2 867	+3 643	+1 874	28 212	1 427
Individual financial loans	11 922	2 848	2 271	+ 577	+ 415	12 914	744
Bonds and debentures	10 773	3 662	596	+3 066	+1 459	15 298	683
Bond issues	6 189	2 755	236	+2 519	+ 839	9 547	400
Private placement loans	3 955	899	302	+ 597	+ 593	5 145	250
Loans from the World Bank	387	8	58	— 58	+ 26	363	19
Debenture issues	242	—	—	—	+ 1	243	14
IMPORT CREDITS	5 775	494	796	— 302	+ 339	5 812	305
LEASING CREDITS	108	37	13	+ 24	— 2	130	6
DIRECT INVESTMENTS <sup>2</sup>							
(Equity capital and loans to subsidiaries)	1 717	152	33	+ 119	+ 49	1 885	135
SUBSCRIPTIONS TO INTERNATIONAL FINANCIAL INSTITUTIONS <sup>3</sup>	61	9	13	— 4	—	57	—
Total	30 356	7 202	3 722	+3 480	+2 260	36 096	1 873
Financial loans, import credits and leasing credits	28 578	7 041	3 676	+3 365	+2 211	34 154	1 738

<sup>1</sup> The mark values of debt outstanding have been calculated by using the selling rates of the same date, drawings and redemptions by using the average monthly selling rates.

<sup>2</sup> The balance outstanding of equity capital of direct investments is calculated as the net value of investment by active companies.

<sup>3</sup> Subscriptions to international financial institutions paid up in the form of bonds.

of Finland had taken up in 1975—1977 in order to support the exchange reserves. The net inflow of long-term capital in January—September totalled 3 480 million marks, as against 1 638 million marks in the corresponding period last year. During the period under review, debts outstanding increased by 5 740 million marks, of which 2 260 million marks was the result of changes in the exchange rates.

Drawings of long-term foreign capital amounted to 7 202 million marks, while redemptions totalled 3 722 million marks. Debt service costs (interest and amortisation payments and dividends) amounted to 5 595 million marks, as against 3 789 million marks in the corresponding period last year.

Financial loans of 6 510 million marks, import credits and leasing credits together totalling 531 million marks, and direct investments of 152 million marks, accounted respectively for 90, 8 and 2 per cent of total drawings of long-term foreign loans.

Drawings of 3 667 million marks by corporations, 826 million marks by financial institutions, and 2 548 million marks by the Central Government and local authorities accounted respectively for 52, 12 and 36 per cent of total drawings of long-term foreign loans (financial loans, import credits and leasing credits). In January—September 1977, drawings by corporations had amounted to 2 481 million marks, while those by financial institutions had amounted to 616 million marks and by Central Government and local authorities to 450 million marks, constituting 70, 17 and 13 per cent, respectively of total drawings of foreign loans.

Thirteen Finnish bond issues, together worth 2 755 million marks, were floated abroad in January—September 1978. This compares with six bond issues, totalling 724 million marks, in the corresponding period of 1977. In the third quarter this year, the Finnish Government launched bond issues of Sfr 80 million and US \$ 100 million.

**Supplementary budget.** In October, Parliament approved the third supplementary budget for 1978, which mainly involves additional outlays for the fourth reflationary programme, agreed by the Government in August. This supplementary budget adds a total of 174 million marks to state expenditure and adds loans of 725 million marks to budgeted state revenue.

Investment and employment are to be stimulated by i.a. additional grants of 20 million marks for energy-saving basic repairs to dwellings. In order to increase the efficiency of water conservation and waste-water purification and also create employment, the subsidised loan facility for the construction of water protection equipment is increased by 30 million marks. An additional 25 million marks are allocated to road and waterway construction.

A total of 9 million marks is earmarked for providing part-time jobs in the public sector for some 2 200 unemployed office workers. In addition, 7 million marks have been granted to the municipalities, which should provide part-time employment for 1 800 office workers. A further 56 million marks are appropriated by the municipalities primarily for subsidising part-time employment of 26 000 young people.

According to a decision approved in principle by the Government, part of the excess tax repayments, which were scheduled for March 1979, will be made in December 1978, thus straining the cash position of the State by outlays of 850 million marks this year. In addition, the State's finance requirements will sharply increase at the very beginning of 1979 due to employment promotion expenditure and the remaining tax repayments. In connection with the supplementary budget, Parliament has raised the Council of State's authority to take out new loans by 725 million marks.

Budgeted state expenditure for 1978, including the third supplementary budget, totals 39 559 million marks.

