BANK OF FINLAND

Monthly Bulletin

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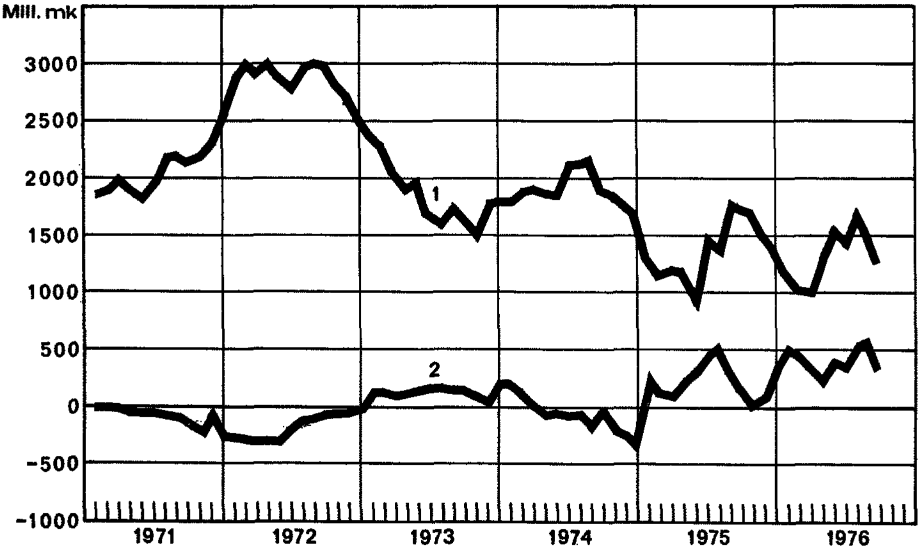

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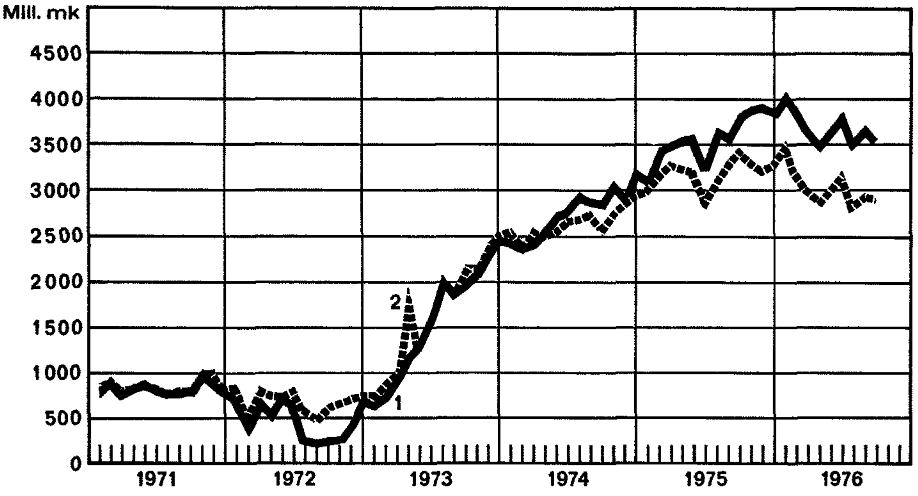

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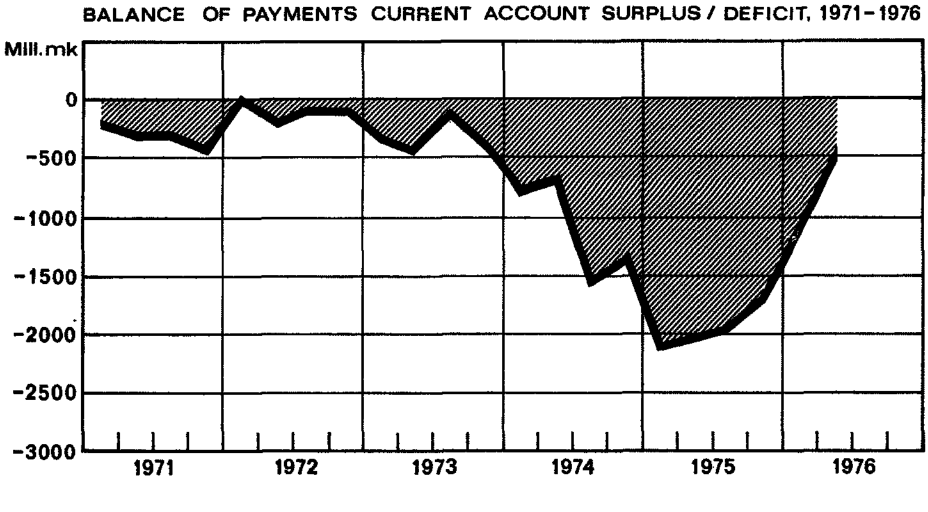


Seasonally adjusted quarterly figures

FOREIGN TRADE

The spreading recovery abroad has been bringing the volume of exports up from last year's very low levels at a rather healthy pace, although there is still much ground to be regained. The fall of nearly 17 per cent in export volume last year brought about much reduced domestic economic activity. The onset of recession in the domestic economy was soon reflected by reduced imports: the volume of imports started to decline in the first half of 1975, and the fall continued well into the current year. In the first three quarters of this year the value of exports was 18 per cent above last year's corresponding figure, whereas a fall of 3 per cent was recorded for imports. The decline in export prices that had started in mid-1975 was reversed in the second quarter of the current year and, as rises in import prices have been moderate. Finland's terms of trade have improved slightly in recent months. The amelioration in the trade account has been quite remarkable: the deficit in the January—September period, while still amounting to 3 100 million marks (15 per cent of imports), was over 3 200 million marks smaller than a year earlier.[1] The rate of improvement of the trade account may nevertheless slow down since the volume of imports has now started to climb as well.

EXPORTS

The effects of the international recession were much more severe for Finnish exports than for those of most, if not all, other industrial countries, due to the importance to the Finnish economy of the cyclically sensitive forest products sector. But the chill winds of recession have been felt in most other industries as well. It was only the heavy engineering industries that weathered the recession reasonably well, largely on account of orders obtained previously. Nevertheless, a moderate increase in export demand is now visible and, thanks to extensive investments carried out in recent years, Finnish industries ought to be reasonably well prepared to take advantage of any expansion in foreign markets.

The widening recovery was first evident in the export figures for wood industry products: sales have increased by over one third since last year. The actual level is nonetheless still relatively low and the outlook is not very promising, as only a very moderate increase in construction activity is expected in the main markets. Finnish sawngoods, plywood and other panel products also face increasing competition from other suppliers. Pulp and paper, the dominant forest industry exports, were in the January—September period barely up from last year in value terms, but have nevertheless kept on growing steadily throughout this year. Pulp prices have remained reasonably stable whereas there have been setbacks in paper and board prices; however, the paper market now appears to be firming.

The exports of the metal and engineering industries, which have expanded rapidly in recent years, are still increasing quite fast, by about a quarter in value terms in the first eight months of the year, and the upward trend is likely to continue for some time. However, the inflow of new orders has so far been modest and there is growing concern about increasing idle capacity next year unless the order situation improves.

Developments in other industries have been somewhat uneven, although export demand generally seems to be picking up. The greatest expansion has been in chemical industry exports which have increased by a half from last year largely due to increased domestic capacity, particularly in oil refining. The textiles, clothing and leather industries have barely maintained

[1] Exports f.o.b., imports c.i.f. Graphs on foreign trade developments are presented on pp. 9—10, 12 and inside back cover of this Bulletin.

last year's export value. Because of increased agricultural production there will be substantial growth in food industry exports and in exports of cereals.

Differences in economic activity between major markets have again influenced the geographical distribution of exports. The value of exports to EEC countries — which have been leading the recovery in Europe — grew by over a fourth in the January—August period, whereas exports to EFTA countries increased by 15 per cent and exports to CMEA countries by 10 per cent. In first eight months of the year the share of the EEC was increased by 3 percentage points to 39 per cent of total commodity exports. The share of EFTA countries remained unchanged at 24 per cent and the share of CMEA countries fell by two percentage points to 22 per cent.

IMPORTS

The decline in domestic production between mid-1975 and mid-1976 led to a marked fall in imports; imports of raw materials and production supplies started to decline concomitantly with production, and imports of consumer goods soon followed. During the early part of the current year imports of investment goods also dropped sharply as the investment boom that had commenced in the early 1970s was definitely over. During the last three months the downward trend in raw material and crude oil imports has been reversed, and the recovery in domestic output will induce further growth in these categories.

In the January—September period the value of total imports was 3 per cent lower than during the same months last year. As the rise in import prices is estimated to have been about 4 per cent, the volume of imports was down by at least some 6 per cent.

The value of imports of raw materials decreased by 4 per cent in the first eight months of the year. As prices were on average at the same level as in the previous year, there was clearly a decline in volume. Nevertheless, import prices for raw materials have been rising since the first quarter of 1976 and this upward movement is excepted to continue. As import volumes have now also started to rise, the growth in the value of raw material and crude oil imports is likely to be considerable during the coming months.

Investment activity in Finland was markedly reduced by the recession as well as by limited availability of finance. Consequently, the value of imports of investment goods went down by some 10 per cent in the January—August period. The fall in volume has been even more pronounced. Although the decline is bottoming out, no substantial recovery is expected in the near future.

The value imports of consumer goods decreased noticeably during 1975 but there has been little change since then. The value of imports of consumer goods in the first eight months of the year was 5 per cent lower than one year ago. Greater than average declines were recorded for passenger cars and other consumer durables. However, it is excepted that imports of consumer goods will pick up soon. Domestic demand is recovering, and the temporary import deposit scheme introduced in March 1975 will be abolished at the end of 1976.

Some changes have occurred in the regional breakdown of Finnish imports. Since there have been larger declines in the imports of finished goods than in raw materials and crude oil, the share of EEC countries has fallen by almost two percentage points to 38 per cent of total imports. At the same time the share of CMEA countries has grown by about one percentage point to 22 per cent. The share of EFTA countries remained unchanged at 26 per cent in the January—August period.

October 20, 1976

	1975 Oct. 31	1975 Dec 31	1976 Oct. 8	1976 Oct. 15	1976 Oct. 22	1976 Oct. 29
Assets						
Gold and foreign exchange receivables	1 990	1 950	1 769	1 703	1 665	1 609
Gold	121	121	121	121	121	121
Special drawing rights	284	278	251	251	251	251
Convertible currencies	1 373	1 089	954	992	955	885
Tied currencies	212	462	443	339	338	352
Other foreign receivables	1 315	1 274	1 540	1 567	1 558	1 560
Foreign bills	326	272	329	356	347	349
Foreign bonds	191	204	384	384	384	384
Currency subscription to Finland's quota in the IMF	798	798	827	827	827	827
Receivables from financial institutions	4 289	4 164	4 546	4 464	5 099	4 878
Cheque accounts of the commercial banks	115	133	190	165	186	164
Discounted bills	3 568	3 385	3 149	3 137	3 062	3 148
Bonds	349	327	356	355	502	426
Call money market advances	—	—	832	799	1 314	1 096
Other financial institution receivables	257	319	19	8	35	44
Receivables from the public sector	324	339	424	415	420	421
Bonds	70	70	71	69	69	69
Total coinage	253	256	276	276	277	277
Other public sector receivables	1	13	77	70	74	75
Receivables from corporations	876	933	1 322	1 321	1 365	1 356
New export bills	134	128	155	156	156	157
Financing of suppliers' credits	372	402	516	520	529	528
Bonds	231	223	204	202	204	204
Other corporate receivables	139	180	447	443	476	476
Other assets	38	47	49	49	49	52
Total	8 832	8 707	9 650	9 519	10 156	9 876
Liabilities						
Foreign exchange liabilities	201	172	200	198	193	182
Convertible accounts	50	78	145	142	138	134
Tied accounts	151	94	55	56	55	48
Other foreign liabilities	1 385	1 385	1 923	1 923	1 923	1 923
IMF mark accounts	1 127	1 127	1 665	1 665	1 665	1 665
Allocations of special drawing rights	258	258	258	258	258	258
Notes and coins in circulation	2 571	2 855	2 842	2 846	2 872	2 882
Notes	2 345	2 617	2 599	2 603	2 628	2 638
Coins	226	238	243	243	244	244
Deposit certificates in circulation	740	250	—	—	—	—
Claims of financial institutions	272	29	812	744	1 314	1 008
Cheque account of Postipankki	1	1	0	0	0	0
Cheque accounts of the commercial banks	2	3	1	1	0	3
Call money market deposits	—	—	806	739	1 310	1 002
Other financial institution claims	269	25	5	4	4	3
Claims of the public sector	1 189	1 301	1 257	1 181	1 141	1 130
Cheque accounts	7	2	0	0	0	1
Counter-cyclical reserves	149	155	55	55	55	55
Import deposits	1 032	1 135	1 122	1 046	1 006	995
Other public sector claims	1	9	80	80	80	79
Claims of corporations	413	539	189	187	277	297
Investment deposits	69	73	62	62	61	63
Capital import deposits	330	450	120	120	211	230
Import levy deposits	4	8	4	2	2	2
Other corporate claims	10	8	3	3	3	2
Other liabilities	12	15	13	13	12	12
Equalization accounts	1 086	331	520	527	519	534
Capital accounts	963	1 830	1 894	1 900	1 905	1 908
Primary capital	600	1 400	1 400	1 400	1 400	1 400
Reserve fund	237	237	334	334	334	334
Net earnings	126	193	160	166	171	174
Total	8 832	8 707	9 650	9 519	10 156	9 876

