



# BANK OF FINLAND

*Monthly Bulletin*

**Economic situation**

**Monetary policy and  
financial developments**

Finland's gross long-term foreign debt  
in January—June 1978

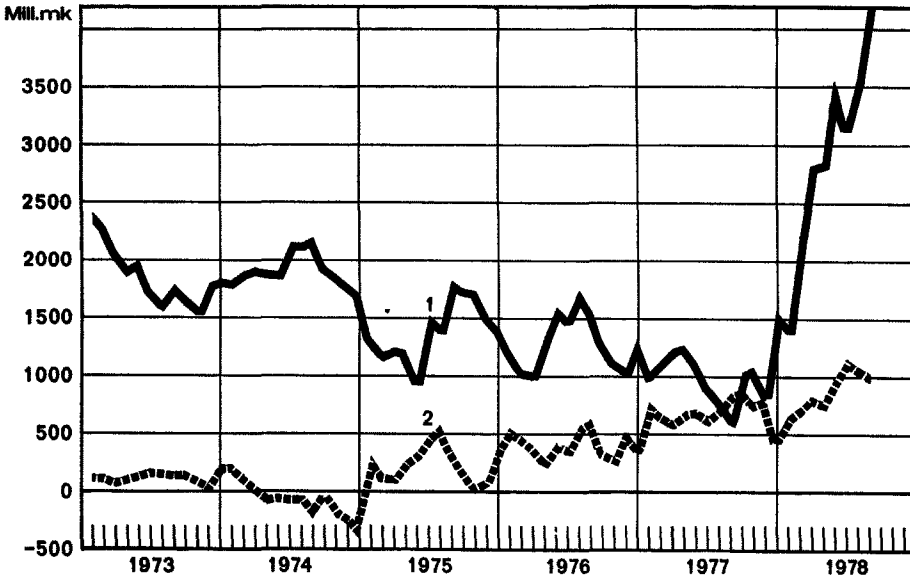
Publications of the Bank of Finland

National income

**OCTOBER 1978**

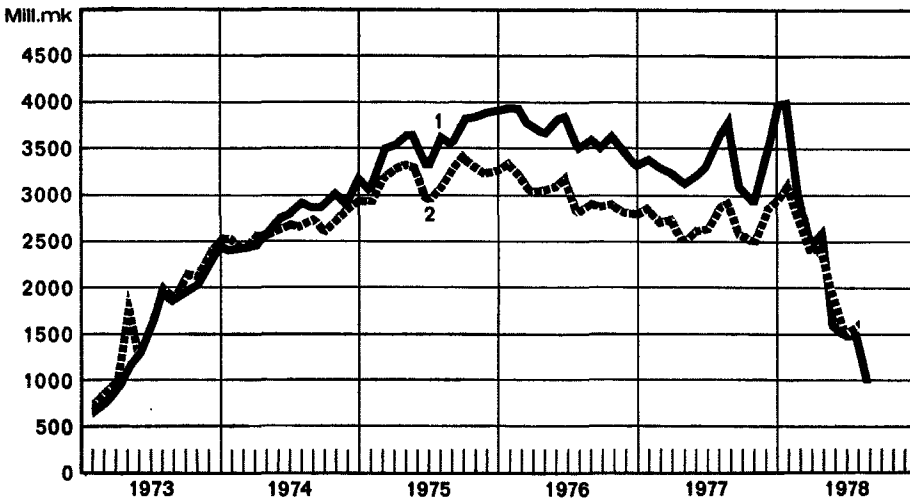
**Vol. 52 No. 10**

**BANK OF FINLAND'S CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, 1973 - 1978**



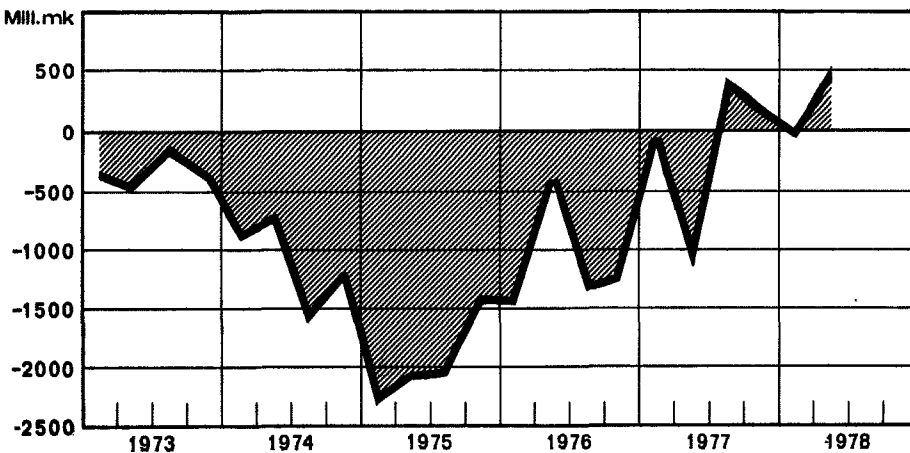
- 1. Gold and convertible currencies
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**BANK OF FINLAND'S POSITION WITH REGARD TO THE DOMESTIC FINANCIAL SECTOR, 1973 - 1978**



- 1. Net receivables from the domestic financial sector
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- Seasonally adjusted end-of-month figures

**BALANCE OF PAYMENTS CURRENT ACCOUNT SURPLUS / DEFICIT, 1973 - 1978**



Seasonally adjusted quarterly figures

## ECONOMIC SITUATION

The external balance in the Finnish economy restored last year after having been severely shaken in 1975—1976. However, the improvement in the foreign balance was accompanied by persistently high inflation and a deteriorating employment situation. Thus since 1977, economic policies have increasingly aimed to curb price and cost increases and to support the growth of private demand. The four reflationary packages introduced by the Government since the middle of last year, combined with interest rate and exchange rate measures and moderate incomes agreements have on the one hand reduced cost inflation and enhanced the competitiveness of exports, and on the other hand, increased household purchasing power. In consequence, the continued expansion of exports and some increase in private consumption, although partly absorbed by reduced inventories, have induced growth in total output this year. The recovery of production has nonetheless been insufficient to stem further deterioration in employment. However, the policy measures undertaken, aided by currently weak demand have markedly reduced price and cost pressures, and the rate of inflation is now lower in Finland than in her main competitor countries. The current account, which turned into surplus in the second half of last year, has further strengthened, partly due to the failure of domestic investment to respond to reflationary measures.

During the first half of the year, export volume was some 9 per cent up on the corresponding period the previous year. In particular, the volume of forest industry exports has increased substantially due to the rapid growth of foreign buyers' stocks and the lowering of foreign currency export prices since 1977. On the other hand, exports of engineering products have been stagnant because of the international investment slump and the slowing-down of exports within the bilateral trade agreements.

Overall, the annual growth in exports of goods and services is expected to fall clearly short of the 10 per cent growth recorded last year. As prices denominated in foreign currencies have in several instances declined, the average increase in export prices in Finnish marks will fall below the roughly 10 per cent rise in exchange rates.

The fiscal measures undertaken to support private sector incomes in the current year as well as automatic budgetary effects have greatly increased the central government's financial deficit; cuts in social security contributions, in income and wealth taxes and in indirect taxes as well as increases in social security expenditures have coincided with slow growth of taxable income. Government expenditure has shown an increase on the low levels of last year but still the annual growth rate remains modest.

Boosted by fiscal measures, household real disposable income, which has decreased during the last few years, picked up in the first half of the year. As a consequence, the first quarter of 1978 saw private consumption regain most of the decline that took place last year. This growth is expected to continue during the remainder of the year and annual consumption should exceed its 1977 level.

Despite the reflationary measures, private investment has remained sluggish, largely due to persistently low capacity utilization. It seems that increased earnings following from the policy measures and the growth in export demand is mainly being used to improve the financial position of companies, which has deteriorated drastically during the last two years. The fall in industrial investment continued until recently, especially in the forest industries and the energy sector.<sup>1</sup> However, some revival

<sup>1</sup> See the item on the Bank of Finland investment inquiry in Bulletin 9/1978.

is to be expected towards the end of the year. Because of central government support and an easing in the financial market housing investment has remained at the previous year's level.

The modest growth of total output which started towards the end of last year has continued in the current year. In the first quarter, total output was 1.5 per cent higher than a year earlier, and in the first half of the year, industrial production increased by 2.5 per cent although this figure partly reflects the abnormally low level of 1977 caused by labour market disturbances. Production is expected to pick up towards the end of the year, and total production for 1978 will exceed the level of last year by about 2 per cent.

Despite the modest recovery of production, the employment situation has continued to deteriorate. The fact that the growth of production has centred on capital-intensive industries together with rationalization in the private service sector caused by low profitability are expected to increase unemployment further by the end of the year. The annual unemployment rate is expected to rise to about 8 per cent.

The combined effects of reductions in indirect taxes, moderate incomes agreements and weak demand have contributed to a substantial reduction in inflation despite the 8 per cent devaluation of the Finnish markka in March, 1978. The increase in consumer prices in August 1977—August 1978 stood at 5.6 per cent, or less than half the rate for the preceding twelve month period and it should not exceed 8 per cent for the year as a whole. A general wage increase of about 4 per cent in accordance with prevailing incomes agreements was implemented in September.<sup>1</sup> However, the annual increase in unit labour costs will probably not

exceed 3 per cent, which together with the devaluation means a marked improvement in Finland's competitive position.

Imports have continued to decline due to weak domestic demand and the improved price competitiveness of Finnish goods. In the first half of the year, imports of finished goods have declined in real terms by some 15 per cent as compared with the same period in 1977 and those of raw materials have remained low. A marked deterioration in the terms of trade has not prevented the trade account from showing a significant surplus — 980 million marks by the end of August. As the deficit on the investment income account has been declining, owing to a standstill in foreign borrowing, the current account has clearly been in surplus, too. Despite the expected acceleration of imports by the end of the year, the current account should remain in its surplus throughout the rest of the year. These favourable current account developments and a heavy inflow of long-term capital have led to an increase in the country's foreign exchange reserves and a rapid easing of the financial market.<sup>1</sup>

The fourth reflationary package, outlined by the Government in August, contains new measures to reduce cost pressures and to stimulate investment, employment and private consumption during 1979. The package includes maintenance of reduced employers' and employees' social security contributions next year. Loan, aid and interest subsidy arrangements will be used to start an increased number of municipal and state-aided investment projects next winter. The budget proposal for 1979, totalling about 43 500 million marks, was formulated in keeping with these principles.

September 25, 1978

<sup>1</sup> See the front article »Price and cost developments in Finland» in Bulletin 7/1978.

<sup>1</sup> See the back article in this issue »Monetary policy and financial developments».