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## BANK OF FINLAND

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### Board of Management

Mauno Koivisto  
*Governor*

Ahti Karjalainen                      Pentti Uusivirta

Rolf Kullberg                              Ele Alenius

Harri Holkeri

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### Directors

Markku Puntila                          Seppo Lindblom

Eino Helenius                              Pentti Koivikko

Kari Nars                                      Antti Lehtinen

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### Senior officials

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

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

Raine Panula                                  Kari Holopainen  
*Foreign Exchange*                                      *Eastern Trade*

Pekka Tukiainen                          J. Ojala  
*Capital Transfers*                                      *Foreign Exchange Control*

Kari Puumanen                              Heikki Koskenkylä  
*Economics Dept.*                                      *Research Dept.*

Markku Pietinen                          H. T. Hämäläinen  
*Information and Publications*                      *Administration and Legal Affairs*

Antti Saarlo                                      Timo Männistö  
*Foreign Correspondence*                              *Internal Audit*

U. Levo    K. Eirola  
*International Legal Affairs*                              *Automatic Data Processing*

Pauli Kanerva                                  Stig G Björklund  
*Personnel Administration and*                              *Banking Services*  
*General Affairs*

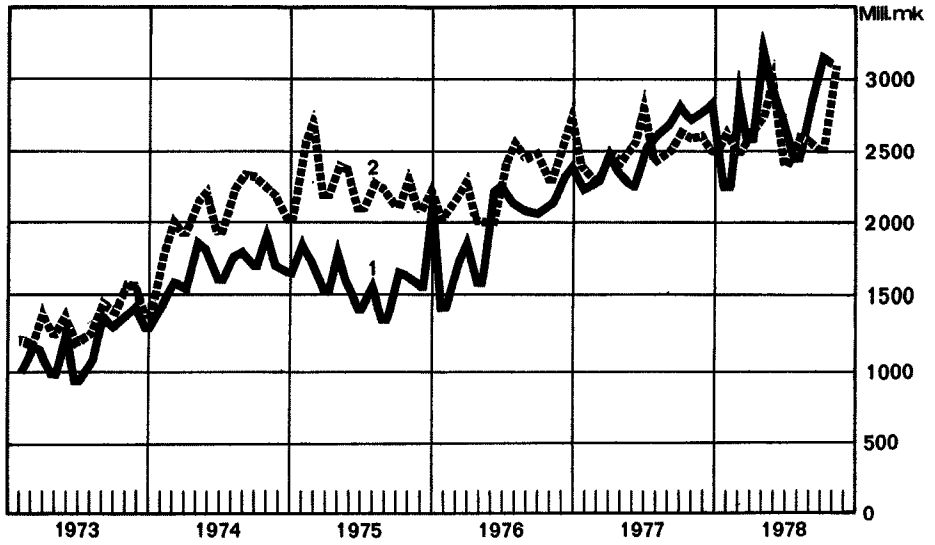
Antti Luukka  
*Cash*

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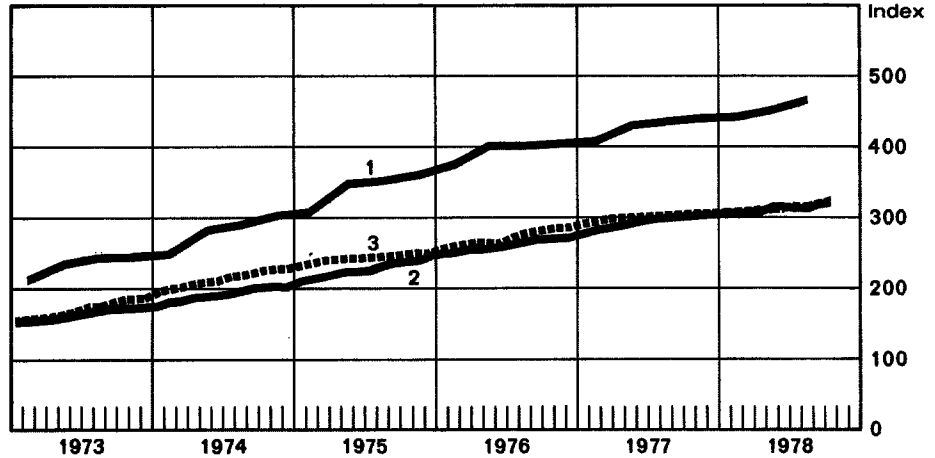
**FOREIGN TRADE, 1973 - 1978**

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



**PRICES AND WAGES, 1973 - 1978**

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



**PRODUCTION, 1973 - 1978**

- 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