BANK OF FINLAND[1]

Mill. mk

End of year and month	Foreign sector: Gold and convertible exchange receivables	Convertible exchange liabilities	Gold and convertible exchange reserve (1—2)	Non-convertible exchange reserve	Other receivables	Other liabilities	**Net receivables (3+4+5—6)**	Public sector: Receivables	Liabilities	**Net liabilities (9—8)**	Deposit certificates in circulation
	1	2	3	4	5	6	7	8	9	10	11
1969	1 266	11	1 255	— 80	517	360	1 332	102	200	98	—
1970	1 812	11	1 801	— 63	639	606	1 771	119	121	2	203
1971	2 620	30	2 590	—297	686	704	2 275	148	140	— 8	400
1972	2 613	43	2 570	— 6	757	788	2 533	175	49	—126	790
1973	1 928	65	1 863	210	803	788	2 088	200	534	334	1 450
1974	1 784	62	1 722	—388	1 123	788	1 669	302	560	258	1 040
1975	1 488	78	1 410	368	1 274	1 385	1 667	339	1 301	962	250
1975											
Oct.	1 778	50	1 728	61	1 315	1 385	1 719	324	1 189	865	740
Nov.	1 611	79	1 532	123	1 311	1 385	1 581	333	1 383	1 050	400
Dec.	1 448	78	1 410	368	1 274	1 385	1 667	339	1 301	962	250
1976											
Jan.	1 277	86	1 191	533	1 373	1 385	1 712	335	1 318	983	160
Feb.	1 113	82	1 031	482	1 390	1 385	1 518	334	1 380	1 046	—
March	1 184	157	1 027	378	1 442	1 413	1 434	338	1 465	1 127	—
April	1 393	47	1 346	281	1 449	1 413	1 663	341	1 390	1 049	—
May	1 627	46	1 581	434	1 465	1 922	1 558	352	1 360	1 008	—
June	1 546	48	1 498	392	1 456	1 923	1 423	350	1 320	970	—
July	1 800	62	1 738	507	1 483	1 923	1 805	361	1 227	866	—
Aug.	1 670	123	1 547	620	1 503	1 923	1 747	388	1 263	875	—
Sept.	1 414	142	1 272	355	1 533	1 923	1 237	415	1 188	773	—
Oct.	1 257	134	1 123	304	1 560	1 923	1 064	421	1 130	709	—

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

FOREIGN EXCHANGE SITUATION

Mill. mk

	Net holdings, Dec. 31, 1975: Bank of Finland	Other	Total	Net holdings, August 31, 1976: Bank of Finland	Other	Total	Change: Aug.	Jan.-Aug.
Gold	121	—	121	121	—	121	—	—
Special drawing rights	278	—	278	265	—	265	—	—13
IMF gold tranche	—	—	—	—	—	—	—	—
Convertible currencies	1 011	—1 759	—748	1 161	—1 415	—254	—35	+494
Total	1 410	—1 759	—349	1 547	—1 415	132	—35	+481
Non-convertible currencies	368	—1	367	620	—23	597	+96	+230

BANK OF FINLAND[1]

Mill. mk

End of year and month	Domestic financial sector: Discounted and rediscounted bills	Cheque account receivables [2]	Other receivables	Cheque account liabilities to the commercial banks [3]	Cheque account liabilities to Postipankki [3]	Other liabilities	**Net receivables (1+2+3—4—5—6)**	Corporate sector: Receivables	Liabilities	**Net receivables (8—9)**	Notes and coins in circulation
	1	2	3	4	5	6	7	8	9	10	11
1969	550	87	—	93	12	—	532	461	25	436	1 394
1970	836	3	—	1	4	—	834	383	324	59	1 455
1971	849	—	—	9	2	—	838	355	385	— 30	1 413
1972	753	5	—	—	2	—	756	321	73	248	1 879
1973	2 556	61	—	—	2	—	2 615	372	259	113	2 082
1974	3 034	114	266	4	4	1	3 405	631	195	436	2 462
1975	3 385	133	646	3	1	25	4 135	933	539	394	2 855
1975											
Oct.	3 568	115	606	2	1	269	4 017	876	413	463	2 571
Nov.	3 519	172	622	2	1	2	4 308	888	530	358	2 678
Dec.	3 385	133	646	3	1	25	4 135	933	539	394	2 855
1976											
Jan.	3 085	147	543	2	3	2	3 768	973	540	433	2 614
Feb.	3 035	196	1 408	5	0	709	3 925	1 031	548	483	2 677
March	3 035	202	1 421	1	1	843	3 813	1 098	427	671	2 544
April	3 053	193	1 098	1	0	683	3 660	1 126	523	603	2 676
May	3 235	176	1 004	2	0	551	3 862	1 175	488	687	2 775
June	3 358	196	1 111	1	0	685	3 979	1 215	413	802	2 969
July	2 775	164	1 189	3	0	793	3 332	1 284	374	910	2 895
Aug.	2 749	169	926	3	0	531	3 310	1 297	301	996	2 858
Sept.	3 031	185	1 153	2	0	783	3 584	1 342	189	1 153	2 840
Oct.	3 148	164	1 566	3	0	1 005	3 870	1 356	297	1 059	2 882

[1] The balance sheet of the Bank of Finland was revised in Dec. 1974. See explanations on page 18.
[2] Including special index accounts.
[3] Including cash reserve accounts.

SELLING RATES FOR FOREIGN EXCHANGE

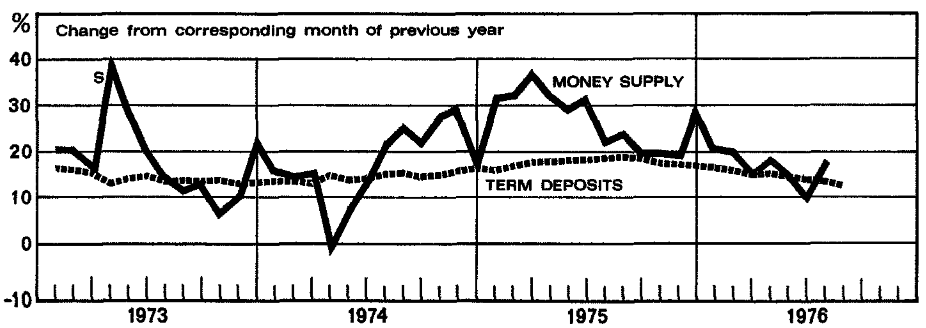
Mk

October 20, 1976

New York [1]	1 $	3.868	Frankfurt o. M.	100 DM	159.80	Vienna	100 S	22.50
Montreal	1 $	3.976	Amsterdam	100 Fl	152.00	Lisbon	100 Esc	12.37
London	1 £	6.365	Brussels [2]	100 Fr		Madrid	100 Pta	5.71
Stockholm	100 Kr	90.60	Zurich	100 Fr	158.60	Tokyo	100 Y	1.325
Oslo	100 Kr	72.70	Paris	100 FF	77.80	Reykjavik	100 Kr	2.10
Copenhagen	100 Kr	65.20	Rome	100 Lit	0.446	Moscow [3]	1 Rbl	5.157

[1] As from Dec. 20, 1971 also applied to clearing accounts with Berlin, Budapest and Sofia.
[2] 10.380 commercial rate; 10.160 financial rate.
[3] Clearing account: also Bucharest.

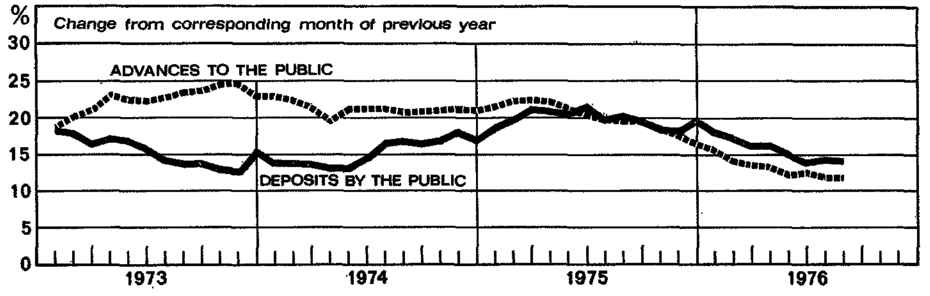
End of year and month	Sight deposits			Term deposits						Total (2 + 3 + 9)
	Cheque accounts		Postal giro accounts	Commercial banks	Savings banks	Co-op. banks	Postipankki	Co-op. stores	All credit institutions	
	Commercial banks	All credit institutions								
	1	2	3	4	5	6	7	8	9	10
1969	1 057	1 374	521	5 236	4 333	3 022	1 116	522	14 229	16 124
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	6 961	5 446	3 877	1 491	642	18 418	20 906
1972	1 851	2 371	979	8 096	6 232	4 500	1 806	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
1975										
Sept.	2 546	3 531	1 582	10 959	9 203	7 177	2 929	1 056	31 324	36 437
Oct.	2 686	3 653	1 417	11 011	9 225	7 206	2 939	1 058	31 439	36 509
Nov.	2 659	3 642	1 652	11 234	9 326	7 280	2 985	1 057	31 882	37 176
Dec.	3 447	4 642	2 301	11 764	9 751	7 538	3 170	1 094	33 317	40 260
1976*										
Jan.	3 268	4 301	2 038	11 872	9 891	7 685	3 229	1 117	33 794	40 133
Feb.	2 854	4 176	2 258	11 930	10 021	7 777	3 262	1 132	34 122	40 556
March	3 004	4 332	2 032	11 837	10 031	7 752	3 224	1 139	33 983	40 347
April	3 038	4 121	2 155	11 894	10 082	7 820	3 270	1 148	34 214	40 490
May	2 841	4 017	2 048	11 972	10 174	7 870	3 292	1 162	34 470	40 535
June	3 003	4 221	1 865	11 963	10 279	7 965	3 332	1 167	34 706	40 792
July	2 984	4 174	1 951	11 966	10 389	8 065	3 390	1 184	34 994	41 119
Aug.	3 099	4 376	1 968	11 988	10 531	8 212	3 423	1 194	35 348	41 692
Sept.	2 852	4 081	1 935	11 895	10 555	8 286	3 426	1 213	35 375	41 391



ADVANCES TO THE PUBLIC—MONEY SUPPLY

Mill. mk

End of year and month	Advances granted by: Commercial banks	Savings banks	Co-op. banks	Postipankki	Mortgage banks	Types of advances: Loans & Bills	Cheque credits	Total (1 to 5) (6 and 7)	Money Supply
	1	2	3	4	5	6	7	8	9
1969	6 892	3 803	2 922	1 040	1 290	15 354	593	15 947	3 126
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	7 799	5 488	4 129	43 003	1 294	44 297	9 450
1975									
Sept.	17 734	8 749	7 450	5 104	3 815	41 456	1 396	42 852	7 391
Oct.	17 811	8 785	7 542	5 275	3 900	41 907	1 406	43 313	7 321
Nov.	17 852	8 997	7 673	5 420	4 046	42 585	1 403	43 988	7 643
Dec.	17 773	9 108	7 799	5 488	4 129	43 003	1 294	44 297	9 450
1976*									
Jan.	17 769	9 279	7 900	5 551	4 223	43 456	1 266	44 722	8 621
Feb.	17 868	9 311	7 937	5 605	4 230	43 633	1 318	44 951	8 771
March	17 902	9 448	8 009	5 688	4 249	43 912	1 384	45 296	8 582
April	18 049	9 576	8 079	5 950	4 267	44 460	1 461	45 921	8 607
May	18 138	9 647	8 178	5 694	4 388	44 611	1 434	46 045	8 488
June	18 396	9 728	8 300	5 779	4 419	45 152	1 470	46 622	8 652
July	18 212	9 831	8 376	5 844	4 489	..	..	46 752	8 665
Aug.	18 309	9 965	8 428	5 885	4 517	..	..	47 104	..
Sept.	18 450	10 148	8 683	5 938	4 479			47 698	..



