



BANK OF FINLAND

Monthly Bulletin

Thirty years as a member of the International Fund

Developments in Finnish taxation in 1965—1976

Finland's balance of payments January—September 1977

Supplementary budget

Trade agreement between Finland and the U.S.S.R.

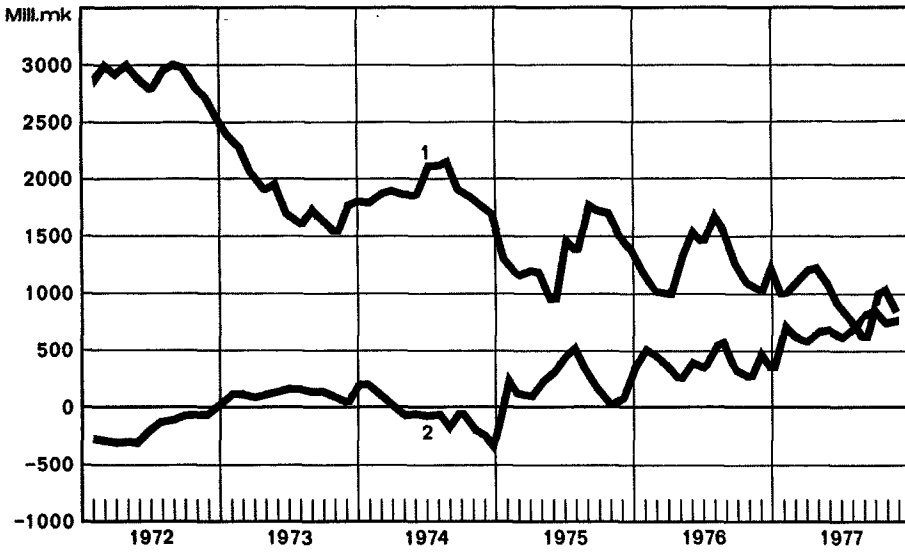
Silver commemorative coin

The Bank of Finland annual statement for 1977

JANUARY 1978

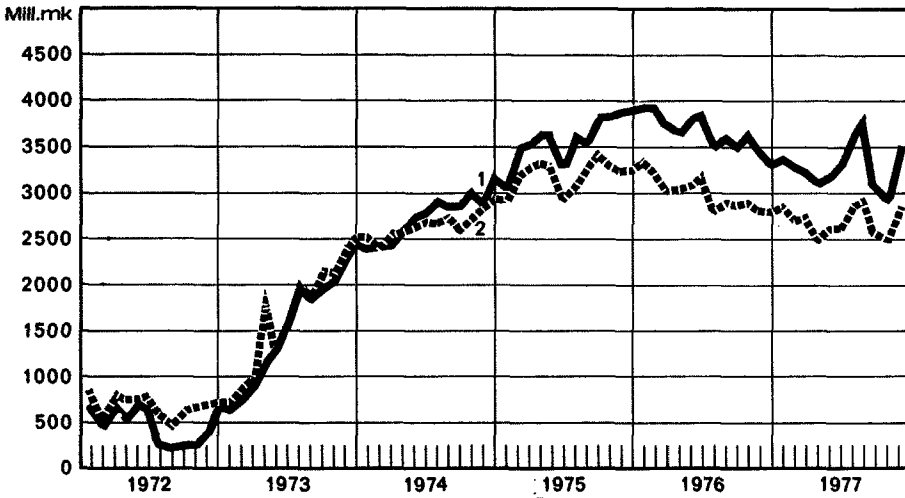
Vol. 52 No. 1

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



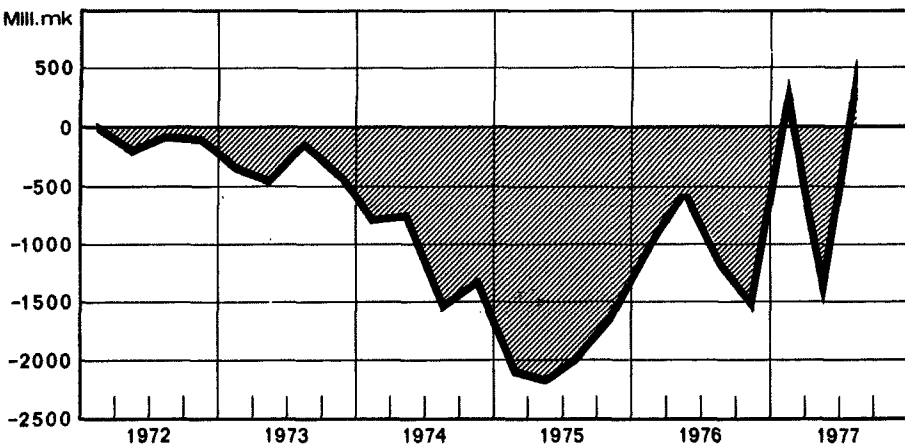
- 1. Gold and convertible currencies
- 2. Tied currencies

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



Seasonally adjusted quarterly figures

THIRTY YEARS AS A MEMBER OF THE INTERNATIONAL MONETARY FUND

Finland became a member of the International Monetary Fund (IMF) and its sister organization, the International Bank for Reconstruction and Development (IBRD or the World Bank) in January 1948. This article is a brief review of Finland's relations with the IMF, which is a Specialized Agency of the United Nations entrusted with the supervision of the international payments system. In Finland, the Bank of Finland acts as the Fund's depository and deals with all matters related to it.

The Articles of Agreement of the IMF were drafted at a conference in Bretton Woods, New Hampshire, in July 1944 and an inaugural meeting was held in April 1946. At about that time the Finnish authorities began to seriously study the question of membership of both the Washington based organisations.

Today, with the IMF comprising 132 nations, it is natural for Finland to be a member. However, 1946—1947 the situation was far from clear as the Fund had barely begun its activities, and its policies and procedures were largely yet to be established. The Finnish economy was still suffering from a serious postwar disequilibrium, which was characterized by rapid inflation and very low foreign exchange reserves. In these circumstances it was feared that the Fund's rules regarding exchange rate stability would prove too severe a constraint. Also it was thought that the principle of paying 25 per cent of the member's subscription in gold, would place Finland's reserves under additional pressure.

While the preceding considerations weighed against an early association with the IMF, there were certain benefits to membership that might materialize in the very short run. The country needed capital for reconstruction and war reparations, but despite this, Finland had elected not to participate in the European Recovery

Programme («Marshall Aid»). Therefore, membership of the World Bank — open to IMF members only — came to be regarded as an increasingly important matter.

The IMF's resources could also have been required at almost any time, and such balance of payments support could have become more difficult to obtain in later years in the conceivable event of a general dollar shortage. And, by encouraging the authorities to generally cautious economic policies, the mandatory exchange rate stability could be seen as beneficial, even from a purely domestic point of view. After carefully weighing the arguments for and against, the Finnish Government submitted a membership application to the IMF in 1947. Finland became the Fund's 46th member with a quota of 38 million U.S. dollars.

It could well be said that during the first three years none of the Finnish authorities' fears or expectations were realised. The Finnish mark was twice depreciated in 1949, by almost 41 per cent in total. An initial par value for the mark was set in 1951. Before that, only preliminary payments of the subscription (equal to the quota) were made. The bulk of the gold portion was not paid until 1956. No credit from the IMF could have been obtained either, but in 1949 Finland was able to borrow a total of nearly fifteen million dollars from the World Bank.

For some twenty years after 1951, Finland's collaboration with the IMF was characterized by long peaceful periods, interrupted by occasional needs for credit or changes in the par value. 1951 also marked the beginning of permanent co-operation on IMF matters by the five Nordic countries. Following Sweden's admission to membership, they were, for the first time, able to elect an executive director of their own to the Fund's Executive Board.

Finland first used IMF resources in 1952—1953 when, in the face of a deteriorating trade balance, two drawings totalling 9.5 million dollars, were made. A credit of 4.5 million dollars, drawn late in 1952, was the first in the Fund's history to be made under an official stand-by arrangement. This drawings policy entitles a member to a specified amount of currency during an agreed period, usually one year, in support of a stabilization programme which is acceptable to the IMF.

The above drawings were fully repaid by the end of 1955. In September 1957 the IMF approved the devaluation of the Finnish mark by 28.1 per cent. This was motivated partly by a mounting trade deficit and partly by the prospective general abolition of licensing for Finland's Western imports, which was effected during the following month.

Finland had to resort to the IMF again, in 1967, when a total of 93.75 million dollars was drawn under a stand-by arrangement approved in March, and the mark was devalued by 23.8 per cent in October. The 1967 devaluation was accompanied by a successful stabilization programme. In 1969—1971 the Finnish current account was, for the first time, strong enough to enable the Finnish mark to be used in the Fund's transactions with other countries.

At the end of 1958, Finland was among the fifteen European nations which declared their currencies externally convertible, thereby taking an important step towards full convertibility as defined in the Articles of Agreement. But whereas many other countries accepted fully the relevant obligations of Article VIII a few years later, Finland continues to avail herself of the transitional provisions of Article XIV. At present the Article XIV status has little significance, however, as Finland liberalized virtually all her current international payments long ago.

The size of the Fund has been increased several times to keep up with the growing value of world trade. In connection with the general quota reviews, Finland's faster-than-average economic growth has been duly observed. Her

present quota of 190 million SDRs is five times the original 38 million dollars, while the Fund as a whole has grown to less than three and a half times the 8 800 million dollars envisaged at the Bretton Woods conference.

In 1968 the IMF introduced a new type of reserve asset, the Special Drawing Right (SDR; originally equivalent to a pre-1971 dollar in value). Finland's share in the allocation was 61.5 million SDRs. For a long period Finland's actual holdings of SDRs exceeded this amount but, as a consequence of using SDRs for the payment of charges on IMF loans, the present level of Finland's holdings is 68 per cent of the allocation.