	1977		1978			
	Sept. 30	Dec. 31	Sept. 8	Sept. 15	Sept. 22	Sept. 29
<b>Assets</b>						
Gold and foreign exchange receivables	1 994	2 139	5 130	5 086	4 755	4 900
Gold	127	133	133	133	133	133
Special drawing rights	191	204	149	149	149	149
IMF reserve tranche	—	—	246	246	246	246
Convertible currencies	754	1 265	3 648	3 537	3 276	3 511
Tied currencies	922	537	954	1 021	951	861
Other foreign receivables	1 856	1 959	2 394	2 396	2 391	2 428
Foreign bills	410	488	571	564	553	587
Foreign bonds	512	543	713	722	728	731
Mark subscription to Finland's quota in the IMF	934	928	1 110	1 110	1 110	1 110
Receivables from financial institutions	4 143	5 420	3 051	2 867	3 409	3 239
Cheque accounts of the commercial banks	140	110	88	82	64	79
Discounted bills	2 700	3 091	1 085	1 026	1 205	1 107
Bonds	394	354	337	334	345	357
Call money market advances	893	1 804	1 530	1 410	1 779	1 680
Other financial institution receivables	16	61	11	15	16	16
Receivables from the public sector	365	391	455	456	456	464
Government promissory notes	—	—	50	50	50	50
Bonds	64	60	75	75	75	83
Total coinage	300	304	328	329	330	330
Other public sector receivables	1	27	2	2	1	1
Receivables from corporations	1 476	1 416	1 292	1 281	1 296	1 311
New export bills	187	194	233	235	231	236
Financing of domestic deliveries	708	714	749	746	748	756
Bonds	232	214	203	201	217	219
Other corporate receivables	349	294	107	99	100	100
Other assets	77	85	62	75	62	63
<b>Total</b>	<b>9 911</b>	<b>11 410</b>	<b>12 384</b>	<b>12 161</b>	<b>12 369</b>	<b>12 405</b>
<b>Liabilities</b>						
Foreign exchange liabilities	95	94	66	66	66	72
Convertible accounts	51	53	50	51	50	53
Tied accounts	44	41	16	15	16	19
Other foreign liabilities	2 134	3 447	2 786	2 784	2 757	2 756
IMF mark accounts	1 772	1 838	2 074	2 074	2 051	2 051
Allocations of special drawing rights	258	300	301	301	301	301
Term liabilities	104	1 309	411	409	405	404
Notes and coins in circulation	3 079	3 167	3 452	3 459	3 486	3 538
Notes	2 817	2 892	3 153	3 161	3 188	3 240
Coins	262	275	299	298	298	298
Deposit certificates in circulation	180	200	859	859	859	1 209
Claims of financial institutions	1 015	1 194	1 931	1 691	2 003	1 732
Cheque account of Postipankki	0	1	0	0	0	0
Cheque accounts of the commercial banks	5	3	1	1	1	1
Call money market deposits	766	850	1 451	1 330	1 682	1 298
Capital import deposits	—	246	336	315	314	431
Other financial institution claims	244	94	143	45	4	2
Claims of the public sector	343	328	201	201	199	199
Cheque accounts	0	2	0	1	0	0
Counter-cyclical reserves	34	36	38	38	38	38
Capital import deposits	1	287	162	161	160	160
Other public sector claims	308	3	1	1	1	1
Claims of corporations	266	242	506	547	448	372
Deposits for investment and ship purchase	42	35	45	45	45	45
Capital import deposits	209	181	448	489	390	313
Import levy deposits	14	19	8	9	10	10
Other corporate claims	1	7	5	4	3	4
Other liabilities	13	13	15	14	13	13
Equalization accounts	843	671	518	490	487	463
Capital accounts	1 943	2 054	2 050	2 050	2 051	2 051
Primary capital	1 400	1 400	1 400	1 400	1 405	1 400
Reserve fund	436	436	545	545	540	545
Net earnings	107	218	105	105	106	106
<b>Total</b>	<b>9 911</b>	<b>11 410</b>	<b>12 384</b>	<b>12 161</b>	<b>12 369</b>	<b>12 405</b>

End of year or month	Foreign sector							Public sector			Deposit certificates in circulation
	Gold and convertible exchange receivables	Convertible exchange liabilities	Gold and convertible exchange reserves (1-2)	Tied exchange reserves	Other receivables	Other liabilities	Net receivables (3+4+5-6)	Receivables	Liabilities	Net liabilities (9-8)	
	1	2	3	4	5	6	7	8	9	10	11
1971	2 620	30	2 590	-297	686	704	2 275	148	140	- 8	400
1972	2 613	43	2 570	- 6	757	788	2 533	175	49	-126	790
1973	1 928	65	1 863	210	803	788	2 088	200	534	334	1 450
1974	1 784	62	1 722	-388	1 123	788	1 669	302	560	258	1 040
1975	1 488	78	1 410	368	1 274	1 385	1 667	339	1 301	962	250
1976	1 361	50	1 311	389	1 660	1 923	1 437	447	1 133	686	-
1977	1 602	53	1 549	496	1 959	3 447	557	391	328	- 63	200
1977											
July	855	56	799	722	1 874	2 030	1 365	364	389	25	180
Aug.	697	50	647	841	1 857	2 131	1 214	360	353	- 7	180
Sept.	1 072	51	1 021	878	1 856	2 134	1 621	365	343	- 22	180
Oct.	1 121	47	1 074	771	1 893	2 134	1 604	363	286	- 77	180
Nov.	903	46	857	797	1 912	2 556	1 010	364	407	43	180
Dec.	1 602	53	1 549	496	1 959	3 447	557	391	328	-63	200
1978											
Jan.	1 492	40	1 452	648	1 983	3 360	723	399	320	-79	180
Feb.	2 236	36	2 200	730	2 093	3 393	1 630	401	297	-104	180
March	2 854	40	2 814	822	2 142	3 391	2 387	405	288	-117	0
April	2 890	51	2 839	785	2 187	3 408	2 403	382	289	-93	-
May	3 596	38	3 558	995	2 636	3 914	3 275	382	229	-153	-
June	3 284	98	3 186	1 149	2 641	3 046	3 930	393	222	-171	400
July	3 583	40	3 543	1 084	2 659	3 038	4 248	404	203	-201	760
Aug.	4 237	43	4 194	1 019	2 407	2 786	4 834	453	202	-251	859
Sept.	4 039	53	3 986	842	2 428	2 756	4 500	464	199	-265	1 209

## FOREIGN EXCHANGE SITUATION

Mill. mk

	Net holdings, August 31,			Change	
	Bank of Finland	Other	Total	Aug.	Jan.—Aug.
Gold	133	-	133	-	-
Special drawing rights	149	-	149	- 18	- 55
IMF reserve tranche	246	-	246	+246	+ 246
Convertible currencies	3 666	-2 442	1 225	+346	+2 798
Total	4 194	-2 442	1 753	+574	+2 989
Tied currencies	1 019	162	1 181	- 62	+ 539

CURRENCY INDEX<sup>1</sup>

1974 = 100

1978	
May	117.5
June	118.5
July	118.5
August	118.5
Sept.	118.5

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

## BANK OF FINLAND

Mill. mk

End of year or month	Domestic financial sector						Corporate sector				Notes and coins in circulation
	Dis-counted and redis-counted bills	Cheque account receiv-ables	Other receiv-ables	Cheque account liabilities to the commer-cial banks	Cheque account liabilities to Posti-pankki	Other liabil-ities	Net receiv-ables (1+2+3-4-5-6)	Receiv-ables	Liabili-ties	Net receiv-ables (8-9)	
	1	2	3	4	5	6	7	8	9	10	11
1971	849	—	—	9	2	—	838	355	385	— 30	1 413
1972	753	5	—	—	2	—	756	321	73	248	1 879
1973	2 556	61	—	—	2	—	2 615	372	259	113	2 082
1974	3 034	114	266	4	4	1	3 405	631	195	436	2 462
1975	3 385	133	646	3	1	25	4 135	933	539	394	2 855
1976	2 920	174	1 580	2	2	1 139	3 531	1 400	308	1 092	2 885
1977	3 091	110	2 219	3	1	1 190	4 226	1 416	242	1 174	3 167
1977											
July	2 773	116	1 320	5	0	797	3 407	1 498	232	1 266	3 157
Aug	2 779	85	1 463	1	1	846	3 479	1 439	260	1 179	3 022
Sept.	2 700	140	1 303	5	0	1 010	3 128	1 476	266	1 210	3 079
Oct.	2 722	122	1 691	1	0	1 376	3 158	1 467	305	1 162	3 072
Nov.	3 058	132	1 809	1	0	1 142	3 856	1 428	236	1 192	3 075
Dec.	3 091	110	2 219	3	1	1 190	4 226	1 416	242	1 174	3 167
1978											
Jan.	3 060	139	2 575	1	0	1 900	3 873	1 439	239	1 200	2 990
Feb.	2 658	149	2 698	1	0	2 440	3 064	1 504	331	1 173	3 040
March	2 454	123	2 288	1	0	2 340	2 524	1 477	386	1 091	3 333
April	2 346	157	2 012	3	0	1 985	2 527	1 483	389	1 094	3 302
May	2 004	120	1 710	1	0	2 223	1 610	1 386	416	970	3 271
June	1 607	109	1 870	2	0	2 042	1 542	1 311	386	925	3 572
July	1 571	84	1 782	1	0	2 031	1 405	1 297	304	993	3 520
Aug.	1 320	80	1 596	1	0	2 102	893	1 288	505	783	3 414
Sept.	1 107	79	2 053	1	0	1 731	1 507	1 311	372	939	3 538

## SELLING RATES FOR FOREIGN EXCHANGE

Mk

September 25, 1978

New York <sup>1</sup>	1 \$	4.044	Frankfurt o. M.	100 DM	207.55	Vienna	100 S	28.65
Montreal	1 \$	3.447	Amsterdam	100 Fl	191.00	Lisbon	100 Esc	9.10
London	1 £	7.984	Brussels <sup>2</sup>	100 Fr		Madrid	100 Pta	5.60
Stockholm	100 Kr	92.00	Zurich	100 Fr	268.20	Tokyo	100 Y	2.158
Oslo	100 Kr	78.60	Paris	100 FF	92.40	Reykjavik	100 Kr	1.35
Copenhagen	100 Kr	75.60	Rome	100 Lit	0.495	Moscow <sup>3</sup>	1 Rbl	6.088

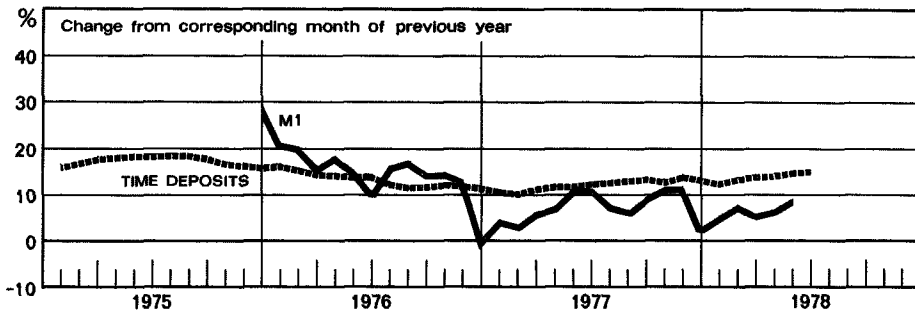
<sup>1</sup> As from Dec. 20, 1971 also applied to clearing accounts with Berlin, Budapest and Sofia.<sup>2</sup> 13.210 commercial rate; 12.670 financial rate.<sup>3</sup> Clearing account.