STATE FINANCES

Mill. mk

Revenue	Jan.—Aug. 1975	1976
Income and property tax (net)	6 182	7 750
Gross receipts	(12 904)	(15 848)
Refunds & local authorities	(—6 722)	(—8 098)
Other taxes on income and property	118	149
Employers' child allowance payments	525	694
Sales tax	3 771	4 046
Revenue from Alcohol Monopoly	895	1 091
Customs duties & import charge	387	369
Counter-cyclical tax	—	—
Excise duty on tobacco	374	493
» » on liquid fuel	747	941
Other excise duties	372	510
Tax on autom. and motor cycles	522	543
Stamp duties	318	402
Special diesel etc. vehicles tax	44	52
Other taxes and similar revenue [1]	349	537
Total taxes	14 604	17 577
Miscellaneous revenue	1 507	1 119
Interest, dividents etc.	383	368
Sales and depreciation of property	8	3
Redemptions of loans granted	161	275
Total revenue	16 663	19 342
Foreign borrowing	143	465
Domestic borrowing	306	506
Total borrowing	449	971
Deficit (+) or surplus (—)	705	127
Total	17 817	20 440

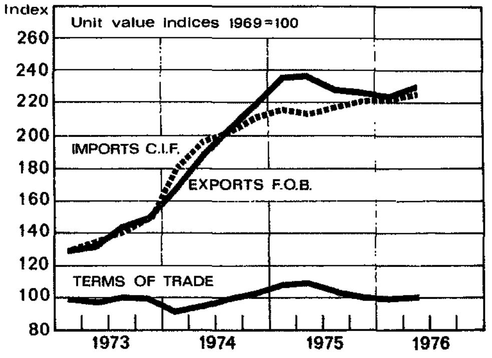
Expenditure	Jan.—Aug. 1975	1976
Wages, salaries, pensions etc.	2 832	3 469
Repair and maintenance	420	460
Other consumption expenditure	1 252	1 495
Total consumption expenditure	4 504	5 424
State aid to local authorities	3 216	4 034
State aid to industries	2 909	2 911
of which: agric. price subsidies	(1 392)	(1 628)
Child allowances	389	554
Share in national pensions and health insurance	148	183
Other transfer expenditure	1 789	2 205
Total transfer expenditure	8 451	9 887
Machinery and equipment	610	697
House construction	342	341
Land and waterway construction	881	991
Total real investment	1 833	2 029
Interest on State debt	144	170
Index compensations	33	29
Net deficit of State enterprises	336	337
Other expenditure	22	27
Total other expenditure	535	563
Increase in inventories	153	+61
Lending	1 564	1 683
Other financial investment	411	479
Total expenditure	17 451	20 126
Redemption of foreign loans	77	97
Redemption of domestic loans	289	217
Total redemptions	366	314
Total	17 817	20 440

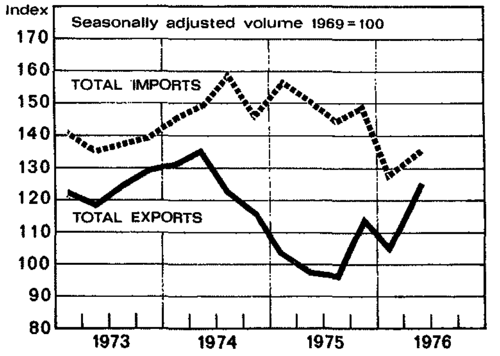
[1] Including supplementary turnover tax and import-equalization tax from June 1971.

State debt	1973 Dec.	1974 Dec.	1975 Dec.	1976 July	Aug.	Sept.
Foreign debt	1 395	1 152	1 603	1 996	2 027	2 157
Loans	1 758	1 528	1 645	1 901	1 919	2 016
Compensatory obligations	1	1	1	1	1	1
Short-term credit	39	37	85	64	83	..
Cash debt (net)	—468	—571	—242	—550	—406	..
Domestic debt	1 330	995	1 489	1 416	1 597	..
Total State debt	2 725	2 147	3 092	3 412	3 624	..
Total debt, mill $	710	590	798	882	931	..

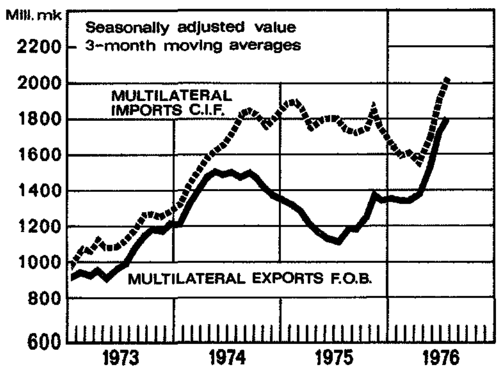
Period	Value mill. mk		
	Exports f. o. b.	Imports c. i. f.	Surplus of exports (+) or imports (—)
1970	9 687	11 071	—1 384
1971	9 897	11 734	—1 837
1972	12 082	13 107	—1 025
1973	14 605	16 599	—1 994
1974	20 687	25 666	—4 979
1975*	20 247	28 002	—7 755
1975*			
Aug.	1 135	2 167	—1 032
Sept.	1 710	2 236	— 526
Oct.	1 840	2 458	— 618
Nov.	1 672	2 247	— 575
Dec.	2 371	2 545	— 174
1976*			
Jan.	1 563	2 131	— 568
Feb.	1 478	1 949	— 471
March	1 967	2 249	— 282
April	1 452	1 851	— 399
May	2 176	1 956	+ 220
June	2 232	2 441	— 209
July	2 256	2 544	— 288
Aug.	1 758	2 360	— 602
Jan.-Aug.			
1975*	12 654	18 516	—5 862
1976*	14 882	17 481	—2 599

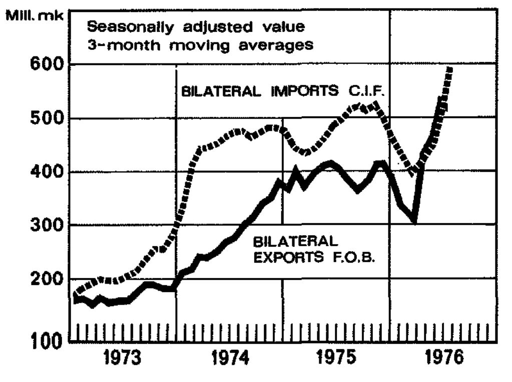
Period	Indices of exports and imports 1969 = 100				
	Volume		Unit value		Terms of trade
	Exports	Imports	Exports	Imports	
1970	107	121	108	108	100
1971	103	119	115	116	99
1972	118	124	123	125	98
1973	127	141	138	139	99
1974	126	151	196	200	98
1975	105	151	232	218	106
1973					
Apr.-June	115	133	133	136	98
July-Sept.	122	136	145	142	102
Oct.-Dec.	140	149	151	151	100
1974					
Jan.-Mar.	131	146	169	184	92
Apr.-June	131	147	190	199	95
July-Sept.	119	158	206	204	101
Oct.-Dec.	125	152	221	213	104
1975					
Jan.-Mar.	104	160	237	217	109
Apr.-June	95	146	238	216	110
July-Sept.	94	143	230	220	105
Oct.-Dec.	124	153	228	223	102
1976*					
Jan.-Mar.	106	134	226	224	101
Apr.-June	122	130	231	226	102





Period	Exports, f.o.b. Agricultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Imports, c.i.f. Raw materials and producer goods	Fuels and lubricants	Finished goods: Investment goods	Finished goods: Consumer goods	Other goods
1970	286	1 536	3 883	1 828	2 154	6 891	422	1 949	1 750	59
1971	313	1 643	3 797	1 764	2 380	7 037	570	2 333	1 746	48
1972	346	1 809	4 376	2 547	3 004	7 842	609	2 354	2 250	52
1973	432	2 458	5 266	2 921	3 528	9 916	729	2 919	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
1975*										
Aug.	18	139	451	226	301	1 279	170	433	276	9
Sept.	44	202	585	442	437	1 384	137	363	344	8
Oct.	25	199	570	505	541	1 554	154	412	337	1
Nov.	17	213	579	395	468	1 361	170	426	289	1
Dec.	82	234	659	877	519	1 511	140	565	323	6
1976*										
Jan.	114	190	477	436	346	1 190	133	495	312	1
Feb.	14	196	592	287	389	1 211	114	327	291	6
March	125	214	780	338	510	1 339	91	461	353	5
April	19	140	397	475	421	1 034	66	433	318	0
May	78	158	601	837	502	1 236	106	291	316	7
June	38	302	804	529	559	1 604	100	390	347	0
July	29	320	693	739	475	1 725	164	343	307	5
Aug.	42	257	645	324	490	1 486	163	381	308	22
Jan.-Aug.										
1975*	281	1 329	4 832	3 138	3 074	11 248	1 069	3 456	2 696	47
1976*	459	1 777	4 989	3 965	3 692	10 825	937	3 121	2 552	46



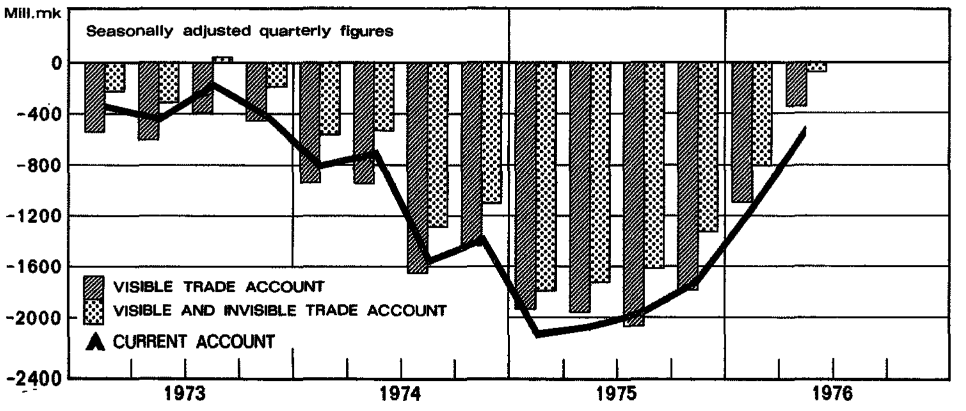


FOREIGN TRADE BY COUNTRIES

Mill. mk

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January—August				January—August			
	1975*		1976*		1975*		1976*	
	%	Mill. mk	%	Mill. mk	%	Mill. mk	%	Mill. mk
OECD countries in Europe	62.7	7 937	65.0	9 670	66.7	12 357	65.3	11 418
Austria	0.8	96	0.7	99	1.3	249	1.5	255
Belgium-Luxembourg	1.4	179	1.7	246	1.8	343	1.8	321
Denmark	3.4	435	3.8	572	3.3	612	3.1	534
France	3.5	444	3.8	572	3.7	692	2.9	505
Federal Republic of Germany	9.0	1 140	9.9	1 472	16.6	3 070	16.4	2 867
Italy	1.3	161	1.7	258	2.1	386	2.1	366
Netherlands	2.7	341	3.1	467	2.8	526	2.9	509
Norway	4.5	567	3.4	500	2.8	519	3.1	546
Portugal	0.3	37	0.4	52	0.5	93	0.3	57
Spain	1.2	153	1.0	150	1.1	197	1.3	225
Sweden	17.1	2 160	17.7	2 639	18.3	3 383	17.9	3 131
Switzerland	1.5	194	1.7	248	3.2	588	3.4	601
United Kingdom	14.5	1 833	14.8	2 207	9.0	1 665	8.4	1 459
Other	1.5	197	1.3	188	0.2	34	0.2	42
OECD countries outside Europe	4.8	605	4.8	713	9.5	1 757	8.7	1 510
Canada	0.5	64	0.7	102	0.4	73	0.4	65
Japan	0.5	64	0.7	104	1.7	311	1.6	278
United States	3.2	406	2.6	390	7.4	1 364	6.6	1 158
Other	0.6	71	0.8	117	0.0	9	0.1	9
CMEA countries	23.9	3 023	22.2	3 309	20.4	3 769	21.6	3 782
Czechoslovakia	0.5	61	0.6	83	0.4	74	0.5	89
Democratic Republic of Germany	0.7	94	0.8	117	0.8	143	0.5	84
Poland	1.3	158	1.2	187	2.2	415	1.6	288
Soviet Union	20.6	2 609	18.7	2 789	16.0	2 958	18.1	3 165
Other	0.8	101	0.9	133	1.0	179	0.9	156
Latin America	2.4	298	2.0	295	1.3	235	1.9	329
Argentina	1.0	121	0.2	35	0.1	12	0.1	13
Brazil	0.6	76	0.6	82	0.2	45	0.5	82
Colombia	0.1	7	0.1	10	0.5	83	0.6	102
Other	0.7	94	1.1	168	0.5	95	0.7	132
Other	6.2	791	6.0	895	2.1	398	2.5	442
GRAND TOTAL	100.0	12 654	100.0	14 882	100.0	18 516	100.0	17 481
of which								
EFTA countries	24.3	3 075	23.9	3 557	26.2	4 845	26.3	4 606
EEC countries	36.6	4 627	39.4	5 869	39.5	7 306	37.6	6 578
OECD countries	67.5	8 542	69.8	10 383	76.2	14 114	74.0	12 928