The pressures that began to develop in the international monetary system towards the end of the last decade eventually led in 1971 to the general abrogation of the par values. The so-called Smithsonian realignment, based on a pattern of central rates and wider fluctuation margins, also proved untenable and, since the spring of 1973, all major currencies have been floating either jointly or separately.

The new situation posed a number of economic, political and legal problems to smaller members. Finland chose at an early stage to stabilize the external value of the mark against a trade-weighted basket of currencies. This practice was formalized in November 1977 when the notion of a currency index was introduced into the Finnish Currency Act to replace the gold content as the measure of the mark's basic value. A basically similar approach has been applied by many other IMF members.

The IMF itself has been engaged in two main areas of activity. The negotiations on the reform of the international monetary system, which began in 1972 in the so-called Committee of Twenty, were continued in the Fund's Executive Board with the aim of a substantial revision of the Articles of Agreement. The resulting amendment was approved by the Fund's Board of Governors in April 1976, but the rati-

(continued on page 31)

	1976		1977			
	Nov. 30	Dec. 31	Dec. 8	Dec. 15	Dec. 23	Dec. 31
Assets						
Gold and foreign exchange receivables	1 774	1 801	2 281	2 141	2 192	2 139
Gold	121	121	127	133	133	133
Special drawing rights	251	236	176	176	176	204
Convertible currencies	825	1 004	1 198	1 141	1 258	1 265
Tied currencies	577	440	780	691	625	537
Other foreign receivables	1 595	1 660	1 929	1 920	1 915	1 959
Foreign bills	379	436	472	463	458	488
Foreign bonds	389	397	523	523	523	543
Currency subscription to Finland's quota in the IMF	827	827	934	934	934	928
Receivables from financial institutions	4 615	4 674	5 219	5 529	6 065	5 420
Cheque accounts of the commercial banks	178	174	122	173	172	110
Discounted bills	3 036	2 920	3 050	3 339	3 349	3 091
Bonds	381	332	429	415	450	354
Call money market advances	981	1 204	1 569	1 583	2 036	1 804
Other financial institution receivables	39	44	49	19	58	61
Receivables from the public sector	432	447	363	364	387	391
Bonds	74	67	56	57	57	60
Total coinage	278	279	303	304	303	304
Other public sector receivables	80	101	4	3	27	27
Receivables from corporations	1 315	1 400	1 418	1 443	1 444	1 416
New export bills	154	165	196	196	197	194
Financing of suppliers' credits	541	554	689	719	719	714
Bonds	202	198	231	229	229	214
Other corporate receivables	418	483	302	299	299	294
Other assets	52	53	78	86	86	85
Total	9 783	10 035	11 288	11 483	12 089	11 410
Liabilities						
Foreign exchange liabilities	171	101	109	88	87	94
Convertible accounts	123	50	63	43	39	53
Tied accounts	48	51	46	45	48	41
Other foreign liabilities	1 923	1 923	3 383	3 371	3 361	3 447
IMF mark accounts	1 665	1 665	1 772	1 772	1 772	1 838
Allocations of special drawing rights	258	258	258	258	258	300
Term liabilities	—	—	1 353	1 341	1 331	1 309
Notes and coins in circulation	2 839	2 885	3 143	3 147	3 310	3 167
Notes	2 593	2 635	2 871	2 875	3 035	2 892
Coins	246	250	272	272	275	275
Deposit certificates in circulation	—	—	180	180	180	200
Claims of financial institutions	791	1 143	981	1 229	1 707	1 194
Cheque account of Postipankki	1	2	1	0	0	1
Cheque accounts of the commercial banks	5	2	1	1	1	3
Call money market deposits	782	1 137	661	942	1 421	850
Capital import deposits	—	—	275	252	250	246
Other financial institution claims	3	2	43	34	35	94
Claims of the public sector	1 215	1 133	394	352	331	328
Cheque accounts	0	2	0	0	0	2
Counter-cyclical reserves	55	59	34	34	34	36
Capital import deposits	1 081	973	356	315	294	287
Other public sector claims	79	99	4	3	3	3
Claims of corporations	352	308	235	233	241	242
Investment deposits	59	58	36	36	36	35
Capital import deposits	247	242	178	177	184	181
Import levy deposits	3	6	19	19	20	19
Other corporate claims	43	2	2	1	1	7
Other liabilities	15	13	14	14	13	13
Equalization accounts	555	592	858	858	824	671
Capital accounts	1 922	1 937	1 991	2 011	2 035	2 054
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	188	203	155	175	199	218
Total	9 783	10 035	11 288	11 483	12 089	11 410

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
1976											
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
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

FOREIGN EXCHANGE SITUATION

Mill. mk

CURRENCY INDEX¹

	Net holdings, Nov. 30 1977			Change		1974 = 100
	Bank of Finland	Other	Total	Nov.	Jan.—Nov.	
Gold	127	—	127	—	+ 6	1977
Special drawing rights	176	—	176	-15	- 60	Nov. 110.6
IMF gold tranche	—	—	—	—	—	Dec. 111.5
Convertible currencies	554	-2 462	-1 908	+723	-1 079	
Total	857	-2 462	-1 605	+708	-1 133	
Tied currencies	797	3	800	+ 21	+ 438	

¹See 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 commer-cial 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
1976											
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
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

SELLING RATES FOR FOREIGN EXCHANGE

Mk

Dec. 21, 1977

New York ¹	1 \$	4.082	Frankfurt o. M.	100 DM	192.50	Vienna	100 S	26.80
Montreal	1 \$	3.738	Amsterdam	100 Fl	178.50	Lisbon	100 Esc	10.20
London	1 £	7.695	Brussels ²	100 Fr		Madrid	100 Pta	5.05
Stockholm	100 Kr	86.60	Zurich	100 Fr	201.80	Tokyo	100 Y	1.700
Oslo	100 Kr	79.20	Paris	100 FF	85.90	Reykjavik	100 Kr	1.99
Copenhagen	100 Kr	69.80	Rome	100 Lit	0.468	Moscow ³	1 Rbl	5.782

¹ As from Dec. 20, 1971 also applied to clearing accounts with Berlin Budapest and Sofia.² 12.330 commercial rate; 12.330 financial rate.³ Clearing account; also Bucharest.

DEPOSITS BY THE PUBLIC

Mill. mk

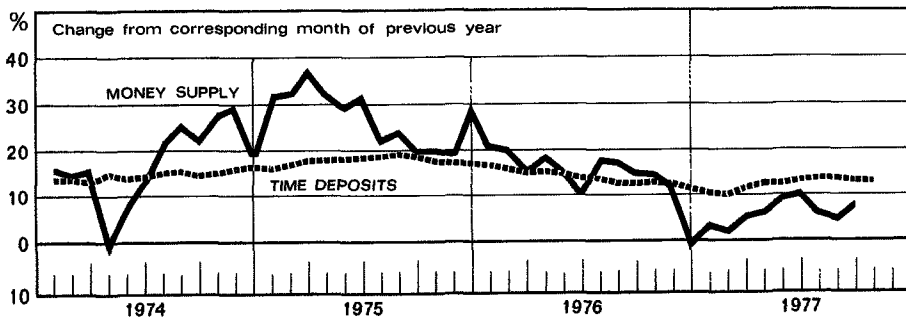
End of year or month	Demand deposits			Time deposits						Total (2 + 3 + 9)
	Cheque accounts		Postal giro accounts	Commer- cial banks	Savings banks	Co-op. banks	Posti- pankki	Co-op. stores	All credit institutions	
	Commer- cial banks	All credit institutions								
	1	2	3	4	5	6	7	8	9	10
1970	1 143	1 508	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*

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*

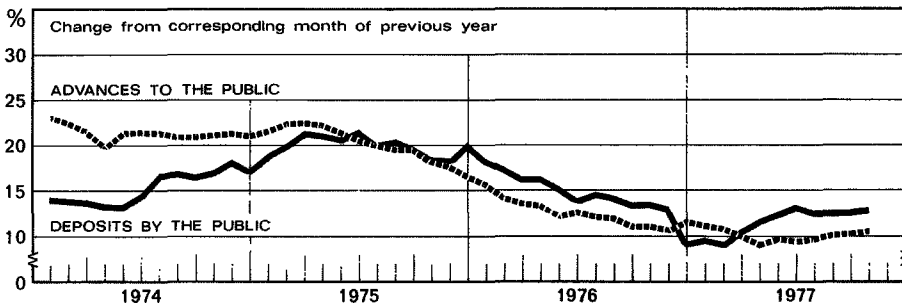
Jan.	2 969	4 190	2 370	12 718	11 166	8 721	3 616	1 282	37 503	44 063
Feb.	2 827	4 103	2 495	12 719	11 273	8 821	3 673	1 296	37 782	44 380
March	2 911	4 265	2 346	12 783	11 362	8 885	3 737	1 307	38 074	44 685
April	2 923	4 234	2 382	12 988	11 443	9 183	3 758	1 324	38 696	45 312
May	3 163	4 536	2 221	13 108	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
Sept.	2 961	4 422	2 043	13 355	12 116	9 477	3 938	1 345	40 231	46 696
Oct.	3 045	4 538	2 005	13 429	12 130	9 505	3 963	1 352	40 379	46 922
Nov.	3 137	4 651	2 000	13 543	12 343	9 698	3 990	1 340	40 914	47 565



ADVANCES TO THE PUBLIC—MONEY SUPPLY

Mill. mk

End of year or 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*									
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	50 321	1 697	52 018	9 294
Sept.	20 026	11 644	9 962	6 237	4 840	51 020	1 689	52 709	9 198
Oct.	20 270	11 795	10 119	6 343	4 873	51 648	1 752	53 400	9 260
Nov.	20 532	12 006	10 277	6 409	4 915	52 362	1 777	54 139	..