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

Mill. mk

End of year and month	Demand deposits				Time deposits					Total (4+9)
	Commercial banks	Savings banks & Co-op. banks	Posti-pankki	All deposit banks	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	All deposit banks	
	1	2	3	4	5	6	7	8	9	10
1974	2 723	913	1 638	5 274	10 811	8 279	6 299	2 646	28 035	33 309
1975	3 472	1 181	2 309	6 962	12 176	9 743	7 530	3 200	32 649	39 611
1976	3 071	1 357	2 336	6 764	13 282	11 051	8 610	3 665	36 608	43 372
1977	2 948	1 506	2 212	6 666	14 999	12 671	9 846	4 177	41 693	48 359
1977										
Feb.	2 816	1 262	2 504	6 582	13 306	11 267	8 815	3 741	37 129	43 711
March	2 973	1 342	2 353	6 668	13 371	11 353	8 880	3 825	37 429	44 097
April	3 013	1 299	2 388	6 700	13 557	11 428	9 007	3 825	37 817	44 517
May	3 287	1 359	2 253	6 899	13 598	11 594	9 074	3 850	38 116	45 015
June	3 267	1 406	2 231	6 904	13 740	11 815	9 211	3 909	38 675	45 579
July	3 031	1 407	2 131	6 569	13 828	11 995	9 330	3 954	39 107	45 676
Aug.	3 271	1 486	2 049	6 806	13 960	12 120	9 474	3 989	39 543	46 349
Sept.	3 042	1 431	2 053	6 526	13 966	12 101	9 471	3 978	39 516	46 042
Oct.	3 147	1 495	2 027	6 669	14 167	12 152	9 491	4 012	39 822	46 491
Nov.	3 342	1 508	2 027	6 877	14 382	12 350	9 697	4 066	40 495	47 372
Dec.	2 948	1 506	2 212	6 666	14 999	12 671	9 846	4 177	41 693	48 359
1978										
Jan.	3 096	1 351	2 330	6 777	14 890	12 747	9 903	4 203	41 743	48 520
Feb.	3 106	1 468	2 478	7 052	15 191	12 901	9 996	4 243	42 331	49 383
March	2 922	1 420	2 340	6 682	15 350	13 058	10 107	4 363	42 878	49 560
April	3 068	1 414	2 415	6 897	15 596	13 190	10 225	4 368	43 379	50 276
May	3 550	1 541	2 304	7 395	15 975	13 287	10 277	4 393	43 932	51 327
June	3 713	1 517	2 359	7 589	16 210	13 523	10 458	4 485	44 676	52 265

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





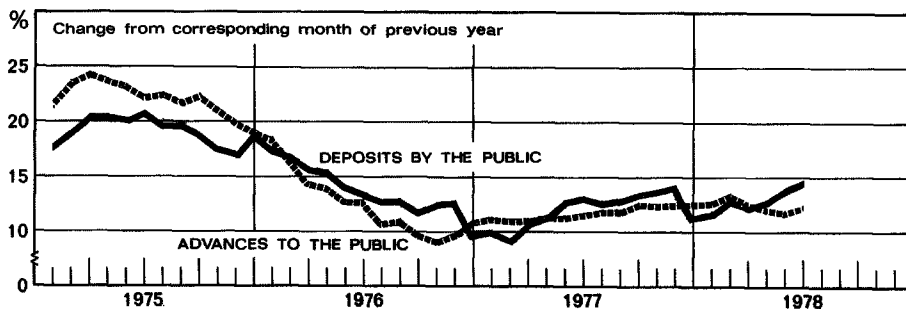
# ADVANCES TO THE PUBLIC<sup>1</sup> — MONEY SUPPLY<sup>1</sup>

Mill. mk

End of year and month	Advances granted by				Types of advances			Money Supply		
	Commer- cial banks	Savings banks	Co-op. banks	Posti- pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency	Total (1 to 4) (5 to 7)	M <sub>1</sub>	M <sub>1</sub> +Quasi- Money
	1	2	3	4	5	6	7	8	9	10
1974	17 462	7 715	6 457	4 653	33 261	1 136	1 890	36 287	7 549	35 943
1975	20 799	9 108	7 797	5 597	38 285	1 281	3 735	43 301	9 772	43 165
1976	22 077	10 615	9 247	6 120	42 617	1 569	3 873	48 059	9 601	47 014
1977	24 679	12 312	10 547	6 609	47 355	1 690	5 102	54 147	9 872	52 581
1977										
Feb.	22 535	10 761	9 276	6 178	42 914	1 631	4 205	48 750	9 398	47 255
March	22 703	10 801	9 279	6 293	42 941	1 621	4 514	49 076	9 496	47 693
April	23 175	10 885	9 313	6 242	43 243	1 551	4 821	49 615	9 620	48 164
May	23 240	11 055	9 405	6 337	43 679	1 545	4 813	50 037	9 786	48 845
June	23 469	11 154	9 544	6 352	43 929	1 639	4 951	50 519	9 996	49 380
July	23 475	11 263	9 668	6 312	44 229	1 575	4 914	50 718	9 651	49 509
Aug.	23 598	11 430	9 791	6 351	44 670	1 660	4 840	51 170	9 818	50 103
Sept.	24 063	11 640	9 962	6 476	45 328	1 659	5 154	52 141	9 670	50 258
Oct.	24 149	11 823	10 120	6 598	45 946	1 717	5 027	52 690	9 732	50 614
Nov.	24 440	12 004	10 283	6 676	46 592	1 723	5 088	53 403	9 933	51 436
Dec.	24 679	12 312	10 547	6 609	47 355	1 690	5 102	54 147	9 872	52 581

1978										
Jan.	24 843	12 421	10 575	6 852	47 794	1 763	5 134	54 691	9 875	52 716
Feb.	25 472	12 509	10 636	6 731	47 977	1 787	5 584	55 348	10 137	53 709
March	25 599	12 553	10 650	6 500	47 817	1 732	5 753	55 302	10 058	54 272
April	25 820	12 661	10 743	6 488	48 095	1 641	5 976	55 712	10 272	54 990
May	25 841	12 816	10 878	6 537	48 575	1 655	5 842	56 072	10 694	55 978
June	26 123	12 914	11 023	6 707	48 930	1 771	6 066	56 767	..	..

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



# STATE FINANCES

Mill. mk

Revenue	Jan.—July		Expenditure	Jan.—July	
	1977	1978		1977	1978
Income and wealth tax (net)	5 577	4 802	Wages, salaries, pensions etc.	3 357	3 635
Gross receipts	(15 565)	(15 824)	Repair and maintenance	444	461
Refunds & local authorities	(9 988)	(-11 022)	Other consumption expenditure	1 577	1 850
Other taxes on income and wealth	82	147	<b>Total consumption expenditure</b>	<b>5 378</b>	<b>5 946</b>
Employers' child allowance payments	617	526	State aid to local authorities	3 851	4 466
Sales tax	4 252	5 227	State aid to industries	2 665	2 661
Customs duties and import charges and levies	494	505	of which: agric. price subsidies	(1 484)	(1 463)
Excise duties <sup>1</sup>	2 962	3 444	Child allowances	515	567
Excise duty on alcoholic beverages <sup>1</sup>	955	394	Share in national pensions and sickness insurance schemes	171	186
Excise duty on tobacco	443	479	Other transfer expenditure	2 293	2 647
Excise duty on liquid fuel	983	1 215	<b>Total transfer expenditure</b>	<b>9 495</b>	<b>10 527</b>
Other excise duties <sup>1</sup>	581	1 356	Machinery and equipment	693	760
Tax on autom. and motor-cycles	497	506	Construction of buildings	342	391
Stamp duties	412	458	Land and waterway construction	820	853
Special diesel etc. vehicles tax	84	99	<b>Total real investment</b>	<b>1 855</b>	<b>2 004</b>
Other taxes and similar revenue <sup>1</sup>	516	442	Interest on State debt	265	318
<b>Total taxes</b>	<b>15 493</b>	<b>16 156</b>	Net deficit of State enterprises	135	54
Miscellaneous revenue	1 011	1 238	Other expenditure	27	28
Interest, dividends etc.	424	489	<b>Total other expenditure</b>	<b>427</b>	<b>400</b>
Redemptions of loans granted	189	284	Increase in inventories	106	— 83
<b>Total revenue</b>	<b>17 117</b>	<b>18 167</b>	Lending	1 661	1 370
Foreign borrowing	153	1 766	Other financial investment	317	326
Domestic borrowing	537	1 127	<b>Total expenditure</b>	<b>19 239</b>	<b>20 490</b>
<b>Total borrowing</b>	<b>690</b>	<b>2 893</b>	Redemption of foreign loans	66	129
<b>Deficit (+) or surplus (—)</b>	<b>(+1 743)</b>	<b>(—102)</b>	Redemption of domestic loans	245	339
	<b>Total</b>	<b>19 550</b>	<b>Total redemptions</b>	<b>311</b>	<b>468</b>
		<b>20 958</b>		<b>Total</b>	<b>19 550</b>
					<b>20 958</b>

<sup>1</sup> New series.

State debt	1975		1976		1977		1978	
	Dec.	Dec.	Dec.	Dec.	May	June	July	
<b>Foreign debt</b>	1 603	2 248	3 679	4 534	5 146	5 617		
Loans	1 645	2 175	2 963	3 588	3 624	3 675		
Compensatory obligations	1	1	1	1	2	1		
Short-term credit	85	287	175	408	408	408		
Cash debt (net)	—242	—643	—669	—515	—392	— 316		
<b>Domestic debt</b>	1 489	1 820	2 470	3 482	3 642	3 768		
<b>Total State debt</b>	3 092	4 068	6 149	8 016	8 788	9 385		
Total debt, mill \$	798	1 069	1 493	1 873	2 053	2 230		

# FOREIGN TRADE

Mill. mk

Value mill. mk

Period	Value mill. mk		
	Exports f. o. b.	Imports c. i. f.	Surplus of exports (+) or imports (-)
1973	14 605	16 599	-1 994
1974	20 687	25 666	-4 979
1975	20 247	28 002	-7 755
1976	24 505	28 555	-4 050
1977	30 931	30 708	+223

1977			
June	2 541	3 119	-578
July	2 833	2 442	+391
Aug.	2 240	2 398	-158
Sept.	2 901	2 849	+ 52
Oct.	2 991	2 583	+408
Nov.	2 960	2 891	+ 69
Dec.	3 141	3 050	+91

1978*			
Jan.	2 511	2 631	-120
Feb.	2 524	2 188	+336
March	2 750	2 570	+180
April	2 894	2 426	+468
May	2 942	2 935	+7
June	2 823	2 668	+155
July	2 678	2 636	+ 42

Jan.-July			
1977	16 698	16 940	- 242
1978*	19 122	18 054	+1 068

Indices of exports and  
imports 1975 = 100

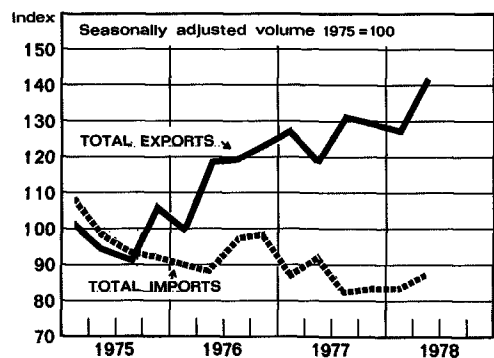
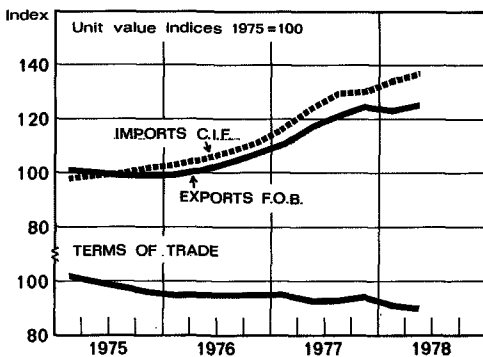
Period	Volume		Unit value		Terms of trade
	Exports	Imports	Exports	Imports	
	1973	121	93	60	
1974	121	100	85	92	92
1975	100	100	100	100	100
1976	117	96	103	107	97
1977	129	88	119	124	96