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**
1973	14 525	16 560	—2 035	+ 996	+340	+ 29	— 670	— 753	—57	—1 480
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
1973										
Jan.-March	3 282	3 868	— 586	+260	— 5	+28	—303	—139	—14	—456
Apr.-June	3 182	3 843	— 661	+218	+ 48	+16	—379	—190	—22	—591
July-Sept.	3 656	4 084	— 428	+271	+240	+10	+ 93	—173	— 9	— 89
Oct.-Dec.	4 405	4 765	— 360	+247	+ 57	—25	— 81	—251	—12	—344
1974										
Jan.-March	4 589	5 683	—1 094	+338	+ 10	+ 5	— 741	—233	—25	— 999
Apr.-June	5 159	6 198	—1 039	+282	+ 74	+47	— 636	—239	—11	— 886
July-Sept.	5 104	6 838	—1 734	+251	+243	—36	—1 276	—243	— 4	—1 523
Oct.-Dec.	5 753	6 879	—1 126	+204	— 1	+89	— 834	—291	—29	—1 154
1975*										
Jan.-March	5 127	7 369	—2 242	+291	— 43	— 44	—2 038	—316	—58	—2 412
Apr.-June	4 695	6 689	—1 994	+221	+ 12	— 2	—1 763	—383	—14	—2 160
July-Sept.	4 498	6 647	—2 149	+237	+143	+ 58	—1 711	—309	— 6	—2 026
Oct.-Dec.	5 861	7 234	—1 373	+235	— 7	+205	— 940	—406	—30	—1 376
1976*										
Jan.-March	4 989	6 357	—1 368	+276	—53	+51	—1 094	—349	—24	—1 467
Apr.-June	5 833	6 241	— 408	+295	— 5	+15	— 103	—484	—37	— 624

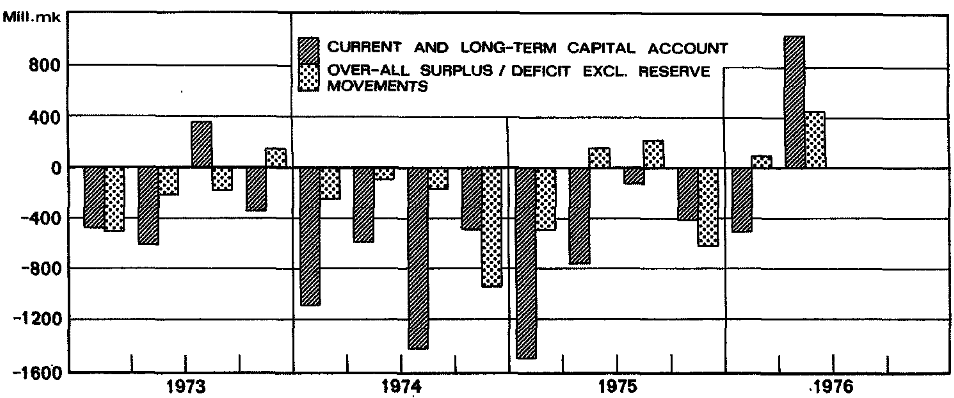


Drawings of long-term *loans*	Amortizations of long-term *loans*	Long-term export credits, net	Miscellaneous long-term capital *items*, net [1]	**Long-term capital account**	**Current and long-term capital account**	Short-term import credits and prepayments, net	Short-term export credits and prepayments, 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
+1 858	—1 366	+ 34	—114	+ 412	—1 068	—246	— 8	+ 538	— 784	+491	+293
+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
+364	—396	+35	—24	— 21	—477	+21	— 98	+ 47	—507	+353	+154
+309	—265	—48	— 9	— 13	—604	+ 95	+191	+ 91	—227	+301	— 74
+774	—370	+59	—15	+448	+359	—403	—322	+180	—186	+ 66	+120
+411	—335	—12	—66	— 2	—346	+ 41	+221	+220	+136	—229	+ 93
+481	—522	—24	—26	— 91	—1 090	+288	+124	+409	—269	+138	+131
+758	—362	—114	+13	+295	— 591	+349	+ 58	+ 88	— 96	— 99	+195
+549	—379	— 61	—25	+ 84	—1 439	+502	+312	+462	—163	+202	— 39
+942	—274	— 24	+15	+659	— 495	—209	—157	— 86	—947	+498	+449
+1 206	—310	— 24	+11	+ 883	—1 529	+309	+758	— 15	—477	— 32	+509
+1 870	—433	— 48	+ 9	+1 398	— 762	—139	+758	+300	+157	—668	+511
+2 121	—287	— 3	+57	+1 888	— 138	+130	— 34	+247	+205	+ 91	—296
+1 532	—415	—139	—15	+ 963	— 413	+338	— 33	—524	—632	+165	+467
+1 404	—374	+ 2	—79	+ 953	— 514	—579	+119	+1072	+ 98	+373	—471
+2 096	—394	—115	+83	+1 670	+1 046	—158	+120	—550	+458	—485	+ 27

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

[1] Including Direct investment, net.

[2] Including Allocations of special drawing rights 88 million in 1970, 85 million in 1971 and 85 million in 1972.



PRICE INDICES

Period	Wholesale prices 1949 = 100									Building costs 1964 = 100		
		Origin		Purpose			Stage of processing					
	Total	Domestic goods	Imported goods	Producer goods	Machinery & transport equipm.	Consumer goods	Raw materials and commodities	Simply processed goods	More elaborately processed goods	**Total**	Wages in building trade	Building materials
1974	495	498	482	523	536	448	555	495	459	233	231	230
1975	562	575	513	570	637	532	629	536	539	259	264	246
1975												
Dec.	578	595	514	574	677	559	632	546	567	266	272	251
1976												
Jan.	591	610	517	582	688	578	644	555	583	270	273	260
Feb.	599	617	531	587	691	591	647	565	593	271	273	261
March	605	624	532	589	691	604	656	572	597	272	273	261
April	610	630	535	597	696	606	669	575	598	275	273	268
May	610	629	537	598	696	604	666	576	598	282	292	268
June	611	629	539	599	698	605	669	576	599	282	292	269
July	628	648	554	610	706	633	686	596	615	285	292	274
Aug.	641	662	560	627	709	642	697	611	627	288	292	279
Sept.	648	670	565	640	721	640	700	623	633	292	292	285

Period	**Cost of living Oct. 1951 = 100**	**Consumer prices Oct.-Dec. 1957 = 100**	Consumer prices 1972 = 100									
			Total	Food	Beverages and tobacco	Clothing and footwear	Rent	Heating and lighting	Furniture, household equip. and operation	Traffic	Education and recreation	Other goods and services
1974	333	261	129	130	109	128	144	161	129	128	118	127
1975	392	308	153	157	135	150	162	184	150	145	144	156
1975												
Dec.	418	328	162	169	149	160	166	188	157	154	152	169
1976												
Jan.	426	335	166	167	161	163	168	189	159	166	154	172
Feb.	432	339	168	167	161	163	168	191	160	169	156	181
March	436	343	170	174	161	163	169	191	161	170	157	182
April	440	345	171	176	161	164	169	192	161	171	160	182
May	441	346	171	176	161	164	169	201	161	172	160	182
June	442	347	172	176	161	164	171	201	161	172	161	182
July	450	353	175	185	168	161	171	202	162	175	161	186
Aug.	456	358	177	191	168	163	171	202	165	176	161	187
Sept.	460	360	179	193	169	168	171	202	166	177	162	190

WAGES

Index of salary and wage earnings 1964 = 100

Period	By industries: Wage earners in: Agri-culture	Industry	Con-struction	Employ-ees in services	By institutional sectors: State employ-ees	Munic-ipal employ-ees	Employ-ees in private sector	All salary earners	All wage earners	**All employ-ees**
1974	395	317	325	256	252	250	298	248	313	285
1975*	506	384	389	310	312	302	363	300	383	347
1974										
July-Sept.	401	327	336	262	259	256	310	255	326	295
Oct.-Dec.	454	342	354	273	271	266	321	263	340	306
1975*										
Jan.-March	464	354	361	278	280	272	330	269	350	315
Apr.-June	497	391	395	313	315	304	371	304	392	353
July-Sept.	511	390	395	316	322	306	375	308	395	357
Oct.-Dec.	556	400	404	331	334	327	381	319	403	366
1976*										
Jan.-March	571	417	410	349	348	342	396	336	417	382
Apr.-June	608	430	425	359	360	350	411	346	433	395
July-Sept.	610	430	430	359	361	350	413	346	435	396

PRODUCTION

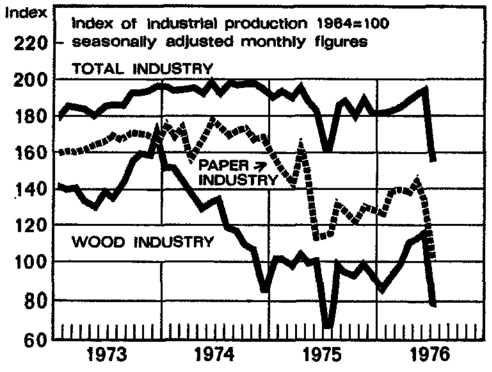
Volume indices of production 1964 = 100

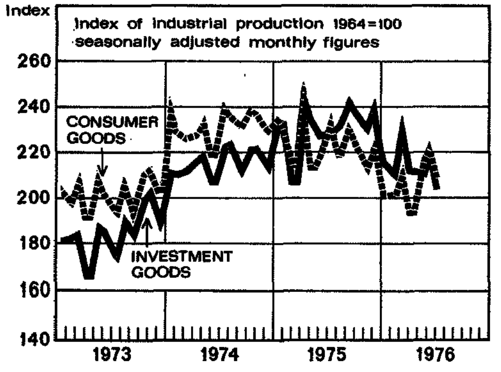
Period	**Gross domestic product**	Indus-trial pro-duction	Agri-culture	For-estry	Construc-tion of buildings	Land and waterway construc-tion	Transport and com-munica-tions	Commerce, banking and insurance	Ownership of dwellings	Public admin. and defence	Services
1973	154	187	90	96	162	105	155	171	150	151	157
1974	160	197	90	96	168	103	163	179	158	159	165
1975	159	189	95	83	170	107	158	188	166	164	169
1975*											
Jan.-March	160	200	51	119	162	107	157	185	163	162	167
Apr.-June	160	193	77	100	161	110	163	185	165	163	169
July-Sept.	156	164	174	46	178	105	155	184	166	165	168
Oct.-Dec.	162	200	76	64	179	105	158	198	170	167	171
1976*											
Jan.-March	154	198	54	85	116	106	152	182	171	167	172
Apr.-June	159	193	83	95	130	110	155	186	172	168	174

PRODUCTION[1]

Period	Index of industrial production 1970 = 100										
					Special indices of manufacturing						
	Total	Investment goods	Other producer goods	Consumer goods	Food industry	Wood industry	Paper industry	Chemical industry	Non-metallic mineral industry	Metal industry	Total, adjusted for seasonal variations
1974	127	141	122	135	112	107	124	154	136	141	127
1975*	121	151	111	132	112	81	99	136	123	145	120
1975*											
Jan.	134	166	125	139	111	85	122	160	138	159	123
Feb.	127	156	119	134	104	89	112	142	126	153	126
March	125	149	117	133	100	86	109	149	126	148	123
April	137	174	125	151	118	109	109	147	138	169	126
May	127	165	118	131	112	99	109	136	125	156	121
June	109	148	96	125	111	84	68	120	118	139	116
July	74	65	70	84	112	33	82	95	76	64	108
Aug.	117	144	108	131	111	70	100	133	123	135	121
Sept.	125	163	112	139	119	83	92	137	126	155	120
Oct.	132	175	118	150	133	84	96	140	136	165	117
Nov.	127	165	116	136	120	81	101	139	130	156	123
Dec.	116	147	107	126	98	73	88	134	110	139	116
1976*											
Jan.	123	155	120	119	108	70	97	129	102	149	119
Feb.	122	143	121	117	106	81	108	132	104	139	119
March	138	169	135	132	103	104	115	134	115	164	120
April	123	154	119	119	103	107	84	133	99	149	123
May	133	151	130	132	128	116	115	130	120	149	126
June	118	148	109	127	132	103	73	91	120	145	121
July	68	57	68	74	114	37	71	74	61	55	100
Aug.	123	133	120	125	124	85	113	116	74	134	123

[1] Revised figures.