STATE FINANCES

Mill. mk

Revenue	Jan.—Oct.		Expenditure	Jan.—Oct.	
	1976	1977		1976	1977
Income and wealth tax (net)	9 674	8 492	Wages, salaries, pensions etc.	4 313	4 764
Gross receipts	(20 482)	(22 129)	Repair and maintenance	586	664
Refunds & local authorities	(-10 808)	(-13 637)	Other consumption expenditure	1 904	2 305
Other taxes on income and wealth	192	213	Total consumption expenditure	6 803	7 733
Employers' child allowance payments	915	990	State aid to local authorities	4 972	5 842
Sales tax	5 097	6 506	State aid to industries	3 671	3 916
Revenue from Alcohol Monopoly	1 364	1 321	of which: agric. price subsidies	(2 091)	(2 237)
Customs duties & import levies	464	503	Child allowances	606	772
Counter-cyclical tax	—	—	Share in national pensions and sickness insurance schemes	221	247
Excise duty on tobacco	665	689	Other transfer expenditure	2 770	3 286
Excise duty on liquid fuel	1 248	1 539	Total transfer expenditure	12 240	14 063
Other excise duties	697	1 203	Machinery and equipment	878	1 037
Tax on autom. and motor-cycles	649	715	Construction of buildings	466	509
Stamp duties	511	598	Land and waterway construction	1 276	1 208
Special diesel etc. vehicles tax	69	116	Total real investment	2 620	2 754
Other taxes and similar revenue	676	719	Interest on State debt	191	319
Total taxes	22 221	23 604	Index compensations	32	28
Miscellaneous revenue	1 396	1 566	Net deficit of State enterprises	258	15
Interest, dividends etc.	446	517	Other expenditure	38	42
Sales and depreciation of property	4	6	Total other expenditure	519	404
Redemptions of loans granted	349	264	Increase in inventories	81	33
Total revenue	24 416	25 957	Lending	2 284	2 524
Foreign borrowing	590	503	Other financial investment	528	512
Domestic borrowing	652	961	Total expenditure	25 075	28 023
Total borrowing	1 242	1 464	Redemption of foreign loans	132	107
Deficit (+) or surplus (-)	(-228)	(+988)	Redemption of domestic loans	223	279
			Total redemptions	355	386
Total	25 430	28 409	Total	25 430	28 409

State debt	1975	1976	1977			
	Dec.	Dec.	Aug.	Sept.	Oct.	Nov.
Foreign debt	1 603	2 248	2 525	2 734	2 974	3 454
Loans	1 645	2 175	2 631	2 736	2 845	2 874
Compensatory obligations	1	1	1	1	1	1
Short-term credit	85	287	167	157	257	..
Cash debt (net)	-242	-643	-46	192	-465	..
Domestic debt	1 489	1 820	2 753	2 702	2 638	..
Total State debt	3 092	4 068	5 278	5 436	5 612	..
Total debt, mill \$	798	1 069	1 306	1 300	1 352	..

FOREIGN TRADE

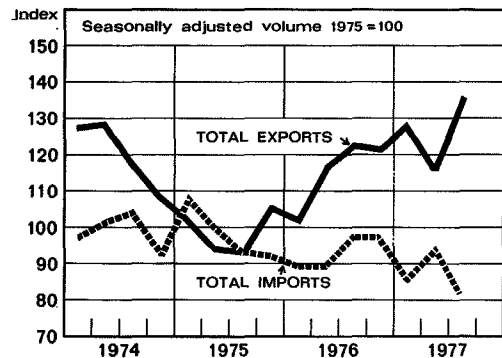
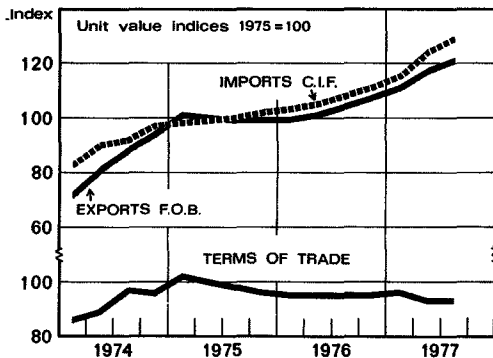
Mill. mk

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			
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
Aug.	2 240	2 397	-157
Sept.	2 901	2 845	+ 56
Oct.	2 991	2 588	+ 403
Jan.-Oct.			
1976	19 433	22 468	-3 035
1977*	24 831	24 768	+ 63

Indices of exports and
imports 1975 = 100

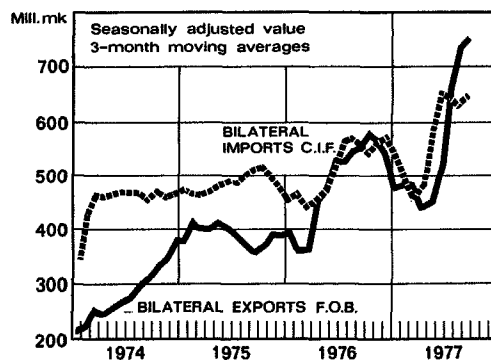
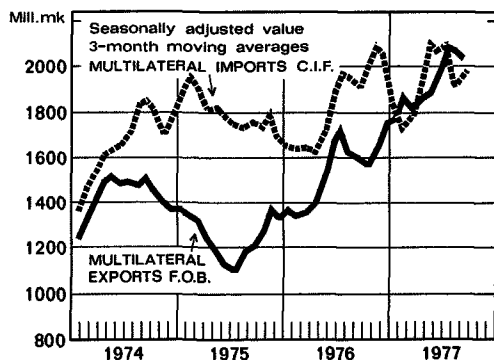
Period	Indices of exports and imports 1975 = 100				Terms of trade
	Volume		Unit value		
	Exports	Imports	Exports	Imports	
1972	113	82	53	57	93
1973	121	93	60	64	94
1974	121	100	85	92	92
1975	100	100	100	100	100
1976	117	96	103	107	97
1974					
Oct.-Dec.	119	101	96	98	98
1975					
Jan.-March	100	107	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.-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	124	83	112	116	97
Apr.-June	115	88	118	125	94
July-Sept.	129	84	122	130	94



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										
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
Aug.	48	340	674	605	573	1 591	165	275	356	10
Sept.	44	337	795	943	782	1 788	283	372	399	3
Oct.	41	321	753	1 106	770	1 655	222	321	389	1
Jan.Oct.										
1976	577	2 308	6 395	5 268	4 885	13 834	1 280	4 013	3 284	57
1977*	900	3 091	7 066	7 420	6 354	15 524	1 636	3 793	3 735	80



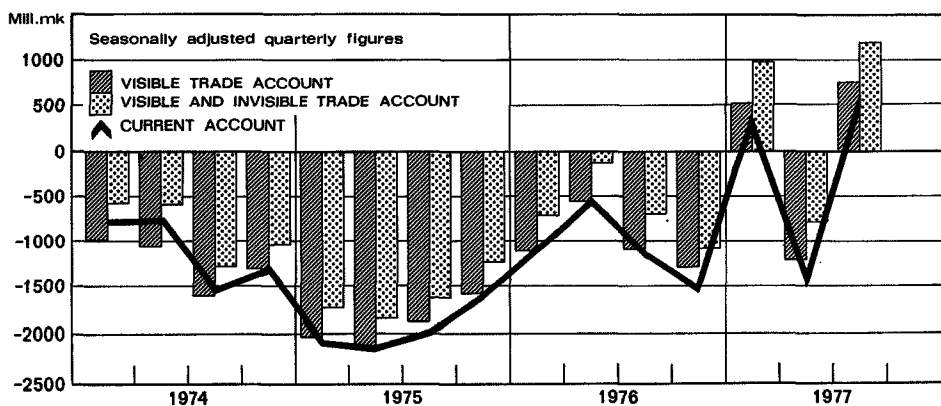
FOREIGN TRADE BY COUNTRIES

Mill. mk

Area and country	Exports, f. o. b.				Imports, c. i. f.			
	January—October				January—October			
	1976*		1977*		1976*		1977*	
	%	Mill. mk	%	Mill. mk	%	Mill. mk	%	Mill. mk
OECD countries in Europe	64.9	12 612	64.2	15 949	65.1	14 631	62.7	15 535
Austria	0.7	134	0.8	212	1.4	327	1.2	304
Belgium and Luxembourg	1.7	327	2.0	486	1.8	406	1.8	434
Denmark	3.9	753	3.5	867	3.1	689	2.9	717
France	3.7	710	3.4	852	2.8	636	2.8	687
Federal Republic of Germany	9.7	1 886	10.6	2 638	16.6	3 722	15.1	3 749
Italy	1.6	319	1.1	278	2.0	449	1.8	452
Netherlands	3.0	594	3.5	866	3.1	686	3.4	834
Norway	3.4	668	5.0	1 252	3.0	671	3.2	790
Portugal	0.3	58	0.3	69	0.3	71	0.4	90
Spain	1.0	194	0.9	217	1.3	282	1.1	285
Sweden	18.0	3 491	16.9	4 187	17.9	4 024	16.2	4 007
Switzerland	1.6	316	1.9	461	3.3	752	3.3	826
United Kingdom	15.0	2 910	12.2	3 036	8.3	1 860	9.2	2 284
Other	1.3	252	2.1	528	0.2	56	0.3	76
OECD countries outside Europe	4.8	934	6.4	1 580	9.1	2 050	8.9	2 206
Canada	0.6	123	0.6	141	0.4	99	0.5	119
Japan	0.6	125	0.8	201	1.6	370	1.9	460
United States	2.7	516	4.2	1 049	7.0	1 570	6.5	1 616
Other	0.9	170	0.8	189	0.1	11	0.0	11
CMEA countries	22.4	4 352	21.5	5 339	21.6	4 856	23.1	5 718
Czechoslovakia	0.6	110	0.3	89	0.5	115	0.5	113
German Democratic Republic	0.8	155	0.9	219	0.5	108	0.6	141
Poland	1.1	221	0.7	173	1.8	397	2.2	559
Soviet Union	19.0	3 701	18.8	4 661	18.0	4 047	19.1	4 742
Other	0.9	165	0.8	197	0.8	189	0.7	163
Latin America	2.2	419	2.1	510	2.0	432	2.2	554
Argentina	0.2	41	0.2	50	0.1	13	0.0	15
Brazil	0.6	108	0.4	108	0.4	91	0.2	45
Colombia	0.1	20	0.1	18	0.6	128	1.0	256
Other	1.3	250	1.4	334	0.9	200	1.0	238
Other	5.7	1 116	5.8	1 453	2.2	499	3.1	755
GRAND TOTAL	100.0	19 433	100.0	24 831	100.0	22 468	100.0	24 768
of which								
EFTA countries	24.1	4 691	25.0	6 212	26.1	5 868	24.4	6 051
EEC countries	39.1	7 600	36.9	9 157	37.7	8 470	37.1	9 186
OECD countries	69.7	13 546	70.6	17 529	74.2	16 681	71.6	17 741