1975					
Oct.-Dec.	116	100	100	103	97

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

1977					
Jan.-March	123	83	112	117	96
Apr.-June	115	88	118	125	94
July-Sept.	129	84	122	130	94
Oct.-Dec.	143	93	125	131	95

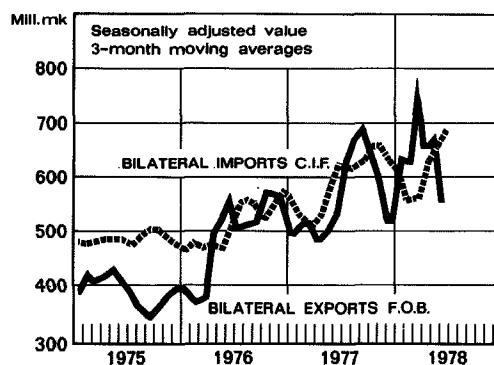
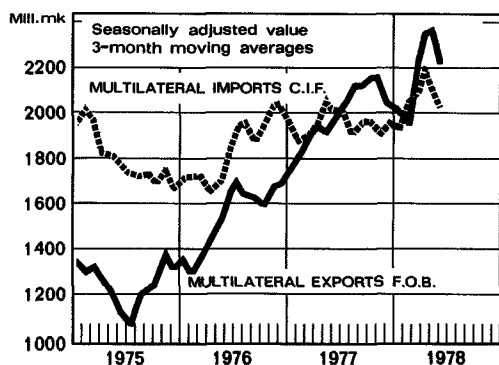
1978*					
Jan.-March	124	78	124	135	92
Apr.-June	136	83	126	138	91



## FOREIGN TRADE BY MAIN GROUPS

Mill. mk

Period	Exports, f.o.b.					Imports, c.i.f.				
	Agricultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Raw materials and producer goods	Fuels and lubricants	Finished goods		Other goods
								Investment goods	Consumer goods	
1973	432	2 458	5 266	2 921	3 528	9 916	729	2 919	2 968	67
1974	464	3 153	7 872	4 245	4 953	16 525	1 978	3 857	3 282	24
1975	449	2 177	7 225	5 357	5 039	17 058	1 670	5 222	3 989	63
1976	804	2 892	7 860	6 891	6 058	17 828	1 581	4 966	4 103	77
1977	1 087	3 854	8 798	9 184	8 008	19 128	2 066	4 828	4 603	83
1977*										
June	91	367	750	770	563	1 984	202	564	353	16
July	87	352	701	1 045	648	1 609	178	318	316	21
Aug.	48	339	674	605	574	1 590	166	276	356	10
Sept.	44	337	794	943	783	1 792	284	371	399	3
Oct.	41	321	753	1 106	770	1 650	222	321	389	1
Nov.	44	417	896	802	801	1 729	198	511	453	0
Dec.	143	346	836	963	853	1 876	230	526	415	3
1978*										
Jan.	160	322	721	656	652	1 567	193	493	376	2
Feb.	34	266	821	727	676	1 395	124	327	340	2
March	153	322	901	546	828	1 569	89	475	436	1
April	19	348	907	799	821	1 445	123	402	455	1
May	113	431	850	729	819	1 823	199	412	501	0
June	40	414	873	810	686	1 737	196	376	357	2
July	44	414	775	748	697	1 701	233	362	325	15
Jan.-July										
1977	767	2 094	4 845	4 765	4 227	10 491	966	2 826	2 591	66
1978*	563	2 517	5 848	5 015	5 179	11 237	1 157	2 847	2 790	23



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

Mill. mk

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January—July				January—July			
	1977*		1978*		1977*		1978*	
	%	Mill. mk	%	Mill. mk	%	Mill. mk	%	Mill. mk
<b>OECD countries in Europe</b>	63.5	10 605	62.0	11 844	58.6	9 935	59.0	10 661
Austria	0.9	140	0.7	131	1.5	246	1.4	245
Belgium and Luxembourg	1.8	304	1.9	368	1.9	329	1.8	331
Denmark	3.9	645	4.1	777	2.6	442	2.7	495
France	3.6	603	4.0	758	2.8	478	3.3	592
Federal Republic of Germany	10.6	1 770	10.4	1 997	14.1	2 397	13.6	2 452
Italy	1.3	223	1.7	316	2.1	362	2.3	420
Netherlands	3.7	611	3.7	706	2.7	448	2.7	496
Norway	4.4	731	4.6	878	3.2	544	2.8	497
Portugal	0.3	52	0.2	36	0.4	72	0.3	62
Spain	1.0	165	0.8	155	1.7	283	0.9	164
Sweden	15.9	2 658	14.1	2 687	14.1	2 385	15.1	2 718
Switzerland	1.6	273	1.7	330	2.0	338	2.1	375
United Kingdom	12.5	2 089	12.7	2 432	9.1	1 543	9.5	1 718
Other	2.0	341	1.4	273	0.4	68	0.5	96
<b>OECD countries outside Europe</b>	6.8	1 140	6.7	1 289	8.4	1 419	8.4	1 511
Canada	0.7	112	0.6	108	0.3	44	0.4	72
Japan	0.9	145	0.8	161	2.8	476	2.7	494
United States	4.5	755	4.2	809	5.1	859	5.0	897
Other	0.7	128	1.1	211	0.2	40	0.3	48
<b>CMEA countries</b>	21.2	3 535	21.4	4 097	21.8	3 693	22.8	4 110
Czechoslovakia	0.5	76	0.5	94	0.3	73	0.5	89
German Democratic Republic	1.1	186	0.7	144	0.6	92	0.6	110
Poland	0.8	138	0.7	126	2.0	333	2.3	410
Soviet Union	17.9	2 990	18.4	3 520	18.3	3 097	18.5	3 345
Other	0.9	145	1.1	213	0.6	98	0.9	156
<b>Latin America</b>	1.9	310	4.1	790	4.7	788	3.9	708
Argentina	0.2	32	0.2	37	0.3	44	0.3	47
Brazil	0.5	81	0.5	88	0.6	104	0.7	135
Colombia	0.1	13	0.1	25	1.7	278	1.3	243
Other	1.1	184	3.3	640	2.1	362	1.6	283
<b>Other</b>	6.6	1 108	5.8	1 102	6.5	1 105	5.9	1 064
<b>GRAND TOTAL</b>	100.0	16 698	100.0	19 122	100.0	16 940	100.0	18 054
of which								
<b>EFTA countries</b>	23.2	3 876	21.4	4 090	21.3	3 612	21.8	3 932
<b>EEC countries</b>	37.3	6 342	39.2	7 495	35.6	6 023	36.2	6 538
<b>OECD countries</b>	70.3	11 745	68.7	13 133	67.0	11 354	67.4	12 172

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

# BALANCE OF PAYMENTS

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

1975

July-Sept.	4 482	6 649	-2 167	+237	+142	+ 57	-1 731	-308	- 6	-2 045
Oct.-Dec.	5 961	7 234	-1 373	+234	- 7	+206	- 940	-411	-30	-1 381

1976

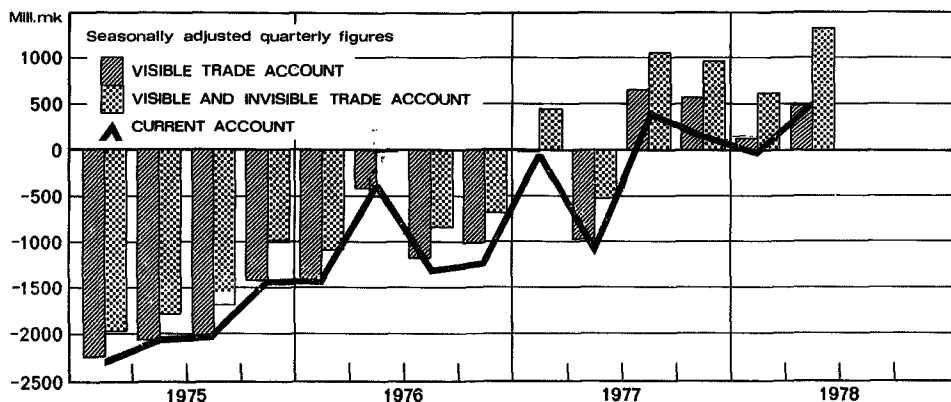
Jan.-March	4 987	6 307	-1 320	+252	- 50	+ 65	-1 053	-347	-35	-1 435
Apr.-June	5 864	6 224	- 360	+252	+ 49	+ 26	- 33	-485	-26	- 544
July-Sept.	6 098	7 515	-1 417	+365	+ 62	+110	- 880	-434	-17	-1 331
Oct.-Dec.	7 423	8 426	-1 003	+324	- 39	+ 44	- 674	-483	-40	-1 197

1977

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

1978\*

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

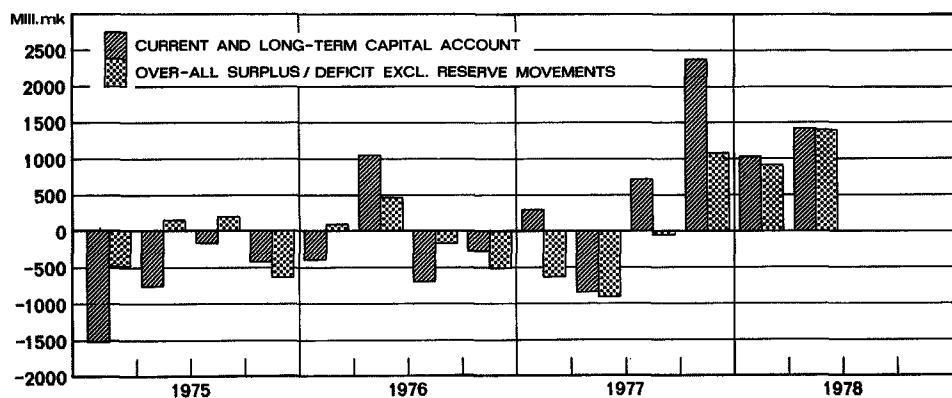


Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits net	Miscellaneous long-term capital items, net <sup>1</sup>	Long-term capital account	Current and long-term capital account	Short-term import credits and prepayments, net	Short-term export credits and prepayments, net	Miscellaneous short-term capital items, incl. errors and omissions	Over-all surplus/deficit excl. reserve movements	Reserve movements	
										Bank of Finland	Other foreign exchange holders
+6 729	-1 445	-214	+ 62	+5 132	-2 842	+ 638	+1 449	+ 8	- 747	- 444	+1 191
+6 130	-1 785	-191	+ 48	+4 202	- 305	+ 138	-1 288	+1 327	- 128	+ 78	+ 50
+6 454	-2 745	-241	-229	+3 239	+2 599	-1 547	- 470	-1 071	- 489	- 170	+ 659
+2 121	- 287	- 3	+ 57	+1 888	- 157	+ 131	- 34	+ 265	+ 205	+ 91	- 296
+1 532	- 415	-139	- 15	+ 963	- 418	+ 337	- 33	- 518	- 632	+ 165	+ 467
+1 404	- 374	+ 5	+ 11	+1 046	- 389	- 628	+ 119	+ 996	+ 98	+ 373	- 471
+2 096	- 394	- 95	- 7	+1 600	+1 056	- 158	+ 120	- 560	+ 458	- 485	+ 27
+1 239	- 568	- 11	- 25	+ 635	- 696	+ 565	- 764	+ 722	- 173	+ 263	- 90
+1 391	- 449	- 90	+ 69	+ 921	- 276	+ 359	- 763	+ 169	- 511	- 73	+ 584
+1 022	- 550	-127	- 24	+ 321	+ 314	- 799	+ 149	- 269	- 605	- 140	+ 745
+1 273	- 857	+ 35	- 37	+ 414	- 838	- 333	+ 149	+ 116	- 906	+ 358	+ 548
+1 252	- 647	-156	- 89	+ 360	+ 733	+ 227	- 384	- 631	- 55	- 319	+ 374
+2 907	- 691	+ 7	- 79	+2 144	+2 390	- 642	- 384	- 287	+1 077	- 69	-1 008
+1 876	- 854	-170	- 14	+ 838	+1 046	- 568	- 402	+ 848	+ 924	-1 556	+ 632
+2 900	-1 733	+ 28	- 51	+1 144	+1 423	+ 232	- 402	+ 147	+1 400	- 687	- 713

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

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

<sup>2</sup> Including Allocations of special drawing rights: 88 million in 1970, 85 million in 1971 and 85 million in 1972.