LABOUR—TIMBER FELLINGS—INTERNAL TRADE—TRAFFIC

Period	Population of working age 1 000 persons	Total labour force, 1 000 persons	Employed 1 000 persons	Un-employed 1 000 persons	Unemploy-ment, % of total labour force	Commercial timber fellings 1 000 solid cu. m	Retailers' sales volume index 1972 = 100	Whole-salers' volume index 1972 = 100
1973	3 442	2 215	2 164	51	2.3	35 123	110	111
1974	3 483	2 268	2 229	39	1.7	34 457	114	114
1975*	3 513	2 272	2 221	51	2.2	29 133	118	119
1975*								
April	3 509	2 199	2 151	48	2.2	3 799	124	128
May	3 511	2 238	2 199	40	1.8	2 646	119	121
June	3 513	2 445	2 400	45	1.8	2 381	116	108
July	3 514	2 448	2 400	48	2.0	934	120	107
Aug.	3 516	2 326	2 278	48	2.1	1 026	117	115
Sept.	3 517	2 257	2 208	49	2.2	1 272	119	128
Oct.	3 519	2 258	2 206	52	2.3	1 700	124	130
Nov.	3 520	2 250	2 189	61	2.7	1 884	104	117
Dec.	3 521	2 244	2 172	72	3.2	2 028	143	126
1976*								
Jan.	3 523	2 198	2 107	91	4.1	1 684	97	106
Feb.	3 525	2 190	2 100	90	4.1	2 332	92	104
March	3 527	2 187	2 102	85	3.9	3 269	104	124
April	3 529	2 195	2 105	90	4.1	3 217	110	113
May	3 531	2 224	2 151	73	3.3	2 735	111	116
June	3 533	2 396	2 320	76	3.2	1 821	..	..

CONSTRUCTION OF BUILDINGS

Period	Building permits granted					Buildings completed					Buildings-works under con-struction
	Total	Residen-tial buildings	Farm buildings	Industrial and business buildings	Public buildings	**Total**	Residen-tial buildings	Farm buildings	Industrial and business buildings	Public buildings	
	Million cubic metres										
1973	54.96	24.68	3.82	20.66	2.81	40.20	18.81	2.91	13.63	2.82	51.42
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	47.59	20.49	2.76	18.34	3.93	53.73
1975*											
Jan.-March	12.59	3.31	0.75	7.23	0.75	11.45	4.64	0.46	4.94	1.10	50.24
Apr.-June	15.90	7.46	1.67	5.00	0.51	10.49	5.18	0.36	3.73	0.74	54.44
July-Sept.	12.21	4.84	0.79	4.72	1.13	10.95	4.45	0.85	3.73	1.29	54.64
Oct.-Dec.	10.71	4.04	0.59	4.36	1.00	13.86	5.97	1.02	5.50	0.77	53.73
1976*											
Jan.-March	8.52	3.04	0.73	3.29	0.86	8.04	3.55	0.52	3.25	0.42	49.19
Apr.-June	14.00	7.39	1.80	2.81	0.55	9.59	3.60	0.35	4.45	0.78	51.30

EXPLANATIONS RELATING TO THE STATISTICAL SECTION

BANK OF FINLAND

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

Page 4. *Foreign sector:* Gold and convertible exchange receivables = Gold + Special drawing rights + IMF gold tranche + Convertible currencies.
Gold and convertible exchange reserve = Gold and convertible exchange receivables — Liabilities in convertible currencies.
Non-convertible exchange reserve = Receivables in tied currencies — Liabilities in tied currencies.
Other receivables = Foreign bills + Foreign bonds + Currency subscription to Finland's quota in the IMF.
Other liabilities = IMF mark accounts + Allocations of special drawing rights.

Public sector: Receivables = Total coinage + Other public sector receivables + Bonds.
Liabilities = Cheque accounts + Counter-cyclical reserves + Import deposits + Other public sector liabilities.
Deposit certificates are interest bearing, freely transferable, term liabilities of the Bank of Finland. Their maturities range from one week to one year.

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

Corporate sector: Receivables = New export bills + Financing of suppliers' credits + Other corporate receivables + Bonds.
Liabilities = Investment deposits + Counter-cyclical withholdings + Capital import deposits + Import levy deposits + Other corporate claims.

DEPOSITS BY THE PUBLIC — ADVANCES TO THE PUBLIC — MONEY SUPPLY

Figures for deposits and advances are supplied by the Central Statistical Office. From the beginning of 1974 the figures include deposits by and advances to other credit institutions.
Page 6. *Cheque accounts in all credit institutions* relates to commercial banks, savings banks and co-operative banks.
Page 7. *Money supply* = Finnish notes and coins in circulation — Finnish notes and coins held by the banks + Cheque accounts of the public + Postal giro accounts of the public.
From 1974 the money supply includes estimates of Finnish notes and coins held by the savings and co-operative banks. Exact figures are not available.

STATE FINANCES

Page 8. Official figures computed by the Economic Department of the Ministry of Finance. First date of publication: Bulletin No. 8. 1968. Revenue and expenditure: Extra-budgetary funds and the aggregated net current deficit of State enterprises are included. Figures are reported on a cash payment basis. Debt: Foreign debt includes promissory notes given to international organizations. Index-tied bond loans are taken at nominal values. Cash debt (net) = net debt to the Bank of Finland plus short-term debt to Postipankki less cash holdings (net) of State departments and funds.

FOREIGN TRADE

Pages 9—11. Figures supplied by the Board of Customs. *Indices* (p. 9). The volume indices are calculated according to the Paasche formula and the unit value indices according to the Laspeyres formula. *Terms of trade:* the ratio of export indices to import indices. *Foreign trade by countries* (p. 11): imports by countries of purchase exports by countries of sale.

BALANCE OF PAYMENTS

Pages 12—13. Figures are calculated by the Bank of Finland. In addition to the Board of Customs figures, exports include grants in kind but exclude stevedoring expenses and imports include seamen's duty-free imports, non-monetary gold, grants in kind and adjusted allowance for smuggling.

PRICE INDICES

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

WAGES — PRODUCTION

Pages 15—16. Figures supplied by the Central Statistical Office.
Page 16. *Index of industrial production* calculated by the Central Statistical Office. The grouping by branches of industry is in accordance with the Standard Industrial Classification (SIC) which is a version of the 1968 edition of the ISIC. The SIC facilitates international comparisons between Finnish statistics and corresponding data from countries which use the ISIC. The seasonally adjusted series is calculated by the Bank of Finland on the basis of the index of industrial production per working day according to a method resembling the U.S. Bureau of Census Method II. Commodities according to use: Investment goods weight 7.0, other producer goods weight 67.0 and consumer goods weight 26.0. The weights fot 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 39, Conservatives 35, Swedish Party 10, Liberal Party 9, Christian League 9. Finnish Farmers Party 2, Finnish People's Unification Party 1 and Finnish People's Constitutional Party 1.

INTERNATIONAL ORGANIZATIONS

Finland became a member of BIS 1930, IMF 1948, IBRD 1948, GATT 1950, UN 1955, IFC 1956, IDA 1960, EFTA 1961, ADB 1966 and OECD 1969.

LAND

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

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

POPULATION

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

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

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

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

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

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

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

TRADE AND TRANSPORT

NATIONAL INCOME (1975, in million marks): Gross domestic product at factor cost by industrial origin: agriculture 5 625 (6 %), forestry and fishing 5 025 (6 %), manufacturing 28 290 (32 %), construction 9 310 (10 %), transport and communication 8 841 (10 %), commerce, banking and insurance 11 964 (13 %), public administration 4 313 (5 %), ownership of dwellings 3 299 (4 %), services 13 035 (14 %), total 89 702. Index of real domestic product 159 (1964 = 100).

FOREST RESOURCES (1975): The growing stock comprised of 1 513 million m³ (solid volume with bark), of which 44 % was pine and 38 % spruce, the remaining 18 % being broad-leaved trees, chiefly birch. Of the growing stock, 656 million m³ was up to the standard required for logs, 55 % of these being pine. The annual growth was 57.5 million m³ and the total removal, calculated on the basis of roundwood consumption, was 40.1 million m³.

AGRICULTURE (1974): Cultivated land 2.6 million hectares. Number of holdings 258 600, of which 172 400 are of more than 5 ha. Measure of self-sufficiency in bread cereals 116 % in the crop year 1974/75.

INDUSTRY (1973): Gross value of industrial production 54 650 mill. marks, number of workers 417 884, salaried employees 119 436, motive power (1973) 6.0 mill. kW. Index of industrial production 122 for 1973 (1970 = 100).

STATE RAILWAYS (Jan. 1, 1976): Length 5 919 km.

MERCHANT FLEET (June 30, 1976): Steamers 24 (13 300 gross reg. tons), motor vessels 358 (919 200 gross reg. tons) tankers 58 (1 135 400 gross reg. tons). Total 440 (2 067 900 gross reg. tons).

MOTOR VEHICLES (Dec. 31, 1975): Passenger cars 996 300, lorries and vans 128 400, buses 8 600, others 6 600. Total 1 139 900.

FINNISH AIRLINES (Feb. 10, 1976): Finnair and Kar-Air have in use 4 DC-8-62s, 1 DC-6, 10 Super Caravelles, 9 DC-9s, 3 DC-9-51s, 2 DC-10-30 and 5 Convair Metropolitans. Companies have scheduled traffic outside of Finland to 27 airports and to 20 domestic airports.

FINANCE AND BANKING

CURRENCY. Since 1860, Finland has had its own monetary system. From 1877 until 1914 the country was on the gold standard, and returned to it in 1926. In 1931, the Central Bank's duty to redeem bank notes in gold was suspended and at the end of 1962 was entirely cancelled. The monetary unit is the mark (Finnish markka). Since Oct. 12, 1967, the par value of the mark is 0.21159 grams of fine gold per mark (equivalent to 4.20 marks per one SDR). On Feb. 15, 1973 a central rate of 3.90 marks to one U.S. dollar was set, and since June 4, 1973 the mark has been allowed to float.

THE CENTRAL BANK. The Bank of Finland (estab. 1811) functions under the quarantee 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. 1975). There are two big and five small commercial banks with in all 864 offices, 283 savings banks 384 co-operative banks, six mortgage banks, Postipankki and five development credit institutions. The co-operative stores accept deposits from their members. The Social Insurance Institution and fifty-nine private insurance companies also grant credits.

RATES OF INTEREST (Jan. 1, 1975). The official discount rate of the Bank of Finland (the basic rate applied by the Bank of Finland for discounts and rediscounts of commercial banks) is 9 ¼ %. The range of rates for other credits granted by the Bank of Finland is between 7 ½ and 10 ½ %. Other credit institutions: term deposits 5 ¾ %; 6 month deposits 6 ¼ %; 12 month deposits 6 ¾ %; 24 month deposits 7 ¾ %; 36 month deposits 9 % + savings premium; 36 month deposits 8 ¼ % + tax concession and sight deposits 1 ½ %; highest lending rate 12 ½ %.