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
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	6 765	+ 216	+310	- 80	+ 75	+ 521	-506	-46	- 31
Apr.-June	6 820	7 692	- 872	+243	+ 10	+ 34	- 585	-726	-11	-1 322
July-Sept.	7 932	7 663	+ 269	+368	+117	+194	+ 948	-531	-29	+ 388

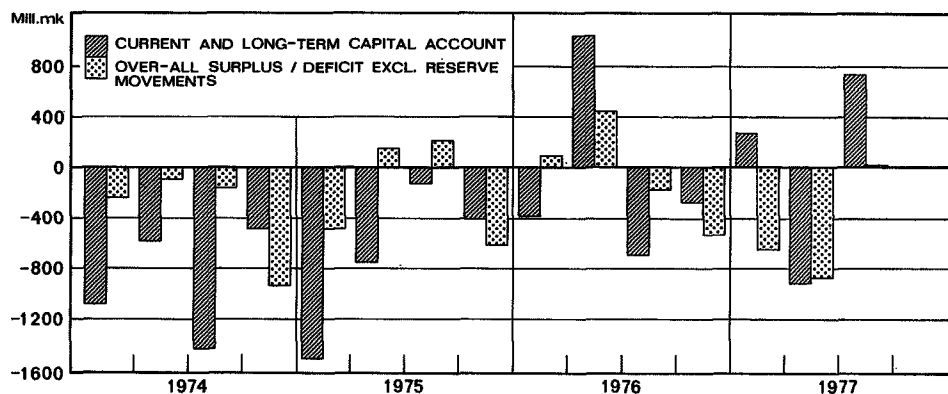


Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net ¹	Long-term capital account	Current and long-term capital account	Short-term import credits and prepayments, net	Short-term export credits and prepayments, net	Miscellaneous 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	-3 615	+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	- 24	+ 321	+ 290	-802	+149	-270	-633	-140	+773
+1 273	-857	+ 36	- 36	+ 416	- 906	-320	+149	+218	-859	+358	+501
+1 252	-647	-157	- 85	+ 363	+ 751	+217	-1 517	+554	+ 5	-319	+314

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
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
Sept.	701	722	621	673	826	705	730	665	707	175	158	180
Oct.	703	722	631	675	829	709	735	665	710	175	157	180
Nov.	705	723	632	677	830	709	737	665	711	176	157	181

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
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
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
Sept.	520	408	202	225	174	184	190	223	184	202	193	215
Oct.	522	410	203	225	174	185	190	229	185	203	194	216
Nov.	524	412	204	226	174	187	192	230	186	203	195	217

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*	701	483	454	384	387	375	452	372	478	431
1976										
Jan.-March	584	416	410	352	347	347	396	337	417	382
Apr.-June	594	449	427	363	364	356	422	347	448	404
July-Sept.	602	448	434	364	364	355	425	349	451	406
Oct.-Dec.	639	456	440	364	364	356	426	350	451	407
1977*										
Jan.-March	695	457	441	372	375	364	429	357	454	412
Apr.-June	694	487	454	385	389	378	454	373	482	434
July-Sept.	704	491	460	388	391	379	463	376	491	441
Oct.-Dec.	707	498	463	393	394	380	464	381	490	442

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
1975	161	192	100	83	175	104	158	188	166	168	169
1976*	163	195	101	79	156	103	160	191	173	176	174
1977*	162	191	96	83	157	101	160	186	181	182	178
1976*											
Jan.-March	157	202	62	84	123	102	149	182	171	174	172
Apr.-June	161	195	97	91	137	106	157	187	172	175	174
July-Sept.	160	167	178	56	169	101	161	186	173	176	174
Oct.-Dec.	172	216	67	86	196	102	171	207	177	179	177
1977*											
Jan.-March	158	200	61	99	128	100	152	175	179	180	177
Apr.-June	159	190	81	94	139	103	157	184	180	180	177
July-Sept.	159	167	166	54	170	101	162	180	181	182	178
Oct.-Dec.	171	209	76	83	190	102	171	204	185	184	180

PRODUCTION

Index of industrial production 1970 = 100

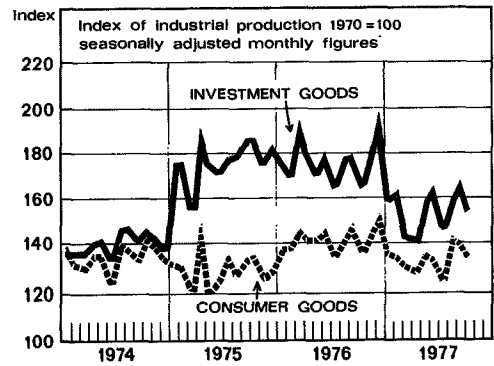
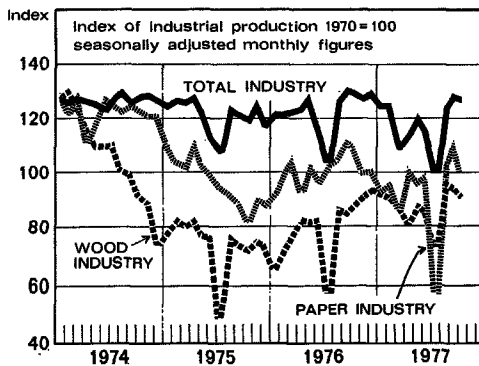
Period	Total	Investment goods	Other producer goods	Consumer goods	Special indices of manufacturing						Total, adjusted for seasonal variations
					Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
1974	127	141	122	135	112	107	124	154	136	141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

1976*

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
Aug.	125	154	111	144	115	88	108	137	121	139	124
Sept.	135	179	120	150	113	97	115	147	132	159	129
Oct.	134	176	120	149	122	91	110	141	128	156	128



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
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	122	127
1976*	3 530	2 244	2 158	86	3.8	27 305	123	127
1976*								
Oct.	3 532	2 183	2 111	72	3.3	2 293	126	132
Nov.	3 534	2 183	2 099	84	3.8	2 787	119	132
Dec.	3 535	2 186	2 085	101	4.6	3 126	160	158
1977*								
Jan.	3 524	2 181	2 053	128	5.9	2 455	93	95
Feb.	3 528	2 163	2 032	131	6.1	2 934	95	109
March	3 527	2 161	2 030	131	6.1	3 564	109	127
April	3 524	2 152	2 016	136	6.2	3 227	111	123
May	3 523	2 186	2 054	132	6.1	2 856	115	128
June	3 531	2 402	2 266	136	5.7	1 870	117	119
July	3 524	2 410	2 264	146	6.1	685	115	104
Aug.	3 524	2 304	2 165	139	6.0	1 240	118	127
Sept.	3 524	2 198	2 078	120	5.5	1 824	116	133
Oct.	3 524	2 194	2 070	124	5.7	2 090

CONSTRUCTION OF BUILDINGS

Period	Building permits granted					Buildings completed					Buildings 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*	46.90	19.95	3.93	15.81	3.83	40.95	17.60	3.12	15.32	2.58	52.48
1976*											
Apr.-June	14.00	7.39	1.80	2.96	0.55	10.09	3.87	0.39	4.63	0.73	51.73
July-Sept.	12.42	5.43	0.71	4.44	0.97	9.61	3.87	1.05	3.22	0.71	55.22
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
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	10.23	3.78	0.92	3.87	0.93	54.31

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. 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 (1976): 4.7 million. Sweden 8.2, Switzerland 6.4, Denmark 5.1 and Norway 4.0 million.

DENSITY OF POPULATION (1976): In South Finland 46.2, 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 (1976): 41 % of the population inhabit the rural areas, 59 % towns and urban districts. The largest towns are: Helsinki (Helsingfors), the capital 493 324 inhabitants, Tampere (Tammerfors) 166 179, Turku (Åbo) 164 520.

EMPLOYMENT (1976): Agriculture and forestry 14 %, industry and construction 35 %, commerce 15 %, transport and communications 8 %, services 28 %.

LANGUAGE (1976): Finnish speaking 93.3 %, Swedish speaking 6.4 %, others 0.3 %.

EDUCATION (1977): 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 (1976): births 14.0 ‰, deaths 9.4 ‰, change + 2.7 ‰, net emigration 2.0 ‰. Deaths in France 10.5 ‰ and Great Britain 12.2 ‰.