# PRICE INDICES

Period	Wholesale prices 1949 = 100									Building costs 1973 = 100		
	Total	Origin		Purpose			Stage of processing			Total	Wages in building trade	Building materials
		Domes- tic goods	Im- ported goods	Pro- ducer goods	Machinery & transport equipm.	Con- sumer goods	Raw materials and com- modities	Simply pro- cessed goods	More elab- orately processed goods			
1976	626	646	548	614	707	621	679	594	614	152	142	154
1977	692	713	610	667	804	695	728	654	695	171	154	176
1977												
Oct.	703	722	631	675	829	709	735	665	710	175	157	180
Nov.	705	723	632	677	830	709	737	665	711	176	157	181
Dec.	705	724	634	677	833	710	735	666	713	176	157	182
1978												
Jan.	706	725	637	675	845	713	730	667	719	177	155	183
Feb.	711	730	639	679	853	719	736	665	727	177	155	183
March	716	731	658	683	869	719	736	670	733	178	155	184
April	717	733	658	683	869	725	740	669	736	178	156	185
May	721	734	669	687	877	726	737	675	741	180	160	185
June	721	734	674	687	884	725	737	673	743	180	160	185
July	730	742	685	691	902	739	752	677	752	180	160	186
Aug.	730	742	686	690	905	739	745	679	756	180	160	186
Consumer prices 1972 = 100												
Period	Cost of living Oct. 1951 = 100	Con- sumer prices Oct.—Dec. 1957 = 100	Total	Food	Bever- ages and tobacco	Clothing and foot- wear	Rent	Heating and lighting	Furniture, household equip. and operation	Trans- port	Education and recreation	Other goods and services
1976	449	352	174	182	164	166	171	200	164	174	162	185
1977	506	397	196	216	174	181	183	221	181	197	188	209
1977												
Oct.	522	410	203	225	174	185	190	229	185	203	194	216
Nov.	524	412	204	226	174	187	192	230	186	203	195	217
Dec.	525	412	204	225	174	186	192	233	187	205	196	217
1978												
Jan.	526	412	204	222	174	183	192	234	188	209	198	218
Feb.	532	417	207	223	190	187	192	235	188	212	198	222
March	533	419	207	224	190	190	192	235	189	212	198	223
April	536	420	208	224	190	192	192	236	190	213	200	223
May	544	427	211	224	204	193	195	235	190	218	201	229
June	544	427	211	224	204	193	195	235	190	218	201	230
July	545	428	212	225	204	187	195	236	190	219	201	234
Aug.	547	430	213	224	204	191	196	236	190	219	209	235



# WAGES

Index of salary and wage earnings 1964 = 100

Period	By industries			By institutional sectors			All salary earners	All wage earners	All employees	
	Wage earners in			Employees in services	State employees	Municipal employees				Employees in private sector
	Agriculture	Industry	Construction							
1976	599	442	428	361	360	353	416	346	441	399
1977*	670	484	456	385	387	375	453	373	479	432
1976										
July-Sept.	602	448	434	364	364	355	425	349	451	406
Oct.-Dec.	639	456	440	364	364	356	426	350	451	407
1977*										
Jan.-March	653	457	440	372	374	364	428	357	453	411
Apr.-June	665	488	454	385	390	378	456	374	484	436
July-Sept.	670	493	463	388	390	379	461	377	488	439
Oct.-Dec.	706	499	468	397	394	380	468	384	492	445
1978*										
Jan.-March	709	500	469	397	395	380	470	385	494	446
Apr.-June	711	509	472	402	399	384	478	390	502	453

# PRODUCTION<sup>1</sup>

Volume indices of production 1975 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communications	Commerce	Public sector services	Others
1976*										
Jan.-March	95	105	71	89	73	102	90	91	106	99
Apr.-June	100	103	89	109	70	103	99	100	105	102
July-Sept.	100	89	192	65	92	93	100	100	106	98
Oct.-Dec.	108	110	75	122	107	98	114	110	108	104
1977*										
Jan.-March	97	106	71	110	78	96	92	83	111	101
Apr.-June	100	103	87	112	74	95	98	94	110	103
July-Sept.	99	90	152	63	94	90	105	95	111	100
Oct.-Dec.	108	110	74	109	105	93	117	99	113	105
1978*										
Jan.-March	99	106	71	115	74	93	97	83	114	103

<sup>1</sup> New series.

# PRODUCTION

Index of industrial production 1970 = 100

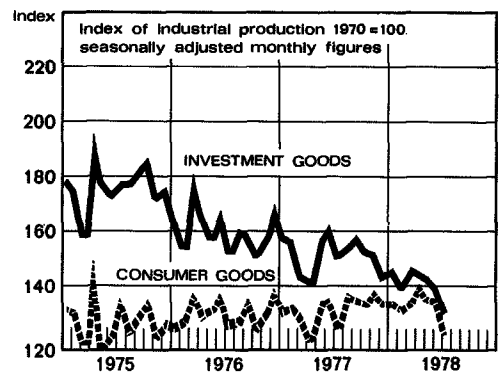
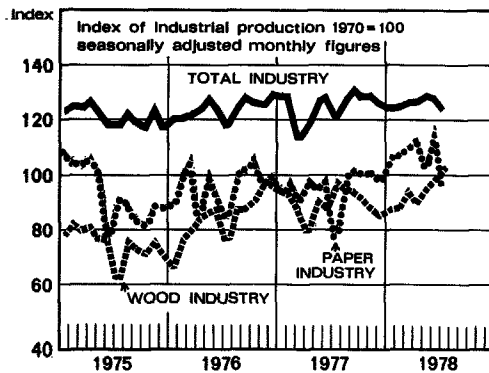
Period	Total	Investment goods	Other producer goods	Consumer goods	Special indices of manufacturing						Total, adjusted for seasonal variations
					Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
1974	127	141	122	135	112	107	124	154	136	141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

1977\*

April	120	146	113	124	99	94	92	150	99	145	120
May	136	172	126	143	115	116	104	148	132	167	128
June	123	165	112	135	106	97	81	121	126	161	130
July	66	61	64	74	95	42	59	82	63	56	122
Aug.	129	146	122	140	115	90	111	151	125	146	128
Sept.	140	171	132	146	114	100	117	162	137	167	132
Oct.	139	168	132	145	123	94	113	154	133	165	130
Nov.	142	173	133	149	127	99	112	166	127	172	130
Dec.	129	149	122	135	111	84	94	164	108	152	127

1978\*

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



# LABOUR—TIMBER FELLINGS—INTERNAL TRADE

Period	Population of working age 1 000 persons	Total labour force, 1 000 persons	Employed 1 000 persons	Un-employed 1 000 persons	Unemployment, % of total labour force	Commercial timber fellings 1 000 solid cu. m	Retailers' sales volume index 1972 = 100	Wholesalers' volume index 1972 = 100
1975	3 513	2 272	2 221	51	2.2	29 133	122	127
1976*	3 547	2 254	2 163	91	4.0	27 305	123	127
1977*	3 561	2 248	2 111	137	6.1	27 814	113	120
1977*								
Aug.	3 563	2 329	2 188	141	6.0	1 240	119	127
Sept.	3 565	2 222	2 100	122	5.5	1 824	117	130
Oct.	3 567	2 218	2 092	126	5.7	2 090	113	123
Nov.	3 567	2 195	2 050	145	6.6	2 355	111	125
Dec.	3 570	2 210	2 051	159	7.2	2 714	139	133
1978*								
Jan.	3 572	2 199	2 007	192	8.7	2 625	94	102
Feb.	3 571	2 187	2 001	186	8.5	3 076	92	110
March	3 572	2 195	2 007	188	8.5	3 641	105	123
April	3 576	2 172	2 004	168	7.7	3 443	107	120
May	3 575	2 228	2 073	155	7.0	2 436	112	124
June	3 576	2 420	2 241	179	7.4	..	111	120
July	3 579	2 418	2 243	175	7.2	..	..	..

## CONSTRUCTION OF BUILDINGS

Period	Building permits granted					Buildings completed					Building-works under construction
	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	
Million cubic metres											
1974	53.23	22.35	3.26	21.30	3.52	46.50	21.54	2.75	17.04	3.14	52.84
1975	51.42	19.65	3.79	21.62	3.39	47.85	20.59	2.80	18.68	3.64	52.45
1976	46.89	19.95	3.93	15.81	3.84	41.25	17.74	3.16	15.40	2.59	51.85
1977*	41.62	18.82	4.23	11.90	3.72	43.12	17.89	3.01	16.57	3.28	48.38
1976											
Oct.-Dec.	11.96	4.09	0.69	5.12	1.45	13.15	6.29	1.19	4.02	0.81	51.85
1977*											
Jan.-March	6.73	2.92	0.66	1.91	0.83	9.43	3.59	0.47	4.51	0.57	47.95
Apr.-June	13.22	7.00	1.71	2.69	0.80	8.76	4.16	0.38	2.76	0.99	51.52
July-Sept.	11.20	4.67	1.06	3.70	0.91	10.92	4.04	1.05	4.02	0.99	52.69
Oct.—Dec.	10.47	4.23	0.80	3.60	1.18	14.01	6.10	1.11	5.28	0.73	48.38
1978*											
Jan.-March	10.21	3.72	1.02	4.06	0.92	8.36	3.81	0.66	2.80	0.75	45.37

# EXPLANATIONS RELATING TO THE STATISTICAL SECTION

## BANK OF FINLAND

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

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

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

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

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

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

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

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

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

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

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

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

## DEPOSITS BY THE PUBLIC —

### ADVANCES TO THE PUBLIC — MONEY SUPPLY

Figures for deposits and advances are supplied by the Central Statistical Office.

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

From 1974 deposits include domestic deposits denominated in foreign currency.