INSTRUMENTS OF COUNTER-CYCLICAL POLICY IN FINLAND

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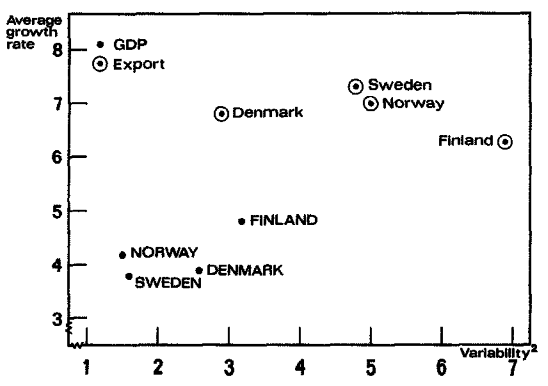
Cyclical swings in economic activity have been fairly large in Finland for most of the post-war period. Both fluctuations in, and the speed of, the growth of total production have been larger than in either western industrialized countries on average or in any of the other Nordic countries (chart). Rapid inflation, large price changes and increasing external imbalances are closely linked with sharp cyclical fluctuations.

It is generally thought that the principal causes of the cyclical sensitivity of the economy are structural. The openness of the economy — the share of foreign trade amounts to between a quarter and a third of GDP — and the structure of exports and imports mean that external cyclical shocks are rapidly transmitted through to the economy. Wood-based products account for about half of Finland's commodity exports, and the fluctuation in both demand for and prices of these goods in the world market is above average. Between 60 and 70 per cent of Finland's imports consist of raw materials, the prices of which have been particularly volatile, especially during the present decade.

GROWTH AND VARIABILITY OF GDP AND EXPORTS 1953—1975 [1]



[1] Data from OECD statistics.

[2] Standard deviation of annual time series for the country in question.

Investment activity in all sectors reacts sensitively to changes in income, largely because of the combined influence of the tax system and a high rate of inflation. The corporate tax rate is high, and since depreciation allowances for fixed capital are based on the actual purchase price of the item in question, rapid inflation tends to raise the real tax burden. However, relatively »front-weighted» depreciation allowances as well as the right to undervalue inventories lead firms to increase their investment when their income grows if sufficient external finance is available. This tends to magnify the effects of initial external cyclical shocks and to produce excess demand, rapid price rises and a sharp increase in the current account deficit.

From the beginning of the 1960s, the general availability of foreign capital together with a policy which permitted the capital to be imported for the financing of changes in the structure of the economy tended to swell the growth of investment demand during cyclical upswings. In Finland the cyclical upswing generally lags behind the recovery in the larger countries, which means that finance can usually be obtained fairly easily in the international capital market when investment in Finland is strong. Large capital imports have tended to offset the tendency for the domestic financial market to tighten as a result of the contraction in the foreign exchange reserves which tends to follow upon a decline in export earnings.

The favourable attitude to capital imports which has been a corollary of Finland's growth-oriented economic policy and the insufficiency of domestic savings can thus be considered one cause of the large cyclical swings in economic activity. The general weakness of counter-cyclical policy has also played a role. In part it reflects the unwillingness of decisionmakers to slow down the growth process, and in part it is due to the inadequacy of the instruments of counter-cyclical policy and the difficulty of forecasting business cycle developments.

GENERAL COUNTER-CYCLICAL POLICY

Traditional fiscal and monetary policy bears the primary responsibility for evening-out cyclical swings. However, the strength of external shocks, the size of domestic multiplier effects, the importance of other policy goals and also in part the difficulty of obtaining political agreement on the policy tools to be used have limited both the use and effectiveness of fiscal policy. The tax system and the importance of external finance for Finnish firms have placed monetary and financial policy in a key position. However, the efficiency of monetary policy is limited by its bluntness, and the relative length of the lags place particularly great demands on forecasting. Moreover, monetary and financial policy are asymmetric in their effects: they are better suited for curbing economic activity than for stimulating it.

Changes in the exchange rate have not been used as an instrument of counter-cyclical policy in Finland. The changes which have occurred have been motivated exclusively by a desire to improve the competitiveness of Finland's industries. The flexibility of the present exchange rate system would in principle provide considerable scope for using the exchange rate to even out swings in prices and demand in a small country, where foreign shocks affect both exports and imports. However, in Finland debate about the active use of exchange rate policy has been conducted on a theoretical plane.

A considerable amount of attention has been devoted to increasing the efficiency of counter-cyclical policy and developing the necessary policy instruments since the end of the 1960s. In addition to trying to devise new, selective instruments, efforts have been made to improve the effectiveness of traditional fiscal and monetary policy. For example, a governmental counter-cyclical fund was brought into use in December 1969, and counter-cyclical assistance resembling that given in Sweden was first granted to firms in the beginning of 1976. Transfers into the governmental counter-cyclical fund are decided upon in connection with the Budget, and the funds in question are deposited on a special blocked account in the Bank of Finland.[1] The government may draw upon these funds during cyclical downswings. The *counter-cyclical assistance scheme* involves the payment of subsidies and the granting of loans to firms so that they will increase their stocks, repair their facilities and train their employees. The assistance is given on the condition that the firms do not lay off labour during the slump.[2] As far as monetary policy is concerned, an attempt has been made to be more selective in granting permits to import long-term capital and in granting loans directly to firms. Increasing external imbalances have made it essential to co-ordinate better the regulation of domestic and foreign finance.

SPECIAL COUNTER-CYCLICAL POLICY INSTRUMENTS

ORDINARY TAX LEGISLATION

Although decision lags would be reduced and selectivity would be increased if the Government were given special powers to implement counter-cyclical policy measures at its discretion, it has proved difficult to pass the necessary laws because of the constitutional strictures on enabling legislation.[3] It has therefore been necessary to rely on individual laws which are in force for a maximum of one year and which can be enacted by a simple majority vote of Parliament. Laws of this type were first used to create counter-cyclical policy instruments in the early 1950s. They were also the means by which export levies were imposed

[1] The funds in this counter-cyclical reserve account were at a peak in 1973—1974, when they amounted to more than a quarter of the total short-term reserves of the Central Government in the Bank of Finland (including governmental reserves deposited in the Bank of Finland via Postipankki).

[2] So far the assistance has been used mainly as an instrument of regional policy and has had no real macro-economic significance but it should be possible to increase its role in future recessions.

[3] See »Instruments based on enabling legislation» below.

after the devaluations of 1957 and 1967, and they were used to bring in a supplementary turnover tax in 1971 and an investment tax on buildings of low priority in 1974—1975. In addition, a one-year law on counter-cyclical export taxes was passed at the end of 1970 in connection with the overall incomes policy settlement for that year. This law, unlike the others, was enacted in accordance with the procedure followed when amending the constitution because it was retroactive.[1] The export levy acts have required transfers either to an export levy fund outside the Budget (1951) or to a blocked account in the Bank of Finland (e.g., 1957 and 1967). These funds were used during downswings for the purposes prescribed by the relevant laws, generally increasing wood production and raising export capacity in the forest-based industries.

VOLUNTARY AGREEMENTS

The authorities and various industrial organizations have concluded voluntary agreements on counter-cyclical withholdings and deposits. It is noteworthy that the Finnish legislative system does not make it possible for a simple majority to enact a one-year counter-cyclical deposit law which would provide for the eventual return of the funds to the firms which made them, even though a one-year tax law can be brought in by a simple majority. Counter-cyclical withholding agreements have been made on two occasions. The first was in 1951—52 and the second in 1974.[2] Half the withholdings, the size of which was determined by the rise in export prices, were channelled through governmental accounts into special uses, primarily the expansion of export capacity in the woodprocessing industry. The other half was returned to the firm from which the withholding came when economic activity began to fall off. Counter-cyclical deposits which were placed on a blocked account in the Bank of Finland and returned in their entirety to the firm making them, were collected in 1969—1970. Parliament passed tax laws in connection with both the counter-cyclical withholding and the counter-cyclical deposit agreements. The withholdings and deposits were deductable in both state and local taxation in the year in which they were made, and in principle they attracted tax in the year in which they were returned. However, deposits used to finance certain types of investment specified in the laws were taxable indirectly in that it was only possible to depreciate that portion of the cost of the investment which exceeded the deposit.

Even though counter-cyclical measures based on sporadic and temporary legislation and individual agreements with various industrial organizations may complement general fiscal and monetary policy, it is obvious that an efficient counter-cyclical policy cannot be conducted exclusively on such a shaky foundation because of the relative length of the administrative lag. For example, the overall effects of the supplementary turnover tax and the investment tax were greatly reduced because it was possible to make purchases or to begin projects during the period that Parliament was debating the relevant laws. In order to be effective, counter-cyclical measures should be attractive enough to the firms involved and should be implemented rapidly or automatically.

INVESTMENT RESERVE FUNDS

Voluntary investment reserves have been used to even out cyclical swings in a number of countries. Sweden is one country where they have long been used with success. In Finland the first general investment reserve fund law was passed in 1955. In its present form, it dates in the main from 1964 (law 309/1964). It makes it possible for industrial enterprises to make transfers to an investment fund and to deduct an equivalent amount from its taxable income in State — but not local — taxation (see appendix table). The tax deduction can only be made if the firm deposits an amount equivalent to the notional State tax liability in the Bank of Finland. The investment reserves can be activated in two ways. If the Government *orders* that they be used by a specific

[1] See »Instruments based on enabling legislation» below.
[2] See »Instruments based on enabling legislation» below.

date, they can be used for any of the purposes listed in the law,[1] while if the Government *permits* their use, it can determine the purpose, sector and region in which they are to be used. The funds in the reserves become taxable indirectly in that deduction rights and depreciation allowances are forfeited when the reserves are used.[2]

Unlike Sweden, Finland has not made great use of investment reserve funds. Investment reserves were at an all-time high in 1971 when they amounted to nearly two per cent of gross fixed capital formation. At this time, the corresponding figure in Sweden was roughly ten per cent. It is apparent that investment reserves are not attractive enough in Finland. The rate of interest is low relative to the rate of inflation, and unlike in Sweden, the transfers are not deductable in local taxation. Other differences from the Swedish system are the size of the deposit required and the additional benefits granted. In Sweden, the deposit which must be made to qualify for a tax-deductable investment reserve transfer is smaller than the notional corporate tax liability. In addition, firms drawing upon their investment reserves are generally granted additional depreciation allowances. The Finnish investment reserve fund law also gives the Government the right to grant an extra six per cent depreciation allowance and to vary this supplementary allowance by region and sector, but this right has never been used. Limitations on the use of investment reserves and uncertainty about when use will be permitted no doubt reduce the desire to make transfers to the reserves. However, the main reason for the modest use made of the reserves is the high rate of inflation in Finland, which has made it far more advantageous to invest in physical goods than to make transfers to un-indexed reserves. In other words, investment reserves are not able to compete with investment in fixed capital as a device for regulating after-tax income in conditions of rapid inflation. It has been argued that it would be advisable to change the business tax law and the investment reserve fund law so that investment reserves would become more attractive.

INSTRUMENTS BASED ON PERMANENT ENABLING LEGISLATION

Apart from improving the efficiency of the voluntary investment reserve fund schemes, one of the most natural ways to increase the efficacy of counter-cyclical policy is to give the Government permanent powers both to compel firms to make counter-cyclical transfers in upswings and to use the funds in downswings. In Finland such powers can only be given to the Government by enabling legislation, which must be enacted in accordance with the procedures used when amending the constitution. This means that if the bill is to be passed in one Parliamentary session, a 5/6 majority must declare it urgent. The bill can then be passed by a 2/3 majority vote. If there is not sufficient support to declare the bill urgent, it can be held over until after the next parliamentary election. If the new Parliament votes by a 2/3 majority to approve the bill, it then becomes law. These legislative arrangements, together with the political composition of Parliament, mean that the preparation of bills requires much time and considerable compromise. It is worth noting that Parliament retains the right to cancel measures taken by the Government on the basis of enabling legislation.

When planning the counter-cyclical enabling legislation the original aim was to create a set of instruments which could be used to influence all components of total demand. Thus a counter-cyclical deposit system for earnings was envisaged as was the regulation of tax withholdings and of turnover taxes. In the end, however, there was not sufficient political will to regulate consumption, but this should not

[1] In the law the list of suitable purposes is quite extensive. Virtually all types of investment, with the exception of investment in stocks, are permitted, though in some cases the approval of the tax authorities must be obtained.