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 (1976): The growing stock comprised of 1 520 million m³ (solid volume with bark) of which 45 % was pine and 37 % spruce, the remaining 18 % being broad-leaved trees, chiefly birch. Of the growing stock, 637 million m³ was up to the standard required for logs, 56 % of these being pine. The annual growth was 57.4 million m³ and the total removal, calculated on the basis of roundwood consumption, was 42.4 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 (Sept. 30, 1977): Passenger vessels 11.7 (197 520 gross reg. tons), tankers 51 (1 158 532 gross reg. tons), dry cargo vessels 206 (853 435 gross reg. tons), other vessels 65 (10 031 gross reg. tons), total 439 (2 219 518 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). 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 112.0 and 107.1.

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, Posti-pankki 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. 17, 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 ½ %. The range of rates for other credits granted by the Bank of Finland is between 6 ½ and 9 ½ %. Other credit institutions time deposits 4 ¼ %; 6 month deposits 5 ¼ %; 12 month deposits 6 ½ %; 24 month deposits 7 ½ %; 36 month deposits 8 ¼ % + savings premium; 36 month deposits 8 ¼ % + tax concession. The highest lending rate 11 ½ %.

DEVELOPMENTS IN FINNISH TAXATION IN 1965—1976

by Lasse Aarnio, M.Pol.Sc.

Ministry of Finance

THE LEGISLATIVE AND ADMINISTRATIVE BACKGROUND

In Finland the central government, the municipalities and the parishes of both the Lutheran and Orthodox churches are vested with the right to levy taxes. According to the Constitution, taxes are imposed by act of Parliament, which means that Parliament also has the power to decide the legislative principles by which the municipalities and parishes exercise their right to levy taxes. In fact, the taxation rights of municipalities and parishes are mainly limited to their right to fix the rate at which they collect income tax. Apart from this, local government has only very limited jurisdiction in taxation. However, the autonomous Province of Åland-Ahvenanmaa has the power to decide on the legislation regulating local taxation in its own area.

A special procedure is needed for the passing of a tax act in Parliament. To be passed, any act concerning a new tax or a tax increase must receive a two thirds majority in Parliament. However, such an act can be passed by a simple majority, if it is to be in force for not more than one year. Any act concerning the removal or reduction of a tax or other tax concession can also be passed by a simple majority.

During the past ten years there have been significant reforms of Finnish tax legislation. The year 1968 saw the enforcement of new legislation concerning the assessment of agricultural income and a revision of the tax legislation concerning the exemption of corporations from the wealth tax. The Act on the Taxation of Business and Professional Income came into force in 1969. The taxation of personal income was revised in two stages, in 1975 and 1976.

The 1975 revision of taxation also included a more comprehensive reform of legislation, as, for example, the statutes on local government taxation, which dated from the last century, and the 1943 State Income and Wealth Tax Act were replaced by a new act.

The administration of taxation is carried out by central government. The National Board of Taxes and the National Board of Customs are central boards which are subordinated to the Ministry of Finance. The National Board of Customs is responsible for matters related to customs and excise duties. The administration of all other taxes has been assigned to the National Board of Taxes. These two central boards have their own district and local organizations. At the district government level, the administrative structure of the National Board of Taxes is divided into two sections, namely direct taxation and indirect taxation. The diversity of tax administration is further increased by the fact that the National Board of Taxes is only responsible for the assessment of direct taxes. The collection of direct taxes is primarily carried out by the authorities responsible for central government cash flows.

The majority of local government taxation and all church taxation is concerned with income taxes. As local authorities and parishes do not have tax administrations of their own, the assessment and collection of local taxes have been connected with the corresponding functions of central government direct taxation. The central government collects local income taxes on behalf of local authorities and transfers the shares due to municipalities and parishes. A similar situation exists in the collection of those social security contributions which are used to finance the social security system maintained by the Social Insurance Institution. The Institu-

tion is an independent central government body, which does not have its own organization for collecting social security contributions.

THE RATIO OF TAXES TO GDP IN FINLAND

In 1975—1976 public sector demand accounted for 23 to 24 per cent of GDP at market prices. The public sector's disposable income was almost one third of the economy's total disposable income.

The ratio of the public sector's total tax revenue to GDP at market prices also measures the relative importance of the public sector. In recent years, this ratio in Finland has been slightly above the average for the OECD countries, but clearly lower than in other Nordic countries. In France, the Federal Republic of Germany and the United Kingdom the ratios have been of the same order.

TABLE 1. TOTAL TAX REVENUE AS A PERCENTAGE OF GDP AT MARKET PRICES IN 1965 AND 1970—1976

1965	1970	1971	1972	1973	1974	1975	1976 ¹
30.6	33.1	34.7	35.3	36.1	35.3	37.6	41.7

¹ Preliminary estimate

The development of the ratio of total tax revenue to GDP in Finland has been in line with the general international trend. Table 1 shows this ratio in 1965 and in 1970—1976. Since 1965 the ratio has increased by about one third, which implies that the average annual increase has been about one percentage point. 1969 and 1974 were the only years during that period when the ratio decreased. In the other years prior to 1975, the increases varied between 0.6 and 1.6 percentage points. In 1975 and particularly in 1976, the annual increases were much larger, which was partly attributable to a deceleration in the growth of GDP. In 1976, nearly half of the 4 percentage point increase in the ratio was due to certain exceptional and temporary taxation measures, which will be dealt with later.

If one wishes to assess, by international standards, the total burden of the public sector on the private sector, it should be remembered that in Finland part of the obligatory social security functions is performed outside the public sector. The wage-earners' employment pension schemes, the self-employed persons' pension schemes, unemployment insurance and accident insurance are operated by private insurance companies, pension funds, unemployment funds, etc. These are institutions which do not belong to the public sector, although the social security systems maintained by them are compulsory and statutory. In other countries the corresponding systems generally belong to the public sector and the compulsory charges related to these are counted as taxes. In Finland these charges differ from taxes in that they are not part of the public sector's revenue. In 1965 the compulsory charges related to these social security systems accounted for about 1.6 per cent of GDP at market prices. The relative share of these charges has grown, so that in 1974 they accounted for 3.0 per cent and in 1975 for 3.4 per cent of GDP.

THE STRUCTURE OF PUBLIC SECTOR FINANCING

The growth of the ratio of taxes to GDP has not, in fact, reflected an equal increase in the relative importance of the public sector in the Finnish economy. During the last ten years the structure of public sector financing has changed, with the share of tax revenue increasing. In other words, the total importance of the public sector, measured in terms of budget totals, has not grown as rapidly as is suggested by the growth of the ratio of taxes to GDP. In 1965—1967 tax revenue accounted for 91 per cent of the public sector's total current revenue and 93 per cent in 1974—1976.

This development is attributable to changes in the structure of state finances (incl. extra-budgetary funds), shown in Table 2 for the years 1965—1976. During the first years of the period, tax revenue accounted for 81 per cent

TABLE 2. THE STRUCTURE OF STATE FINANCES IN 1965—1976: PERCENTAGE BREAKDOWN BY SOURCE OF FINANCE

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Tax revenue	80.5	80.4	83.4	81.1	81.4	84.1	85.5	85.5	89.1	89.1	85.7	86.7
Other revenue	10.0	8.6	9.0	9.3	9.5	9.2	9.9	10.8	9.5	9.6	10.5	8.4
Long-term borrowing	9.5	11.0	7.6	9.5	9.1	6.7	4.6	3.7	1.4	1.3	3.8	4.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

of state cash revenue. Since 1970 the share of tax financing has increased substantially, being at its highest in 1973 and 1974, when it accounted for nearly 90 per cent of state cash revenue. In 1975 and 1976 its share was once more slightly smaller.

Table 2 shows that the share of revenue other than tax revenue has remained almost unchanged during this period. The growth of the share of tax financing has thus involved a marked decline in the state finance deficit and, simultaneously, in long-term borrowing since the mid-1960s. Long-term borrowing reached its peak in 1966, when it accounted for 11 per cent of state cash revenue. The trough was reached in 1973 and 1974, when it represented only about one per cent of state cash revenue.

State finances were severely strained in the mid-1960s and the late 1960s, which resulted in an unusually high level of state borrowing. In addition to long-term borrowing, state cash finances were at that time also covered, to a rather great extent, by short-term loans. In line with the trend of long-term borrowing shown by Table 2, short-term borrowing had declined to almost nil by the early 1970s, and by the mid-1970s the central government even had cash surpluses. While the ratio of taxes to GDP and the share of tax financing in state finances have continued to grow, the state debt has generally declined. Although the developments in the last couple of years have taken a different course, long-term borrowing did not — as shown by Table 2 — even play any significant role in state revenue in 1976.

There have been no similar changes in the structure of local government finances. In all

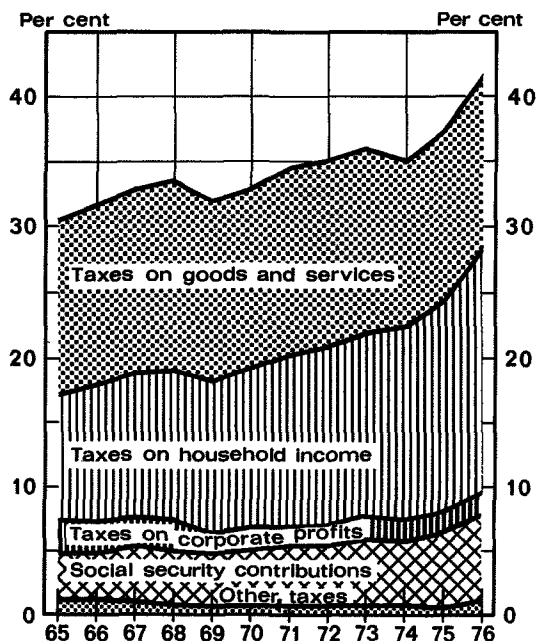
the years under review, tax revenue has accounted for about 50 per cent of total revenue of municipalities and municipal federations. In local government finances, the share of borrowing in total revenue has remained between 5 and 6 per cent.