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

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

*Money Supply.* M<sub>1</sub> = Finnish notes and coins in circulation — Finnish notes and coins held by the banks + demand deposits held by the public (incl. demand deposits at the Bank of Finland) Quasi-Money = Time deposits held by the public (incl. time deposits at the Bank of Finland)

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

## STATE FINANCES

Page 8. Official figures computed by the Economic Department of the Ministry of Finance. First date of publication: Bulletin No. 8, 1968. Revenue and expenditure: Extra-budgetary funds and the aggregated net current deficit of State enterprises are included.

Figures are reported on a cash payment basis. Debt: Foreign debt includes promissory notes given to international organizations. Index-tied bond loans are taken at nominal values. Cash debt (net) = net debt to the Bank of Finland plus short-term debt to Postipankki less cash holdings (net) of State departments and funds.

## FOREIGN TRADE

Pages 9—11. Figures supplied by the Board of Customs. *Indices* (p. 9): The volume indices are calculated according to the Paasche formula and the unit value indices according to the Laspeyres formula. *Terms of trade:* the ratio of export indices to import indices. *Foreign trade by countries* (p. 11): from January 1978 imports by countries of origin exports by countries of consumption.

## BALANCE OF PAYMENTS

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

## PRICE INDICES

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

## WAGES — PRODUCTION

Pages 15—16. Figures supplied by the Central Statistical Office. Page 16. *Index of industrial production* calculated by the Central Statistical Office. The grouping by branches of industry is in accordance with the Standard Industrial Classification (SIC) which is a version of the 1968 edition of the ISIC. The SIC facilitates international comparisons between Finnish statistics and corresponding data from countries which use the ISIC. The seasonally adjusted series is calculated by the Bank of Finland on the basis of the index of industrial production per working day according to a method resembling the U.S. Bureau of Census Method II. Commodities according to use: Investment goods weight 7.0, other producer goods weight 67.0 and consumer goods weight 26.0. The weights for the special manufacturing indices are food manufacturing (SIC 311-2) 9.8, manufacture of wood, and wood and cork products (SIC 311-2) 8.0, manufacture of paper and paper products (SIC 341) 15.2, manufacture of industrial chemicals (SIC 351-2) 5.2, manufacture of non-metallic mineral products except products of petroleum and coal (SIC 361-9) 3.6 and metal industry (SIC 37-38) 25.9.

## LABOUR — TIMBER FELLINGS — INTERNAL TRADE — TRAFFIC — CONSTRUCTION OF BUILDINGS

Page 17. *Labour* figures supplied by the Central Statistical Office. *Commercial timber fellings* compiled by the Ministry of Labour. *Retailers' and Wholesalers' volume indices* supplied by the Central Statistical Office. *Construction of buildings* figures calculated by the Central Statistical Office.

## SYMBOLS USED

- . Preliminary
- r Revised
- 0 Less than half the final digit shown
- .. Logically impossible
- .. Not available
- Nil
- S affected by strike

# SOME PARTICULARS ABOUT FINLAND

## FORM OF GOVERNMENT

From 1155 to 1809 Finland formed a part of the kingdom of Sweden. Connected from 1809 with Russia, Finland was an autonomous country with the Emperor as Grand Duke until December 6, 1917. The date of Finland's declaration of independence. The republican constitution was adopted in 1919. The legislative power of the country is vested in Parliament and the President. The highest executive power is held by the President, elected for a period of 6 years. Mr. Urho Kekkonen has been President since 1956 and he was re-elected for the period March 1, 1978, to March 1, 1984.

Parliament, comprising 200 members, is elected by universal suffrage for a period of 4 years. The number of seats of the different parties in Parliament elected in 1975 is as follows: Social Democrats 54. People's Democrats 40, Centre Party 41, Conservatives 34, Swedish Party 10, Liberal Party 8, Christian League 9, Finnish Farmers Party 2 and Finnish People's Constitutional Party 2.

## INTERNATIONAL ORGANIZATIONS

Finland became a member of BIS 1930, IMF 1948, IBRD 1948, GATT 1950, UN 1955, IFC 1956, IDA 1960, EFTA 1961, ADB 1966, OECD 1969, and IDB 1977.

## LAND

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

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

## POPULATION

NUMBER OF INHABITANTS (1978): 4.7 million. Sweden 8.2, Switzerland 6.4, Denmark 5.1 and Norway 4.0 million.

DENSITY OF POPULATION (1978): In South Finland 46.2, in East and Central Finland 13.9, in North Finland 4.0 and in the whole country an average of 15.5 inhabitants to the square kilometre.

DISTRIBUTION BY AREA (1978): 41 % of the population inhabit the rural areas, 59 % towns and urban districts. The largest towns are: Helsinki (Helsingfors), the capital 493 324 inhabitants. Tampere (Tammerfors) 166 179, Turku (Åbo) 164 520.

EMPLOYMENT (1978): Agriculture and forestry 14 %, industry and construction 35 %, commerce 15 %, transport and communication 8 % services 28 %.

LANGUAGE (1975): Finnish speaking 93.3 %, Swedish speaking 6.4 %, others 0.3 %.

EDUCATION (1977): Practically all persons over 15 years of age are literate. There are 6 universities (the oldest founded in 1640) and 14 colleges of university standard.

CHANGE OF POPULATION (1978): births 14.0 ‰, deaths 9.4 ‰, change + 2.7 ‰, net emigration 2.0 ‰. Deaths in France 10.5 ‰ and Great Britain 12.2 ‰.

## TRADE AND TRANSPORT

NATIONAL INCOME (1977, in million marks): Gross domestic product at factor cost by industrial origin: agriculture 6 308 (6 %), forestry and fishing 5 345 (5 %), manufacturing 33 593 (30 %), construction 9 979 (9 %), transport and communication 11 604 (11 %), commerce, banking and insurance 14 903 (14 %), public administration 5 956 (5 %), ownership of dwellings 4 030 (4 %), services 17 543 (16 %), total 109 261. Index of real domestic product 163 (1964 = 100).

FOREST RESOURCES (1978): The growing stock comprised of 1 520 million m<sup>3</sup> (solid volume with bark) of which 45 % was pine and 37 % spruce, the remaining 18 % being broad-leaved trees, chiefly birch. Of the growing stock, 637 million m<sup>3</sup> was up to the standard required for logs, 56 % of these being pine. The annual growth was 57.4 million m<sup>3</sup> and the total removal, calculated on the basis of roundwood consumption, was 42.4 million m<sup>3</sup>.

AGRICULTURE (1978): Cultivated land 2.3 million hectares. Number of holdings 242 700 of which 164 600 are of more than 5 ha. Measure of self-sufficiency in bread cereals 150 % in the crop year 1976/77.

INDUSTRY (1978): Gross value of industrial production 95 790 mill. marks, number of workers 412 718, salaried employees 136 890, motive power (1978) 6.8 mill. kW. Index of industrial production 125 for 1976 (1970 = 100).

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

MERCHANT FLEET (June 30, 1978): Passenger vessels 119 (189 448 gross reg. tons), tankers 51 (1 165 653 gross reg. tons), dry cargo vessels 211 (966 744 gross reg. tons), other vessels 74 (9 848 gross reg. tons), total 455 (2 331 693 gross reg. tons).

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

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

## FINANCE AND BANKING

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

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

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

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

# MONETARY POLICY AND FINANCIAL DEVELOPMENTS

by T. R. G. Bingham  
Tapio Korhonen  
Seppo Kostiainen  
Bank of Finland

The past year or so has witnessed a shift in the emphasis in economic policy away from the balance of payments and inflation towards growth and employment. The international recession of the mid-1970's and economic policy measures intended to reduce inflation and to curtail the growth of the country's foreign indebtedness have converted a large current account deficit (8 per cent of GDP in 1975) into a clear surplus and have pushed the inflation rate below the OECD average. At the same time, however, economic growth has virtually come to a standstill and unemployment has increased from 2 per cent in 1975 to about 8 per cent in 1978.

To deal with these latter problems, a number of fiscal, foreign exchange and monetary policy measures have been implemented. These measures have been designed to curb the rise in production costs, to improve competitiveness and to expand domestic demand, particularly investment demand. Although substantial by Finnish standards, these measures have not so far succeeded in halting the deterioration in investment or improving employment because of considerable unused capacity, low profitability, and high debt-equity ratios.

In view of current conditions of uncertainty, private economic agents — especially firms and financial institutions but also households — have shown a strong proclivity to improve their liquidity. Moreover, an inflow of capital from abroad, resulting primarily from the financing of part of the central government deficit in the international capital market, has increased the accumulation of liquid reserves in the economy.

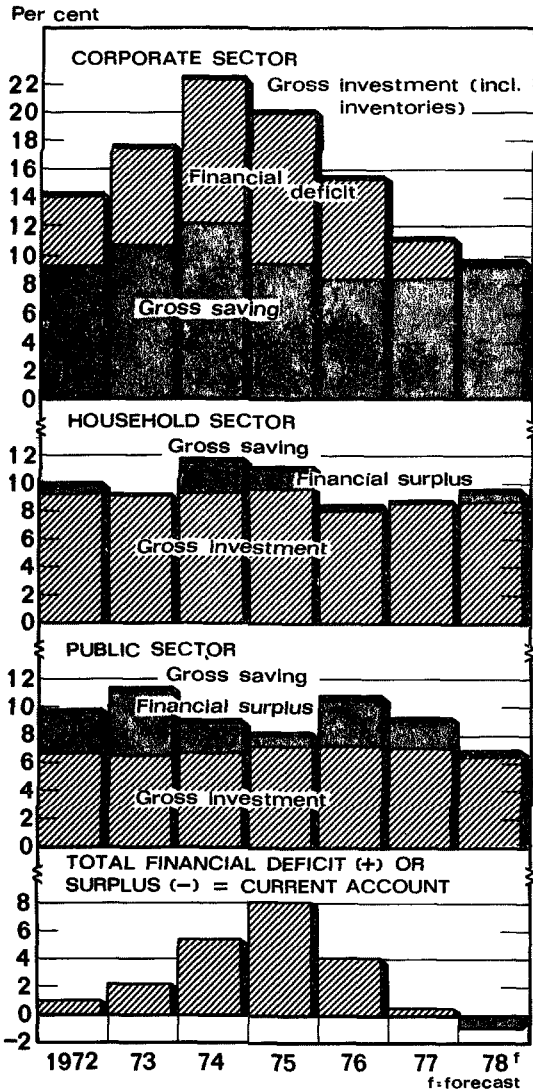
## THE FINANCIAL POSITION OF THE CORPORATE, HOUSEHOLD AND GOVERNMENT SECTORS

Recent economic developments and policies have fundamentally changed both financial conditions and the positions of the non-financial domestic sectors. The most noteworthy shift in the sectoral balances has been the fall in the net borrowing of the corporate sector (Chart 1). Firms have traditionally shown a substantial financial deficit because undistributed profits have provided only about a half of the finance needed for their fixed and inventory investment. However, this year the corporate sector's gross profits are forecast to more or less equal its investment expenditure, thus eliminating the financial deficit. This is due mainly to a decline in investment but partly to a revival in corporate profits from an unusually low level.

Despite comparatively brisk housing investment, the financial surplus of the household sector has increased slightly. One reason for this is that an increased Budget deficit has supported household expenditure. On the other hand, general uncertainty about income prospects and weakening inflationary expectations raised the propensity to save.