[2] Before the general investment reserve fund law was enacted, there was a law on counter-cyclical reserves for the wood-processing industry which was passed in 1954 (law 483/1954). In addition similar laws have been brought in for specific purposes: *mining and quarrying transfers (law 648/1964) export* reserve funds (law 162/1966) and ship purchase reserves (law 853/1970). These laws differ somewhat from the general investment reserve fund law with respect to provisions on the size of the transfer, the deposit required and tax treatment. The most important differences are that the export reserve fund transter and the ship purchase reserves are deductable in both State and local taxation. Moreover, mining and quarrying transfers are to be deposited in their entirety in the Bank of Finland, and no deposit is required for the export reserve fund.

greatly reduce the efficiency of the set of instruments since fluctuations in private consumption are substantially less severe than those in either exports or investment.[1] Since the principal causes of cyclical swings are fluctuations in export demand and the sensitivity of investment to changes in income, it is natural that efforts have been concentrated on creating instruments which will affect these demand components.

The Government was first given permanent power to implement counter-cyclical policy measures at its discretion in the beginning of 1974 when Parliament enacted four economic policy laws. Only one of these laws is specifically designed to augment the armoury of counter-cyclical policy instruments: it enables the Government to impose an export levy when exceptionally rapid rises in export prices threaten the stability of income developments (law 52/1974). At the time this law was enacted, two additional counter-cyclical policy bills were submitted to Parliament: the first would enable the Government to require firms to make counter-cyclical deposits and the second would allow it to impose an investment tax on low priority construction activity. In 1974 Parliament voted to consider these two proposals after the next elections which took place in 1975, and they are now being considered by the new Parliament. They will become law if approved by a two-thirds majority. In addition, during the spring of this year, a bill on export deposits was introduced, largely because of the difficulty of applying the existing export levy. These four laws — the export levy act which is already in force, the counter-cyclical deposit bill, the investment tax bill and the export deposit bill — should provide the Government with the power to conduct a relatively effective counter-cyclical policy.

The *export levy law*, which was passed in February 1974, gives the Government the power to impose a levy on major export products or product groups if an exchange rate change, a serious disturbance in the international price level or some similar external shock has led, or can be expected to lead, to exceptional increases in prices. The law places an upper limit on the export levy. This limit is defined in terms of the forecast rise in incomes caused by the expected increase in prices (see appendix table). The export levies are transferred to a State counter-cyclical reserve fund, half of which is used for general purposes during the following downswing. The other half of the export levy is returned to the firm in question at its request on the condition that the funds be used in the time prescribed by the Government for purposes listed in the law. The export levy is deductable in both State and local taxation either in the year in which it is levied or in the following year, and the part which is returned becomes indirectly taxable through the loss of deduction and depreciation allowances.

The export levy law is worded in such a way that it can only be used in highly exceptional circumstances and not to even out normal cyclical swings. Moreover, the upper limit is specified quite vaguely and this can give rise to substantial differences in interpretation. Because of these difficulties, the law has never been used, though the threat that it would be applied led to the conclusion of an agreement on voluntary counter-cyclical withholdings with the Central Association of Forest Industries in 1974.[1] However, difficulties in interpreting and applying the law were one reason why the agreement was reached very late in the cycle.

The shortcomings of the export levy law led to the introduction of a new *export deposit bill* into Parliament during the spring. According to the bill, the Government will be given the power to require export firms to make deposits during normal cyclical upswings. In the main, the bill resembles the export levy act. The principal differences are (1) that transfers can be required if there are substantial (not exceptional) rises in the export prices of the

[1] If, as many studies in Finland and other countries suggest, consumption is primarily a function of permanent income, measures affecting transitory income would presumably have only a slight impact on fluctuations in consumption. Changes in turnover taxes, however, may well influence the timing of consumption.

[1] See »Voluntary agreements» above.

products or product groups in question, (2) that the deposit is always returned in its entirety to the firm making it, and (3) that the upper limit on the deposit is set in terms of the rise in export *prices* and not in terms of the rise in export *income* (see appendix table).[1] According to the proposal, it will not be possible to use the powers in the export levy and export deposit laws at the same time. The imposition of an export levy will exclude the calling of export deposits and vice versa. Moreover, the proposal states that counter-cyclical deposits made in accordance with another bill being considered by Parliament should be taken into account when determining the export deposit rate. The funds are to be deposited in the Bank of Finland and tax-free interest is to be paid at an annual rate of three per cent. The deposits and interest due are to be returned to the firms in question during a period specified by the Government, but not later than three years after they have been collected. An amount equivalent to the deposit can be deducted from taxable income in both State and local taxation in the year in which it is made. A tax withholding is made when the deposits are returned unless the firm can demonstrate to the tax authorities that the deposits are being used for purposes prescribed by the Government. In this case, however, the export deposit becomes taxable indirectly in that deduction rights and depreciation allowances are forfeited.

Of the two counter-cyclical policy laws presently being considered by Parliament, the *investment tax bill* is the most important for the conduct of counter-cyclical policy. It will give the Government the power to impose a tax of between 25 and 40 per cent of the cost of constructing buildings which the law decrees to be of secondary importance.[2] According to the proposal, the Government can limit the tax to just some of the types of buildings listed in the law. It can also differentiate the tax rate and decide on the regions of the country where it will be applied. The bill states that all economic agents apart from the State and State agencies will be obliged to pay the tax, which means that local authorities will not be exempted. The tax will not be deductable in income taxation and it will be used to fund a State counter-cyclical reserve. The tax is thus meant to be preventive.

Parliament is also considering a bill which would give the Government the right to call *compulsory counter-cyclical deposits from business income*. It is the weakest of the proposed counter-cyclical empowering acts. The bill will make it possible to require every business enterprise which must pay State taxes to make counter-cyclical deposits.[1] The deposit will be determined on the basis of final income subject to local taxation in the last tax period. According to the proposal, the upper limit on the deposit will generally be 20 per cent of taxable income, but if the Government uses its right to differentiate the deposit by region and sector, the upper limit will rise to 30 per cent of taxable income. The deposits are to be placed on a special account in the Bank of Finland. Deposits made in accordance with the investment reserve law, are to be deducted from the counter-cyclical deposit obligation. The deposits can be drawn during a period set down by the Government, but at the latest three years after the close of the collection period. It is worth noting that the proposal does not make the counter-cyclical deposits tax deductable.

The feasibility of using the compulsory business income counter-cyclical deposit scheme to influence cyclical increases in income is significantly reduced by the fact that the size of the deposit is determined on the basis of final income in the last tax year, not on the basis of income in the current year. This means that there may be a lag of more than one year. Changes in income in the year in which the deposit is made may differ markedly from changes in income in the year used to deter-

[1] At the time that the export deposit bill was introduced into Parliament, a change in the export levy deposit law was proposed, according to which the upper limit on the export levy will be set in terms of the rise in export prices, not the rise in export income.

[2] The sorts of buildings included are various types of shops, offices, garages, service stations as well as administrative buildings, cultural and sports centres and larger second homes.

[1] Non-profit institutions are not under obligation to pay taxes to the State. Firms less than three years old and very small firms would also be exempt from the obligation to make deposits.

mine the size of the deposit. Although it should in principle be possible partly to offset this shortcoming by differentiating the deposit by region and sector, the effectiveness of this scheme is no doubt reduced by the existence of this lag. Moreover, the impact of counter-cyclical deposits on investment will presumably be minimal since they are not tax deductable. They thus will in no way replace investment as a device for evening out after-tax income. Their only effect will be to reduce the liquidity of firms during upswings and improve it during downswings, which will not suffice to influence corporate investment appreciably.

THE OPERATION AND EFFICIENCY OF THE SPECIAL COUNTER-CYCLICAL POLICY INSTRUMENTS

The primary purpose of the current and planned counter-cyclical policy measures is to shift corporate investment from the upswing to the downswing. In addition, measures designed to absorb export income are intended to reduce the direct impact of foreign price and demand impulses on domestic raw material prices and wages and in this way to help to prevent the transmission of foreign cyclical shocks through to the economy. It seems clear that the mere knowledge that the Government has the power to prune export income will curb the readiness of export firms to pay higher raw material prices and to increase wages at the very outset of the upswing.

As should be apparent from the above discussion, export deposits and the investment tax are the most effective instruments for regulating investment. The principal difficulty with using the export levy law is the fact that it is only to be used in time of crisis. Investment reserve transfers in their present form are not as attractive to firms as investment in physical assets in inflationary conditions. Furthermore the efficiency of the proposed business income counter-cyclical deposits scheme can be questioned in light of both the lags in the income basis and the tax treatment. Given the preventive nature of the investment tax, it is undoubtedly the most efficient instrument for influencing the timing of investment, provided that the Government makes its decision on the basis of accurate forecasts of cyclical developments. Delay in imposition may, of course, undermine its effectiveness, for if it is expected that such a tax will be imposed, buildings of secondary importance may be begun earlier, which may easily intensify over-heating in construction.

In general the counter-cyclical schemes are intended to influence corporate investment in two ways: (1) by affecting liquidity and (2) by influencing tax liabilities. All the transfers, irrespective of whether they are deposits which are eventually returned or whether they are taxes which are not returned, are intended to reduce corporate liquidity during the upswing and to increase it in the downswing. As far as this effect is concerned, the success of the specific counter-cyclical measures pivots on the general monetary and financial policy pursued at the time.

The second way in which investment reserves and deposit schemes act is through their impact on tax liabilities. The right to deduct a counter-cyclical transfer reduces the firm's need to acquire depreciable assets. The use of reserves and transfers in the time specified by the Government and for purposes determined by either the Government or the law shifts the tax liability into the future, the size of the shift depending on the gestation period of the investment which the funds are used to finance.

When considering the symmetry of the counter-cyclical policy instruments — whether their impact is similar in both upswings and downswings — it should be noted that the problems are much the same as for monetary policy in general. It is relatively easy to curb investment with a compulsory system, provided that the use of the special instrument in question is co-ordinated with general monetary and fiscal policy. It is, however, difficult to interest firms in investing during a recession when income expectations are weak.

An attempt, albeit somewhat modest, has been made in the relevant laws and bills to link the use of investment reserves, export levies and export deposits with structural policy goals. It has been claimed that limitations on the use of the funds reduce the effectiveness of the various systems as instruments of counter-cyclical policy and that the firms should be permitted to use the funds in whatever way they wish. It is, however, difficult to forecast to what degree an unrestricted right to use the funds would increase the efficiency of these instruments of counter-cyclical policy.

Finland's experience suggests that the stress should be placed on the prevention of over-heating during the upswing and on the maintenance of external equilibrium. The balance of payments has always limited general economic policy during downswings in that it has not left room for the stimulation of domestic demand and thus the alleviation of the effects of the recession. The success of special measures designed to maintain investment demand during the downswing depends critically on the freedom to conduct general monetary policy. The present and planned systems will presumably not be able to curb a cyclical upswing appreciably, and certainly not be able to stimulate investment during a downswing, unless they are supported by general monetary policy.