THE STRUCTURE OF TAXATION

When examining the structure of taxation, various classifications of taxes can be applied. In national accounts statistics, taxes have traditionally been classified, according to the incidence of taxation, into direct and indirect taxes. This is a fairly rough classification, and it has recently been supplemented by a more detailed classification developed by the OECD.

According to Finnish national accounts statistics, the public sector's tax revenue was distributed in the mid-1960s so that indirect taxes accounted for about 46 per cent, the direct taxes of corporations and households for about 42 per cent and social security contributions for about 12 per cent of total tax revenue. Corporate taxes represented about one fifth and household taxes about four fifths of direct taxes. The proportions between these three major categories remained approximately unchanged until the end of the 1960s. On the other hand, the breakdown of direct taxes underwent such a change that in 1969 corporate taxes accounted for only 12 per cent of direct taxes. Since 1970 the proportions between the three major categories of tax have changed so that the share of indirect taxes in total tax revenue has declined, while the shares of direct taxes and social security contributions have grown. In 1975 indirect taxes accounted for

CHART. THE STRUCTURE OF FINNISH TAXATION IN 1965—1976: PERCENTAGE SHARES OF DIFFERENT TAXES IN GDP



The 1976 figures are preliminary.

only 36 per cent of total tax revenue, whereas the share of direct taxes had risen to 48 per cent and that of social security contributions to 16 per cent. Within the category of direct taxes, the share of corporate taxes has continued to decline, even if more slowly than in previous years; in 1975 corporate taxes accounted for less than 10 per cent of total direct taxes.

The chart shows the structure of Finnish taxation in 1965—1976, according to the major categories of the tax classification applied in the OECD Revenue Statistics. In this classification, taxes have been grouped according to their payment basis. Strictly speaking, these categories of tax have not their counterparts in national accounts statistics.

The above-mentioned developments in the structure of taxation during the past ten years are also shown in the chart. Four fifths of the increase in the ratio of taxes to GDP in 1965—1976 was attributable to an increase in the income taxes of the household sector. Social

security contributions were another category of tax which increased this ratio. On the other hand, the share of taxes on goods and services in GDP remained almost unchanged during these years, while the share of corporate income taxes declined. In all the years under review, the three major categories of tax — taxes on goods and services, taxes on income and profits, and social security contributions — made up more than 95 per cent of total tax revenue.

Different historical backgrounds and varying institutional circumstances have shaped the structure of taxation in each country. Various types of structure can be observed: in some countries the financing of the public sector is largely dependent on taxes on goods and services, in some countries taxes on income and profits or social security contributions play a significant role.

If the structure of Finnish taxation is compared with that of other countries, for example other OECD countries, it can be observed that Finland differs from the others in that taxes on goods and services and taxes on household income seem to constitute a large proportion of the public sector's total tax revenue. In other countries, these two types of taxation can be regarded, at least to a certain extent, as alternative forms of public sector financing. The share of corporate income taxes and social security contributions in Finnish tax revenues can be considered small by international standards. Even if the above-mentioned compulsory social security contributions payable outside the public sector are taken into account, the share of social security contributions is small.

One of the special features of the structure of Finnish taxation is that certain property taxes, such as real estate taxes, which are prevalent in many Central European countries, are not collected in Finland. On the other hand, Finland follows a Nordic taxation tradition and collects taxes on net wealth. However, the fiscal importance of the wealth tax has not been very great. In the chart the wealth tax is included in the category »Other taxes».

TABLE 3. TOTAL TAX REVENUE IN 1965 AND 1974—1976, BY RECIPIENT SECTOR, IN PER CENT OF GDP

	1965	1974	1975	1976 ¹
Central government	20.8	22.3	22.6	25.5
Local government	7.8	8.8	10.0	10.6
Social Insurance Institution	2.0	4.2	5.0	5.6
Total	30.6	35.3	37.6	41.7

¹ Preliminary estimate

Table 3 illustrates the structure of taxation according to which institutional sub-sector of the public sector receives the taxes. Central government accounts for about two thirds, local government for about one quarter and the Social Insurance Institution for about one tenth of the total accrual of taxes. About two fifths of the growth of the ratio of taxes to GDP is attributable to central government, one quarter to local government and about one third to the Social Insurance Institution. When comparing the proportions of these sectors, it can be seen that the relative share of local government has remained almost unchanged, and that there has been a slight shift from the central government's share over to the Social Insurance Institution's share. It should be pointed out that these figures do not describe the relative sizes of the various sub-sectors of the public sector, but rather the amount of taxes that these sub-sectors have received. In fact, the shares of local government and the Social Insurance Institution in total taxes are larger than those presented in Table 3, since a substantial amount of funds is transferred from state finances to cover the financial needs of the two other sectors. If an amount of central government taxes equal to these transfers from state finances is regarded as attributable to the local government and social security sectors, the central government's share in total taxes is only about a half.

MAIN FEATURES OF FINNISH TAXATION POLICY

The above developments in the ratio of taxes to GDP and the structure of taxation are a result of several factors. In this context, it is

not possible to examine the macroeconomic development which has also been partly reflected in these changes. In the following, attention is paid to the major principles and measures of the Finnish taxation policy in the late 1960s and the 1970s.

The majority of taxes on goods and services consist of taxes payable in connection with the production or sales of commodities. In the middle of the last decade, these taxes were mostly excise duties, customs duties or other similar special taxes. These taxes accounted for about 55 per cent of taxes on goods and services, while general outlay taxes, such as the sales tax, accounted for the rest. By the mid-1970s, this proportion was reversed, so that 55 per cent of taxes on goods and services were general outlay taxes and 45 per cent special taxes. The pursuit of a trade policy favouring reductions in customs duties has been one factor contributing to this development. In 1965 customs duties and import levies accounted for about 2 per cent of GDP. By 1976 this had fallen to about half a per cent of GDP. In 1965 customs duties and import levies represented about 15 per cent of taxes on goods and services, but only 4 per cent in 1976.

In the levying of excise duties, one of the aims of taxation policy has been to ensure that taxes remain a constant proportion of the price of the commodity, at least in the long run. This has involved repeated increases in excise duties as the price level has risen. Excise duties also include some kinds of deterrent taxes designed to regulate the consumption of certain commodities, such as alcoholic beverages and tobacco. There is similar reasoning behind the tax on motor vehicles and petrol. In all, excise duties constitute a significant fiscal instrument in state finances. In the years under review, excise duties accounted for about 6 per cent of GDP. During 1965—1976 their share in taxes on goods and services rose from 32 to 41 per cent.

The sales tax is the most important of general outlay taxes. Finland is one of the few countries in Europe which have not introduced a value

added tax. One of the significant taxation policy measures coupled with the sales tax was the introduction of a so-called import-equalization tax in 1971. This tax is collected on certain imported goods, and it is designed to restore balance between the competitive positions of imported and domestically produced goods, by imposing a tax on imported goods which corresponds to the multiple incidence of sales tax incurred by domestic production. In order to curb rises in the prices of basic foodstuffs, the sales tax on certain foodstuffs was reduced in 1974. Due to the rise in the price of energy in the same year all kinds of fuel were exempted from the sales tax and an excise duty offsetting the sales tax was imposed on them. Subsequently, the major kinds of liquid heating fuel were exempted from this excise duty as well. These measures were aimed at curbing price rises, particularly those affecting housing costs.

There were three occasions during the period under review when the central government collected export levies designed to restrain the impact of rapidly growing export earnings on the economy. The export levies collected in 1967—1969 after the devaluation of 1967 were, in value terms, the most important of these taxes; they accounted for 1.5 per cent of GDP in 1968.

The years 1965—1976 included two periods of significant reform in income and profit taxation: the first of these was the late 1960s and the second the mid-1970s. Taxation of agricultural income, which was previously assessed from the acreage cultivated, was revised in 1968. Since then, agricultural incomes have been taxed according to actual incomes, which are assessed on the basis of the farmer's annual net income calculated as the difference between the sales income and production costs of agricultural produce. On the other hand, the taxation of forestry income, which is closely connected with agriculture, is still carried out on the basis of the assessment of presumptive income per acre of forests owned. The reform and the additional revisions implemented a couple of years later involved a slight alleviation in the taxation of agricultural income.

New legislation concerning the taxation of business and professional income came into force in 1969. It was an important reform by which the regulations concerning the determination and apportioning of taxable net income were brought up to date. At the same time, a tax system was introduced which allowed losses to be offset against profits in the five subsequent years. The reform of the taxation of business and professional income, the transitional regulations related to the reform of wealth taxation implemented in 1968, and simultaneous economic developments combined to cause a fall in the revenue from corporate taxation in 1969—1971. The reform of taxation was designed to maintain the prospects for economic growth by improving the financial standing of corporations; in fact, the reform obviously stimulated investment.

The second period of reform in income taxation occurred in the middle of the 1970s, when the system of personal taxation was revised. Central government personal income taxation had previously been revised in 1967, when the income tax scales were eased in the lowest income brackets and tightened from the medium-income brackets upward. Income tax scales and other taxation provisions remained unchanged from 1967 until 1973. It can be claimed that this was part of the strategy, aimed at improving the financial position of the central government, which was introduced in the late 1960s and continued until the middle of the 1970s. In these circumstances, the scope for amending personal income taxation was limited by the revisions in the taxation of agricultural, business and professional incomes, which reduced central government tax revenue.

Pressure for revision of personal income taxation came from two directions. Firstly, the growth in nominal income induced by inflation and the use of progressive tax scales in central government income taxation increased the ratio of taxes to GDP. In the late 1960s, the rate of inflation was in fact very slow, but from 1971 onward accelerating inflation started to increase this ratio. Secondly, the old system

of personal taxation, which included the principle of compulsory joint taxation of married couples, was increasingly criticized.