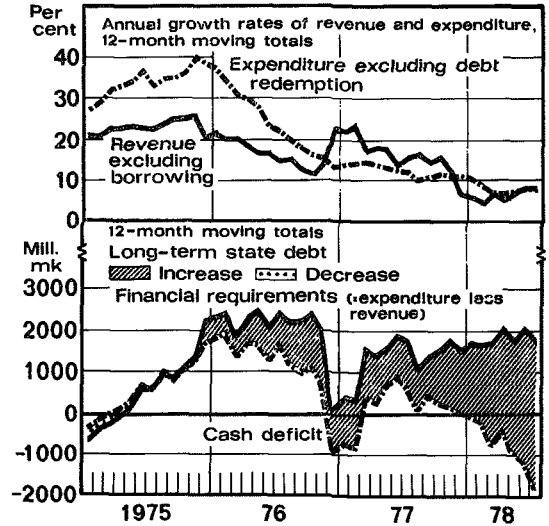
Transitory factors were responsible for a marked improvement in the financial position of the central government in 1976. Since then, however, its position has deteriorated, largely as a result of a narrowing of the tax base, other automatic factors and expansionary fiscal policy. In consequence, the government sector's traditionally large financial surplus is disappearing.

**CHART 1. SAVING, INVESTMENT AND FINANCIAL SURPLUSES AND DEFICITS BY SECTOR, PER CENT OF GDP**



Since government lending has remained high, the central government borrowing requirement has increased considerably. Central government long-term gross borrowing came to about 2 000 mill. marks last year (Chart 2), and this year is expected to treble, thus amounting to 4.5 per cent of GDP. However, long-term borrowing will be large enough to generate an improvement in central government short-term liquidity despite the fact that a third of the excess taxes collected in 1977 will be returned in December of this year instead of March 1979.

**CHART 2. STATE FINANCES**



Unlike the central government, the local authorities have not witnessed any substantial growth in their deficits because credit has not been available to this sub-sector in sufficient amounts to allow a major increase in its net borrowing.

**FINANCING THE BUDGET DEFICIT**

This year more than half of the central government's financial needs will be met from foreign sources. Besides the availability of foreign credit, the reason for this is that the channels for shifting substantial amounts of domestic financial saving to the central government at short notice and on reasonable terms are inadequate. The bond market is thin in Finland, and the financial institutions, with the exception of Postipankki (the post-office bank) and some insurance institutions, do not traditionally finance the central government and are under no obligation to do so. Moreover, the Bank of Finland does not normally finance the central government.

The general hesitancy of private financial institutions to purchase central government debt seems to be a special feature of Finland's financial market stemming from many historical

and institutional factors. Of these mention might be made of the lack of a developed secondary market for securities and the traditionally meagre supply of government bonds resulting from the more or less balanced budgets of the central government. In addition, persistent excess demand in the credit market, which is not cleared by interest rate movements, has given rise to a tendency for the financial institutions to use lending to firms and households as one means of competing for the financial savings of the private sector.

However, some progress has recently been made in improving the flow of domestic finance to the central government. The deposit banks have agreed to buy any portion of three bond issues totalling 500 million marks which cannot be sold to the public this autumn. Moreover, in connection with a set of policy measures implemented last spring, the Bank of Finland agreed to lend 700 million marks to the State for two years.

In order to promote sales of government bonds to the general public, relatively favourable terms have been used, and some new types of bonds have been issued. However, even though government bond sales to the general public were some 70 per cent higher in January—August 1978 than in the corresponding period of the previous year, only about a quarter of the accumulated total gross borrowing of 3 300 million marks came from this source.

## DOMESTIC LIQUIDITY AND MONETARY POLICY

The continued improvement in the current account and the deceleration in inflation in 1977 opened the way for easing monetary policy. Initial steps in this direction were taken in the first half of the year, but speculative pressure against the Finnmark, reflected in a 880 million marks fall in the net foreign assets of the Bank of Finland for the year as a whole (see the table), limited the scope for further action later in the year. The commercial banks' debt to the central bank grew by roughly 750 million marks during 1977, and its cost rose from about 11 per cent in the first half of the year to roughly 14 per cent at year end, when the call money rate, a rough indicator of the marginal cost of central bank credit, was well above 20 per cent (Chart 3).

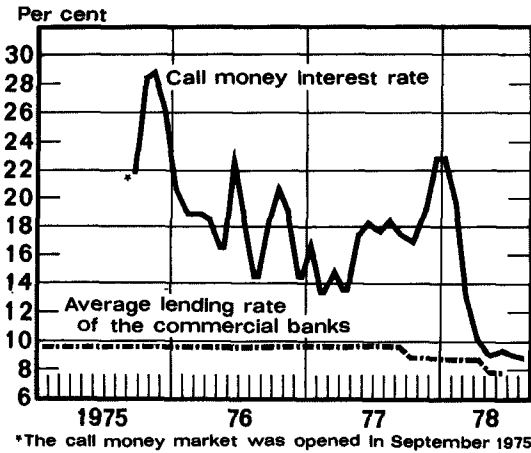
Once a devaluation of eight per cent in February 1978, following upon two smaller devaluations in April and September of the previous year, had restored confidence in the Finnmark, monetary conditions began to ease. Initially a reflux of some short-term capital boosted the net foreign assets of the central bank. This development was given further impetus by long-term capital imports and the growing current account surplus. The increase in the net foreign assets of the Bank of Finland from 560 million marks to 4 840 million marks in the first eight months of 1978 denotes marked easing of domestic financial conditions.

### BALANCE SHEET OF THE BANK OF FINLAND, MILLION MARKS

	31. 12. 1976	Change 31. 12. 1976— 31. 12. 1977	31. 12. 1977	Change 31. 12. 1977— 31. 3. 1978	31. 8. 1978
+ Net claims of the foreign sector	1 437	—880	557	+4 278	4 835
+ Net claims on the commercial banks	4 284	+748	5 032	—2 956	2 076
+ Net claims on the corporate sector	1 092	+ 82	1 174	— 391	783
+ Net claims on the public sector	— 686	+749	63	+ 188	251
= Total net assets	6 127	+699	6 826	+1 119	7 945
+ Net liabilities to other financial institutions	753	+ 53	806	+ 377	1 183
+ Deposit certificates in circulation	—	+200	200	+ 659	859
+ Notes and coins in circulation	2 885	+282	3 167	+ 247	3 414
+ Equity and other items, net	2 489	+164	2 653	— 164	2 489
= Total net liabilities	6 127	+699	6 826	+1 119	7 945



**CHART 3. KEY INTEREST RATES**



Its counterpart was a reduction of nearly 3 000 million marks in the central bank debt of the commercial banks and the neutralization of improved central government liquidity in the central bank. Call money deposits by Postipankki, the banker to the State, grew by 380 million marks, and deposit certificates in circulation rose by 660 million marks in January—August 1978.

### THE COMMERCIAL BANKS' DEBT TO THE CENTRAL BANK

The commercial banks' net position vis-à-vis the Bank of Finland consists primarily of credit advanced within the context of the quota arrangement and net credit from the call money market, a deposit and overdraft facility in the central bank intended to even out interbank differences in liquidity and to deal with seasonal and calendar fluctuations in liquidity caused by changes in central government finances.

In keeping with the policy stance of the time, the regulations governing quota-related and call money borrowing were modified in May 1977. The basic discount quotas were lowered from 2 100 million marks to 1 900 million marks but the ceiling on quota-related debt was raised from 150 to 170 per cent of the quotas and the limit on daily borrowing in the call money market from 100 to 125 per cent of the quotas.

In addition, the interest rate schedule on supra-quota borrowing was lowered across the board. The net effect of this revision was to ease monetary conditions slightly.

Apart from a temporary increase in the ceilings on call money credit in December 1977—March 1978 to take account of large seasonal swings in private sector liquidity caused by the State's fiscal actions, no further changes were made in the regulations governing the commercial banks' central bank debt until June of this year when the quotas were lowered from 1 900 million marks to 1 400 million marks and the ceiling on call money credit was raised from 125 to 200 per cent. Similar modifications were made in September when the quotas were lowered from 1 400 million marks to 1 000 million marks and the call money credit ceiling was raised from 200 to 300 per cent of the quotas.

Both the June and September modifications were reactions to the rapid growth of the net foreign assets of the Bank of Finland rather than active policy measures designed to alter the course of economic activity. They were necessary to preserve the smooth operation of the call money market and the quota arrangement and to prevent the build up of excess liquidity.

As a result of these revisions in the regulations governing central bank borrowing, the relative importance of call money credit has increased. In part this is due to the fact that the relative size of seasonal fluctuations in liquidity evened out in the call money market increases when the quotas are reduced. This structural shift also has the advantage of increasing monetary policy flexibility since it is easier to operate in the call money market than to change the quota regulations. The call money rate has recently been close to nine per cent, and the average cost of central bank credit is now in the neighbourhood of the bank's average lending rate.

At the end of 1977, a system of targets and bonuses for the banks' central bank debt in

1978 was introduced.<sup>1</sup> The purpose of this system is to assist the banks in their liquidity planning and to provide increased incentives to conform with central bank policy. Since the supra-quota interest payments, which serve as the basis for calculating the bonuses, have been small in the second and third quarter of 1978, the former function is now predominant.

## INTEREST RATES

Changes in the discount rate have not been the linchpin of monetary policy in Finland, and before 1977 this rate had remained the same for over four years. One reason for the relatively modest role of this instrument is that the marginal cost of liquidity for the banks does not depend directly on the discount rate but rather on the supra-quota interest schedule and the call money rate. Another reason is that by convention virtually all interest rates — i.e. those on both new and existing deposit and loan contracts — change whenever the discount rate is altered. This makes the impact of discount rate policy on the domestic cost level more direct, and the impact on bank liquidity less pronounced, than in countries where fixed interest contracts play a more important role. In these conditions the two discount rate changes of the past year are worthy of note.

In October 1977, the discount rate was lowered from 9 1/4 to 8 1/4 per cent in connection with a set of Government measures which included the September devaluation. The aim of this discount rate reduction was to offset some of the cost pressures which higher import prices would engender.

In May of this year the discount rate was again lowered by one percentage point to 7 1/4 per cent. Although many elements underlying the previous reduction were again present, the economic setting had changed. There were no expectations of further exchange rate changes,

and the foreign exchange reserves had increased substantially within a few months. Moreover, the current account was in surplus and the inflation rate had decelerated rapidly. It was natural in these conditions to attempt to stimulate economic activity.

Traditionally, one of the intermediate aims of Finnish monetary policy has been to affect the willingness of the banks to extend credit by varying the terms on central bank finance provided to the banks. This sort of strategy, which is based on the fact that the commercial banks are net debtors to the central bank, can work only if the banks do not pass on increased costs of the central bank finance. To prevent this from happening and to stop the upward drift in interest rate margins which has occurred in past years, the Bank of Finland issued guidelines on average lending rates to supplement its previous rules regarding maximum lending rates.

## SPECIAL FINANCIAL ARRANGEMENTS

Although the Bank of Finland concentrates on the regulation of general liquidity in the economy, it also administers several special financial arrangements which enable it to implement selective monetary policy. In October 1977 the terms on the three permanent schemes were eased in an attempt to ensure that the monetary stringency resulting from the speculative pressure on the exchange rate did not hamper production of exports and investment goods. At this time the upper limit on credit extended to a single firm within the context of the new export credit scheme was raised from 3 to 4 million marks, the maturity of bills eligible for the short-term export credit facility was raised from 12 to 24 months and the Bank of Finland's share in the domestic suppliers' financing arrangement was increased from 30 to 40 per cent of the value of the contract after deduction of cash payments made by the purchaser. In September 1978, the Bank of Finland's share in the domestic suppliers' arrangement was raised to 50 per cent.