APPENDIX

Counter-cyclical *policy instrument*	Investment reserve fund	Export levy	Export deposit *(proposed)*	Investment tax *(proposed)*	Counter-cyclical *deposit (proposed)*
Nature	Voluntary	Compulsory, imposed by Government	Compulsory, called by Government	Compulsory, imposed by Government	Compulsory, called by Government
Coverage	All limited companies, co-operatives and industrial enterprises	Export firms	Export firms	Buildings of secondary importance listed in the law (mainly administrative and service sector buildings) built by all entities except the State and State agencies	All business firms (except new and very small ones) under obligation to pay State taxes
Assessment basis	Profit for the financial year	**Exceptional** rise in export price of the product or product group	**Substantial** (not necessarily exceptional) rise in the export price of the product or product group	Total construction costs	Final income subject to local taxation in the last tax period
Type of differentiation possible		By product or product group, according to forecast price rise	As for the export levy	By sector and region	By sector and region
Size and limits	At most 30 % of profits; with the approval of the Government, at most 80 %	Not more than 25 % of the price and not more than 50 % of the forecast increase in **income** caused by the price rise in the 4 months preceding and following the decision, account being taken of profitability in the sector in question	Not more than 50 % of the forecast **price** rise in the 4 months preceding and following the decision, account being taken of profitability in the sector in question	At least 25 % and at most 40 %	Generally 20 % of income subject to local taxation, but at most 30 % if differentiated by sector and region
Time limitations	The Government can decide that a transfer cannot be made if earlier transfers have been used on the basis of Government decisions earlier in the accounting period in question	Can be levied for a maximum of 18 months	Can be called for a maximum of 18 months	Can be imposed for a maximum of 18 months; a new tax may not be imposed until 12 months have elapsed from the final date of collection of the last tax	Collected for at least 12 and at most 18 months; the Government may stop collection if deemed desirable, new deposits cannot be called before old ones are returned
Assessor	The firm in question	National Board of Customs	National Board of Customs	Tax Offices	Tax Offices
Tax treatment of the transfer	The entire investment reserve transfer is deductable in State taxation in the year in which it is made	Deductable in both State and local taxation in either the year in which it is paid or in the following year	Deductable in both State and local taxation in the year when the deposit is made	Not deductable in either State or local taxation	Not deductable in either State or local taxation

policy instrument	fund		(proposed)	(proposed)	deposit (proposed)
Placement of the funds	An amount equivalent to the notional State tax liability is to be deposited in the Bank of Finland	Funds are transferred to a State counter-cyclical reserve fund	Funds are to be deposited in the Bank of Finland	Funds are transferred to a State counter-cyclical reserve fund	Deposited in the Bank of Finland
Return and tax treatment of the placement	The Bank of Finland pays interest on the deposit at a rate of 3 % per annum; the interest payment is not subject to State taxation, and the deposit does not attract Wealth Tax		Interest is paid at 3 % per annum on the deposit; the interest payment is not taxable in either State or local taxation, and the deposit does not attract Wealth Tax		The 3 % annual interest payment is rot taxable in either State or local taxation, and the deposit does not attract Wealth Tax
Return of the funds	Returned to the firm which has made the deposit	Half used by the State for purposes specified in the law; half returned on application to the firm which has paid the levy	The deposit is returned in its entirety to the firm which has made it	The tax payments are not returned (not even if paid by local authorities)	Returned in its entirety to the firm making the deposit
Timing of the return	On the order or with the permit of the Government, but not later than 5 years after the issue of the most recent permit or transfer	As determined by the Government	As determined by the Government, but not later than 3 years after the termination of the collection of the deposit for the product in question		As determined by the Government, but not later than 3 years after the termination of the collection period
Limitations on use	If the Government orders that the funds be used, they may be used for the purposes listed in the law (extensive list but inventory investment is excluded); if the Government grants a permit to use the reserves, it may determine the purpose, sector and region of use	Only for purposes listed in the law (extensive list but inventory investment is excluded)	No limitations on use (see following point)		No limitations on use
Tax treatment of the funds which have been used	Reserves become taxable indirectly in that deduction and depreciation rights on activities financed with the reserves are forfeited	The part of the levy returned to the firm becomes taxable indirectly in that deduction and depreciation rights are forfeited	Tax is withheld by the Bank of Finland when the deposit is returned unless the firm can show the National Board of Taxation that the funds are being used for purposes determined by the Government; if the funds are so used, they become taxable indirectly in that deduction and depreciation rights are forfeited		
Special provisions	The Government may require a deposit which is larger than the notional tax liability and grant an extra tax deduction (maximum 12 %) in respect of the extra deposit The Government can grant an extra 6 % depreciation allowance for investment in fixed capital when the reserves are used by the date prescribed by the Government; the depreciation allowance can be differentiated by sector and region	The export levy and export deposit schemes cannot be used simultaneously	The export deposit and export levy schemes cannot be used simultaneously; in addition any obligation to make counter-cyclical deposits is to be taken into account when determining the export deposit rate		Investment reserve deposits in the Bank of Finland are to be deducted from the counter-cyclical deposit requirement

Finland's balance of payments January—June 1976. According to the Bank of Finland's preliminary figures, the current account deficit amounted to 2 091 million marks in January—June, about 2 500 million marks less than in the same period in 1975. The current account deficit was financed by the inflow of long-term capital which, in net terms, amounted to 2 600 million marks. The net inflow of short-term capital was insignificant. The country's total foreign exchange reserves grew by 556 million marks.

The deficit on the trade account for the first half of 1976 was 1 750 million marks, while it had amounted to 4 219 million marks in the same period in 1975 and to 3 536 million marks during the second half of 1975. With an upswing under way in Finland's customer countries, the value of exports for the period under review amounted to 10 per cent more than in the same months of 1975. On the other hand, the value of imports was more than 10 per cent below that for the corresponding period in 1975, with imports of raw materials in particular declining after production stopped growing.

The surplus on the services account was 580 million marks, almost 150 million marks more than in the same period in 1975. A revival in exports and an expansion in transport capacity increased transport receipts. The deficit on the travel account deepened further, whereas receipts from other services increased in the period under review. The deficit on the investment income and transfer payments account amounted to 900 million marks.

Drawings of long-term foreign loans totalled 3 500 million marks during the first half of 1976. These drawings include a purchase of 514 million marks under the Oil Facility granted by the International Monetary Fund. Redemptions of outstanding loans amounted to 768 million marks. Export credits granted to foreign customers totalled 308 million marks and redemptions of corresponding loans outstanding 195

MAJOR BALANCE OF PAYMENTS ITEMS, JANUARY—JUNE 1976, MILL.MK

	Receipts	Expenditure	Net
Commodity trade (exports f.o.b., imports c.i.f.)	10 869	12 619	—1 750
Adjustment items	—47	—21	—26
A VISIBLE TRADE ACCOUNT	10 822	12 598	—1 776
Transport (c.i.f.)	935	364	+571
Travel	495	553	—58
Other services	1 032	966	+66
B VISIBLE AND INVISIBLE TRADE ACCOUNT	13 284	14 481	—1 197
Investment income, net	210	1 043	—833
Transfer payments	46	107	—61
C CURRENT ACCOUNT	13 540	15 631	—2 091
	Receivables	**Liabilities**	**Net receivables**
Long-term financial loans and suppliers' credits:			
drawings	—308	+3 500	+3 192
redemptions	+195	—768	—573
Other long-term capital flows	—28	+32	+4
D LONG-TERM CAPITAL ACCOUNT	—141	+2 764	+2 623
E BASIC BALANCE (C + D)			+532
Short-term trade credits	—287	—211	—498
Other short-term capital flows			+522
F SHORT-TERM CAPITAL ACCOUNT			+24
G OVERALL BALANCE (E + F)			+556
Net liabilities of other foreign exchange holders			—444
H CHANGE IN THE FOREIGN EXCHANGE RESERVES OF THE BANK OF FINLAND (increase—)			—112

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

million marks. Foreign direct investment in Finland amounted to 91 million marks, while Finnish direct investment abroad totalled 35 million marks.

The net inflow of short-term capital (including errors and omissions) amounted to 24 million marks in January—June 1976. This low figure was the result of a decline in liabilities related to imports which was caused by a decrease in the value of imports. In the corresponding period in 1975, the inflow of short-term capital had totalled almost 2 000 million marks, while it had already fallen to 100 million marks during the second half of last year.

The growth of 556 million marks in the country's total foreign exchange reserves comprised an increase of 112 million marks in the foreign exchange reserves of the Bank of Finland and a decline of 444 million marks in the foreign exchange liabilities of other foreign exchange holders. The convertible foreign exchange reserves of the Bank of Finland grew by 88 million marks in January—June, amounting to 1 498 million marks at the end of June. The tied foreign exchange reserves of the Bank of Finland amounted to 392 million marks at the end of June, which was slightly more than at the beginning of 1976.

Local elections. Local government elections were held on October 17th and 18th, 1976. Of the 3 410 000 eligible to vote, 77.7 per cent cast ballots. At the last local elections, in 1972, 3 320 000 persons were entitled to vote and 75.6 per cent of them did so. The following table shows the percentage distribution of votes in 1972 and 1976.

	1972	1976
	Per cent	
Social Democrats	27.0	25.0
Conservatives	17.9	20.9
Centre Party	18.0	18.6
People's Democrats	17.5	18.5
Liberal Party	5.2	4.8
Swedish Party	5.2	4.7
Christian League	2.0	3.2
Finnish Farmers' Party	5.0	2.1
Finnish People's Constitutional Party	—	0.8
Finnish People's Unification Party	—	0.5
Others	2.2	0.9
Total	100.0	100.0

BANK OF FINLAND

Board of Management

Mauno Koivisto
Governor

A. Simonen
Deputy Governor

Ahti Karjalainen
Absent as a Member of Government

Päiviö Hetemäki

Pentti Uusivirta

Rolf Kullberg

Directors

Jouko J. Voutilainen

Jorma Aranko

Markku Puntila

Seppo Lindblom

Eino Helenius

Pentti Koivikko

Senior officials

Pertti Kukkonen
Director, ADP-planning

Reino Airikkala
Monetary Policy

Antti Lehtinen
Domestic Financial Operations

Kari Pekonen
Foreign Exchange Policy

Raine Panula
Foreign Exchange

Raili Nuortila
Eastern Trade

Kalle Koski
Capital Transfers

J. Ojala
Foreign Exchange Contro

Kari Puumanen
Economics Dept.

Heikki Koskenkylä
Research Dept.

Heikki T. Hämäläinen
Administration and Legal Affairs

A. Nenonen
Foreign Correspondence

Eino Suomela
Internal Audit

K. Eirola
Automatic Data Processing

Pauli Kanerva
Personnel Administration and General Affairs

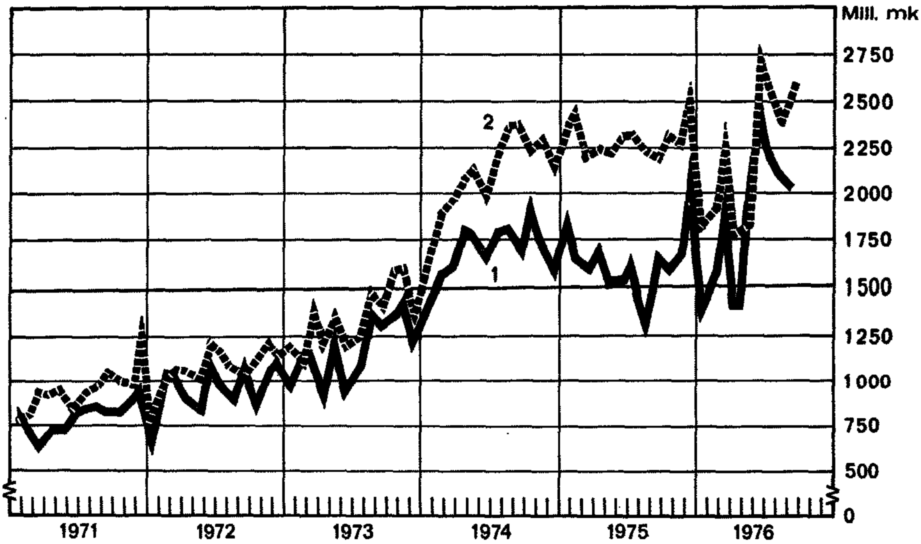
Stig G Björklund
Banking Services

Antti Luukka
Cash

FOREIGN TRADE, 1971-1976

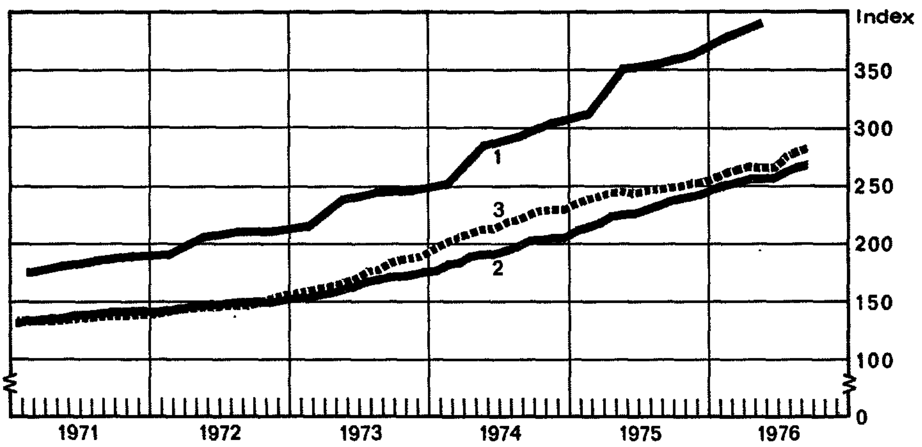
1. Exports f.o.b.
2. Imports c.i.f.

Seasonally adjusted monthly figures



PRICES AND WAGES, 1971-1976

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



PRODUCTION, 1971-1976

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