In 1974 revisions were made in the central government personal income tax scales and in certain allowable deductions. The tax system was not affected at that time, and the amendments were mainly revisions made necessary by inflation. The reform of the tax system was implemented in two stages, in 1975 and 1976. Moreover, income taxation was generally eased in both these years. The system of joint taxation was kept in 1975, but tax legislation was revised and the tax system simplified. A system of compulsory separate taxation of earned income of married couples was introduced in central government income taxation in 1976. In municipal income taxation, the principle of separate taxation had already been introduced.

From examining the final figures for 1974, it can be seen that the revisions made in income tax clearly slowed down the growth of total revenue. Due to the structural changes in income taxation, the concessions granted in 1975 were unevenly distributed between the various categories of taxpayer, and because of the rapid income growth, the final tax liability increased again quite considerably.

On the other hand, the tax reform of 1976 clearly affected the final accrual of income taxes; its growth was only a fraction of the increase in taxable income. The revisions implemented during 1974—1976 had a lagged effect on cash revenue, and the changes in the tax system induced changes in the timing of the accrual of cash revenue. Therefore, the ratio of income taxes to GDP grew in all these years. In addition, certain temporary measures were implemented in 1976 which were partly responsible for the sharp increase in the ratio in that year: these included the postponement of the repayment of excess income tax prepayments until the following year and the collection of a tax surcharge from persons in high-income brackets, which is repayable in 1978.

There were not any great changes in local

government taxation during these years. The revisions in agricultural, business and professional income taxation of the late 1960s also affected local government taxation. Similarly, in connection with the 1975 reform of personal taxation, certain minor amendments were made to local government taxation; these were designed to guarantee that low-income taxpayers and families with children would be treated equally in all municipalities. The average local government tax rate rose from 12.5 per cent to 15.6 per cent between 1965 and 1976. Furthermore, the differences in tax rates between the various municipalities declined somewhat. While the local tax rate varied between 8 and 16.3 per cent in 1965, in 1976 the variation was between 13.5 and 18.5 per cent.

Throughout the period under review, employers' contributions made up the major part of social security contributions, accounting for about 70 per cent of their total. It should be noted that the compulsory social security contributions paid outside the public sector are paid exclusively by employers and self-employed persons. In 1965 the rate of the employers' social security contribution (paid to the public sector) was 6.0 per cent on the total wage bill. In 1976 the average rate of contribution was 9.1 per cent. A system of three rates of social security contribution was introduced in 1973. It was designed to equalize the burden caused by the increase in the rate of contribution between labour-intensive and capital-intensive enterprises.

The payments of social security contributions by the insured are not based on the insured persons' earned income but on their net taxable income in local government taxation. In 1965 the rate of social security contribution of the insured was 2.5 per cent and in 1976 3.75 per cent.

As for other taxes, the most important changes were concerned with the taxation of net wealth. In 1968 corporations were exempted from wealth tax, which had been 1 per cent of net wealth prior to that year. The fiscal effects of the removal of corporate wealth tax were offset

by a temporary increase in corporate income taxes in 1968—1970. The income tax rate was raised by 9 percentage points in 1968. The rise fell gradually and was cancelled in 1971. A temporary wealth tax was imposed on corporations for the fiscal year 1976; it was 1.5 per cent of net wealth.

In 1968 revisions were also made in the progressive wealth tax scales of physical persons. The tax scales were substantially eased at that time. The personal wealth tax rate was gradually reduced so that a gradually decreasing wealth tax surcharge¹ was collected for the years 1968—1970. The next revision in the wealth taxation of physical persons was in 1975, when the wealth tax scales for the smallest items of wealth were eased. In 1976 the wealth tax rate was substantially increased, which meant that the tax on the largest items of wealth was almost doubled.

CONCLUSION

The taxation policy pursued in Finland during the latter half of the 1960s and the first half

of the 1970s reflected a fairly rapid growth of the public sector. The solution of the financial problems of the public sector was thus often one of the primary incentives for taxation measures. This was particularly emphasized by the general fiscal-policy strategy, which aimed at improving the poor financial position of the central government in the late 1960s. The reforms of corporate and agricultural taxation at the end of the 1960s and the reform of personal income taxation implemented in the middle of the 1970s were the most important changes. The structure of taxation changed substantially during 1965—1976, partly due to taxation policy, but mainly as a result of inflation and other economic developments. The share of indirect taxes in total tax revenue declined, while the shares of direct taxes and social security contributions grew. Furthermore, the share of household taxes in total direct tax revenue increased considerably at the cost of corporate taxes. Hence, the majority of the growth of the ratio of total tax revenue to GDP was due to an increase in total revenue from household income taxes.

ITEMS

Finland's balance of payments January—September 1977. According to the Bank of Finland's preliminary figures, the current account deficit amounted to 965 million marks in January—September, as against a deficit of 3 310 million marks in the corresponding period of 1976. In January—September 1977, the net inflow of long-term capital amounted to 1 100 million marks, and the country's short-term foreign debt declined by over 1 600 million marks. Total foreign exchange reserves of the Bank of Finland increased by 101 million marks.

The visible trade account showed a deficit of 387 million marks for January—September, as compared with a deficit of over 3 000 million marks for the same period in 1976. The volume of commodity exports increased, while the volume of imports, excluding crude oil and fuel imports, decreased. Export and import prices rose by an almost equal amount.

The surplus on the invisible trade account increased by over 100 million marks to 1 271 million marks from the corresponding period of 1976. As travel receipts grew by 15 per cent and expenditure by 18 per cent, the surplus on the travel account declined slightly. On the other hand, the surpluses on the transport account and the »other services» account increased.

With interest expenses on foreign loans clearly increasing at the same time as interest earnings from foreign receivables decreased slightly, the deficit on the net investment income account was almost 500 million marks higher than in the corresponding period of 1976, at 1 763 million marks. There was also a slight increase in transfer payments expenditure.

The net inflow of long-term foreign capital, 1 100 million marks, was only about a third of the amount for the same period of 1976. Drawings of long-term loans totalled 3 547 million

MAJOR BALANCE OF PAYMENTS ITEMS, JANUARY—SEPTEMBER 1977, MILL. MK ¹

	Receipts	Expenditure	Net
Commodity trade (ex-ports f.o.b., imports c.i.f.)	21 840	22 177	— 337
Adjustment items	— 107	— 57	— 50
Visible trade account	21 733	22 120	— 387
Transport (c.i.f.)	1 586	665	921
Travel	1 182	1 135	47
Other services	1 941	1 638	303
Invisible trade account	4 709	3 438	1 271
VISIBLE AND INVISIBLE TRADE ACCOUNT	26 442	25 558	884
Investment income, net	284	2 047	—1 763
Transfer payments	87	173	— 86
A CURRENT ACCOUNT	26 813	27 778	— 965
	Change in receivables	Change in liabilities	Net
Long-term financial loans and suppliers' credits:			
drawings	— 630	3 547	2 917
redemptions	382	—2 054	—1 672
Direct investment	— 203	150	— 53
Other long-term capital	— 104	12	— 92
B LONG-TERM CAPITAL ACCOUNT	— 555	1 655	1 100
BASIC BALANCE (A+B)			135
Prepayments and liabilities related to imports		— 905	— 905
Prepayments and receivables related to exports	—1 571	352	—1 219
Errors and omissions			678
Other short-term capital			— 176
C SHORT-TERM CAPITAL ACCOUNT			—1 622
OVERALL BALANCE (A+B+C)			—1 487
Change in the foreign exchange reserves of the Bank of Finland			— 101
Change in net short-term foreign receivables of other foreign exchange holders			1 588

Receivables: increase —, decrease +
Liabilities: increase +, decrease —

¹ Preliminary figures

marks and amortizations 2 054 million marks. As a result of substantial deliveries by the metal industry, drawings of export credits amounted to 630 million marks; redemptions of outstanding export credits totalled 382 million marks. Finnish direct investment abroad amounted to 203 million marks, while foreign direct investment in Finland was 150 million marks.

The short-term capital account (incl. statistical discrepancy) showed a deficit of 1 622 million marks, which was partly attributable to the fact that a balance was reached in commodity trade and the cash payment scheme applied to certain imported goods was extended in March. The short-term trade credit debt declined and short-term export receivables increased. An increase in prepayments related to exports offset part of the decline in the short-term foreign debt.

The overall balance showed a deficit of 1 487 million marks for January—September. The foreign exchange reserves of the Bank of Finland increased by 101 million marks, while the net foreign debt of other foreign exchange holders grew by 1 588 million marks. Changes in the mark value of the reserves caused by the devaluations in April and August have not been taken into account in these figures. At the end of September, the convertible foreign exchange reserves of the Bank of Finland (allowing for the devaluations) amounted to 1 021 million marks and the tied foreign exchange reserves to 878 million marks.

Supplementary budget. The third supplementary budget for 1977 was approved by Parliament at the end of December. It involved a 1 442 million mark addition to the budgeted state expenditure; this addition was attributable to a high rate of unemployment, a more rapid rate of inflation than forecast, and the agricultural incomes policy agreement concluded* in the autumn. A total of 1 883 million marks was added to the budgeted state revenue.

The largest increases in expenditure were concerned with the administrative sector of the Ministry for Social Affairs and Health, for which

a total of nearly 600 million marks was earmarked. Appropriations were made for municipal special medical care, state aid to public health, promotion of children's day-care, invalidity care and for unemployment funds.

Over 250 million marks was set aside for the administrative sector of the Ministry of Education; the major part of this amount, almost 100 million marks, was earmarked for increased state aid to cover salary and maintenance outlays of primary and comprehensive schools.

In accordance with the agricultural incomes policy agreement, an additional 40 million marks was set aside for agricultural price policy subsidies.

On the revenue side, an increase of 1 249 million marks was estimated to accrue from taxes and similar revenue: of this increase, 475 million marks was estimated to accrue from the income and wealth tax, 145 million marks from excise duties, and 132 million marks from the sales tax. The third supplementary budget also included an increase of 500 million marks in state borrowing.

With the three supplementary budgets included, budgeted state expenditure for 1977 totalled 35 900 million marks and revenue 35 700 million marks.

Trade agreement between Finland and the U.S.S.R. On November 29, 1977 an agreement governing the exchange of goods between Finland and the U.S.S.R. in 1978 was signed in Helsinki. This is the third protocol within the framework of the five-year agreement which was signed in September 1974 for the period 1976—1980. It is estimated that the total value of goods exchanged in 1978 will be about 12 000 million marks (ca. 2 200 million roubles), an increase of about 5 per cent over 1977.

The value of Finnish exports of metal industry products will be 3 400 million marks. Finland will deliver machines and equipment to the value of 1 500 million marks and ships worth

1 700 million marks. Exports of forest industry products will amount to 1 600 million marks and those of consumer goods to 380 million. The Finnish export list also includes milk powder, eggs, cheese and meat products.

Finland will import crude oil (7 000 000 tons), diesel oil (1 500 000 tons), mazout (1 500 000 tons), coal (600 000 tons), coke (800 000—1 200 000 tons), natural gas (1 100 million cu.m.) and electrical energy (635 million kWhr) from the U.S.S.R. Imports of machines and equipment will amount to 540 million marks. Other commodities of note in the import list are timber, metallurgical products, fertilizers and cotton.

Silver commemorative coin. On the occasion of the 32nd World Ski Championships to be held at Lahti from February 17 to February 26, 1978, the Republic of Finland will strike a silver commemorative coin in the denomination of 25 marks to be issued by this Bank on January 16, 1978. The description of this coin, which will be legal tender in Finland, runs as follows:

The obverse shows, in relief, a skier approaching the finishing line with the letters MM and the date 1978, as well as the name of the venue, Lahti.

The reverse shows, in relief, a ski track that ascends the slope of a hill, as well as the value of the coin, 25 MARKKAA.

The coin is made of an alloy containing 500/1 000 silver and 500/1 000 copper. Diameter is 37 mm and weight 26,3 grams. The vertical edge of the coin is smooth.

The coin was designed by Antti Neuvonen.

The Bank of Finland's annual statement for 1977. The convertible foreign exchange reserves of the Bank of Finland increased by 238 million marks in 1977 and amounted to 1 549 million marks at the end of the year. In order to support its convertible foreign exchange reserve position, the Bank of Finland

made drawings, equivalent to about 1 200 million marks, from its foreign credit facilities during the latter months of the year. The tied foreign exchange reserves of the Bank of Finland increased by 107 million marks and amounted to 496 million marks at the end of the year.

The Balance Sheet item »Other foreign receivables» increased in 1977 by 299 million marks to 1 959 million marks. Of this amount, the currency subscription to Finland's quota in the International Monetary Fund increased by 101 million marks and foreign bonds by 146 million marks. The item »Other foreign liabilities» grew by 1 524 million marks to 3 447 million marks, mainly as the result of the above drawings from the Bank's foreign credit facilities.

Total central bank financing of the commercial banks increased by 748 million marks and amounted to 5 032 million marks at the end of the year. Of this, the commercial banks' quota debt accounted for 3 198 million marks, net call money market advances for 1 794 million marks and transactions in bonds with repurchase obligation for 40 million marks. On the Bank of Finland's call money market, advances amounted to 1 804 million marks at the end of the year; this was 600 million marks more than at the end of the previous year. Call money market deposits amounted to 850 million marks, which was 287 million marks less than at the end of 1976. The Bank of Finland deposited 954 million marks in the call money market of the last day of 1977.

Receivables from the public sector declined by 56 million marks and the claims of the public sector by 805 million marks. Import deposits, which had been included in the claims of the public sector, were all released during 1977.

Net receivables from corporations increased by 82 million marks in 1977. Of these receivables, new export bills and the financing of domestic suppliers' credits grew by a total of 189 million marks to 908 million marks.

Notes and coins in circulation increased by 282 million marks and totalled 3 167 million marks at the end of the year. Deposit certificates, of which there had been none in circulation at the beginning of the year, amounted to 200 million marks at the end of the year.

The net profits of the Bank of Finland for the accounting year 1977 amounted to 218 million marks, which was 15 million marks more than in 1976.

(continued from page 2)

fication process in member countries is still going on. The Finnish Parliament approved the amendment in November 1977. Finland has also consented to an increase of her quota to 262 million SDRs as a result of the Fund's sixth general review of quotas. Both the amendment and the quota increase are expected to become effective early in 1978.

The Fund's second major concern has been the state of the world economy after the drastic oil price increases in 1973. Here its role has been very active and successful. Among other innovations, it was able to set up the so-called oil facility; an arrangement under which the IMF borrowed from the richer oil-producing nations and lent to members with a substantial oil-related current account deficit. The facility was in operation for two years, extending to the spring of 1976. Finland twice drew on the 1975 edition of the oil facility — 71.25 million SDRs in June 1975 and 115.11 million SDRs in April 1976. These credits have a repayment period of seven years instead of the three to five years for normal IMF credits.

In 1975 Finland recorded a current account deficit of some 8 000 million marks or eight per cent of GDP. This outcome was already in evidence in the spring, therefore, together with the first oil facility drawing, a stand-by arrangement equivalent to 95 million SDRs was concluded with the IMF. This arrangement was intended to be a precautionary measure like the private credit facilities available to the Bank of Finland. By the end of 1975 it was clear that the tight monetary policy adopted a few months earlier, as well as the slowing down of economic activity in Finland caused by the low demand for Finnish exports, would bring about a significant reduction in the following year's current account deficit. The stand-by arrangement was allowed to lapse in June 1976 without Finland having made any drawings under it.

On the whole, Finland's relations with the IMF appear to be typical of a small developed country with a structural current account deficit. Finland has made use of the Fund's resources infrequently and only in exceptional circumstances. This basic position is likely to prevail in the years immediately ahead.

December 21, 1977

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Päiviö Hetemäki

Pentti Uusivirta

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Ele Alenius

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Eino Helenius

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Director, ADP-planning

Reino Airikkala

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Pekka Tukiainen

*Domestic Financial
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Kari Pekonen

Foreign Exchange Policy

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Foreign Exchange

Raili Nuortila

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Pauli Kanerva

*Personnel Administration and
General Affairs*

Stig G Björklund

Banking Services

Antti Luukka

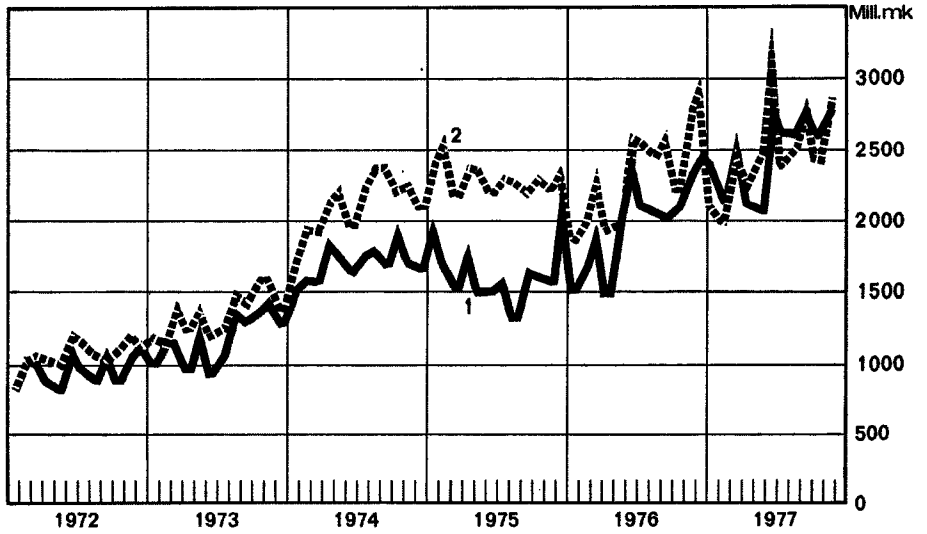
Cash

Urpo Levo

International legal affairs

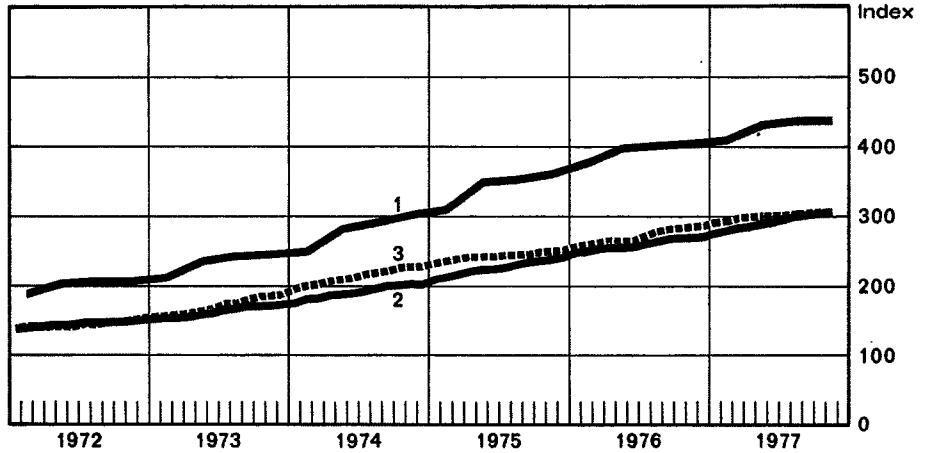
FOREIGN TRADE, 1972-1977

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



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