<sup>1</sup> The operation of the system of targets and bonuses is described in the »Monetary Developments», the front article of the April 1978 issue of this Bulletin.

## OTHER MONETARY POLICY MEASURES

The length and depth of the current recession combined with rigidities in the financial market complicating the intermediation of finance to the central government, led the Bank of Finland to agree to lend 700 million marks to the State for two years. This finance was agreed upon in connection with the February devaluation and is intended to make up an expected shortfall in State revenue resulting from a temporary reduction in the turnover tax on capital goods. About a half of the loan will be drawn this year.

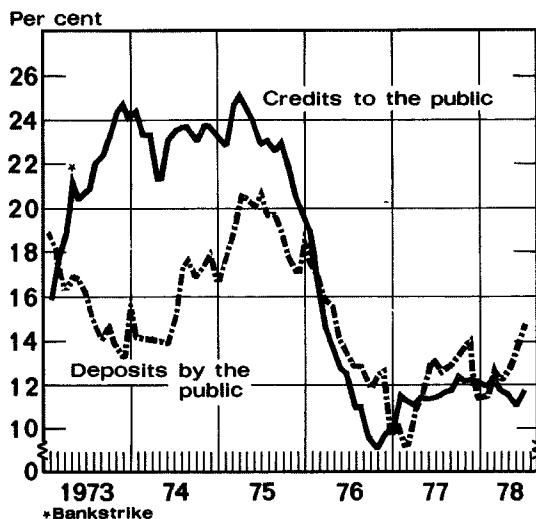
In keeping with a practice which it has followed throughout the current decade, the Bank of Finland issued credit policy guidelines to the financial institutions in December 1977. The guidelines noted that demand for investment finance is likely to remain low but that the need for operating finance would probably remain strong in the light of sluggish aggregate demand and low capacity utilization which reduce corporate cash flow. The financial institutions were asked to favour sound firms in need of current finance, productive investment and the construction of dwellings.

## DEPOSIT BANKS

The financial actions of firms and the central government combined with the economic policy pursued have been largely responsible for recent developments in the banking sector. In 1977 firms reduced their demand deposits because of low profitability and exchange rate uncertainty which engendered a preference for claims denominated in foreign currency. This year the inflow of foreign capital and improved profitability have led to rapid growth of demand deposits. During the first half of the year the seasonally adjusted growth rate for demand deposits was as high as 40 per cent, which has eased the commercial banks' financial position.

Increased real disposable household income and uncertainty about employment and about general economic conditions have kept household financial saving at its previous level.

**CHART 4. BANK CREDITS AND DEPOSITS: CHANGE FROM CORRESPONDING MONTH OF PREVIOUS YEAR**

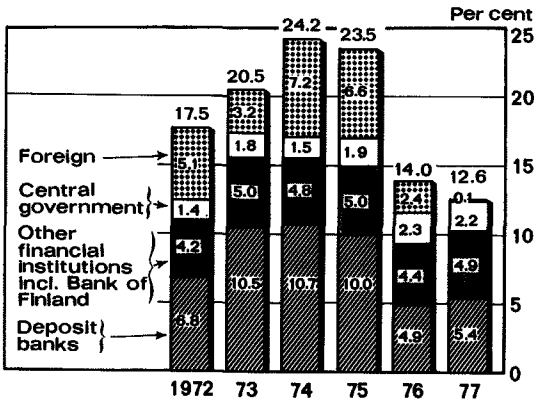


During the first half of this year, the seasonally adjusted growth rate of time deposits in all deposit banks was 12 per cent, which is slightly less than last year. Since inflation has subsided, there has been a clear increase in deposits in real terms, the first such increase in a number of years.

In step with decreasing investment, bank lending slowed down further. During the first half of the year, the seasonally adjusted growth rate was 10 per cent (Chart 4). The commercial banks' advances to the private sector have grown slightly more slowly than those of all the deposit banks, and the increase in Posti-pankki's advances came to a mere 4 per cent. Credits in the form of bills and overdrafts have decreased, which indicates improved corporate liquidity.

The commercial banks' improved liquidity has been reflected in a decrease in their central bank debt and in a decline in their foreign debt since March. Before that, this item fluctuated sharply in response to exchange rate uncertainty. The difference between the growth of Posti-pankki's deposits and credits has been even larger than that of the commercial banks. This mainly reflects preparations to help meet the State's liquidity needs.

**CHART 5. TOTAL CREDIT EXPANSION TO THE PUBLIC<sup>1</sup>**



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

### TOTAL CREDIT EXPANSION

Credit extended by other financial institutions grew by 21 per cent in 1977, whereas the corresponding figure for the deposit banks was 12 per cent. This high growth for non-bank financial institutions seems to be partly the result of a relative portfolio shift by insurance institutions away from real assets. This year the growth of lending by other financial institutions should be much smaller, mainly because temporary reductions in social security contributions will diminish funds available to the insurance institutions for lending. The growth of lending by the central government has been rather modest this year, but this will presumably prove to be temporary. Also the net foreign debt of the private sector and of local authorities should increase only slightly.

Excluding the effect of changes in exchange rates, the total stock of credits received by households, companies and local authorities grew by nearly 13 per cent in 1977 (Chart 5). The sluggishness of company investment kept the share of the corporate sector in the total increase below 60 per cent, which is less than the historical average. This year the share of households and local authorities is likely to increase further. On the other hand, the scope for a healthy increase in this type of lending is limited because housing investment is already

at a rather high level, and the relative importance of local authority credits and consumer credits will remain slight. Moderate demand for credit is expected to reduce the growth of total credit extended to the general public below 10 per cent this year.

### SECURITY MARKET

Current uncertainty has also been reflected in the security markets which have been unsteady. At the end of 1977 the share market began to show signs of gradual improvement after a long period of decline. In the winter the share index rose by about 10 per cent and listed companies began to show new interest in share issues. The revival, however, has faltered during the summer. An important reason for fluctuations in the share market is the volume of government issues. Sales of government bonds increased to some 850 million marks by the end of August whereas for the whole of 1977 they were about 750 million marks. Secondary trade in bonds has also increased during the past year, but it is still small relative to new issues. Since the volume of transactions in listed shares also rose considerably, total turnover on the stock exchange more than doubled during the first half of this year.

### PROSPECTS

Since it appears that the growth of production will not be large enough to achieve any notable improvement in employment in the near future, it seems likely that the current monetary policy stance will be maintained if inflation and balance of payments problems do not reemerge.

Although monetary policy cannot play a leading role in the implementation of economic policy when demand is deficient, an attempt can be made to ensure that the cost and availability of finance do not hinder a revival in investment. At the same time, however, it is essential to prevent the build-up of excess liquidity which might undermine price stability and encourage expenditure making no clear contribution to long term growth. Recent monetary policy has been formulated in the light of these dual aims.

## ITEMS

**Finland's gross long-term foreign debt in January—June 1978.** At the end of June 1978, Finland's gross long-term foreign debt amounted to 34 927 million marks. Of this, 1 405 million marks represented reserve credits and oil credits, which the Bank of Finland had taken up in 1975—1977 in order to support the exchange reserves. The net inflow of long-term capital in January—June totalled 2 297 million marks, as against 1 054 million marks in the corresponding period last year. The debt outstanding increased by 15 per cent or 4 571 million marks, of which 2 274 million marks

was the result of changes in the exchange rates.

Drawings of long-term foreign capital amounted to 4 913 million marks, while redemptions totalled 2 616 million marks. Financial loans of 4 327 million marks, import credits and leasing credits together totalling 449 million marks, and direct investments of 128 million marks, accounted respectively for 88, 9 and 3 per cent of total drawings of long-term foreign loans. Debt service costs (redemptions, interest expenses and dividends) amounted to 3 887

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

	Debt <sup>1</sup> Dec. 31, 1977	Drawings <sup>1</sup>	Redemp- tions <sup>1</sup>	Net change	Impact of exchange rates	Debt <sup>1</sup> June 30, 1978	Interest, expenses, commis- sions and dividends
FINANCIAL LOANS	22 695	4 327	2 090	+2 237	+1 837	26 769	978
Individual financial loans	11 922	1 769	1 764	+ 5	+ 785	12 712	509
Bonds and debentures	10 773	2 558	326	+2 232	+1 052	14 057	469
Bond issues	6 189	2 160	183	+1 977	+ 627	8 793	269
Private placement loans	3 955	390	110	+ 280	+ 383	4 618	177
Loans from the World Bank	387	8	33	— 25	+ 29	391	14
Debenture issues	242	—	—	—	+ 13	255	9
IMPORT CREDITS	5 775	449	488	— 39	+ 398	6 134	189
LEASING CREDITS	108	—	9	— 9	+ 3	102	4
DIRECT INVESTMENTS <sup>2</sup>							
(Equity capital and loans to subsidiaries)	1 717	128	16	+ 112	+ 36	1 865	100
SUBSCRIPTIONS TO INTERNATIONAL FINANCIAL INSTITUTIONS <sup>3</sup>	61	9	13	— 4	—	57	—
<b>Total</b>	<b>30 356</b>	<b>4 913</b>	<b>2 616</b>	<b>+2 297</b>	<b>+2 274</b>	<b>34 927</b>	<b>1 271</b>
Financial loans, import credits and leasing credits	28 578	4 776	2 587	+2 189	+2 238	33 005	1 171

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

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

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

million marks, as against 2 636 million marks in the corresponding period last year.

Drawings of 2 691 million marks by corporations, 675 million marks by financial institutions, and 1 410 million marks by the Central Government and local authorities accounted respectively for 56, 14 and 30 per cent of total drawings of long-term foreign loans. During the first half of 1977, drawings by corporations had amounted to 1 811 million marks, while those by financial institutions had amounted to 254 million marks and by Central Government and local authorities to 230 million marks, constituting 79, 11 and 10 per cent, respectively, of total drawings of foreign loans.

Eleven Finnish bond issues, together worth 2 160 million marks, were floated abroad in January—June:

Imatran Voima Oy	Sfr	80 million
Rautaruukki Oy	DM	50 million
Industrial Bank of Finland Ltd	EUA	15 million
Finnish Export Credit Ltd	KD	7 million
Government of Finland	DM	150 million
Government of Finland	\$	100 million
Government of Finland	Yen	25 000 million
Government of Finland	Hfl	75 million
Industrialization Fund of Finland Ltd	Yen	5 000 million
Teollisuuden Voima Oy	DM	80 million
Teollisuuden Voima Oy	\$	25 million

This compares with four bond issues, 478 million marks altogether, in the corresponding period of 1977.

**Publications of the Bank of Finland.** The Bank of Finland Year Book for 1977 has been published in Finnish, Swedish and English. The first section reviews the Finnish economy in 1977. The second section deals with Central Bank's monetary policy and foreign exchange policy. The Bank's balance sheet and income statement are included in the third section. In the fourth section, the Bank of Finland's relations with international organizations are considered. The statistical appendix includes the statements of the Bank and various banking transactions during the year under review.

The revised edition of »Financial Markets in Finland» has recently appeared, incorporating twelve articles published in the Bank of Finland Monthly Bulletin in 1970—1972. These articles deal with Finnish financial markets and institutions and the problems connected with their development.

**National income.** The Central Statistical Office has recently published the provisional figures for national income in 1977. The following tables indicate the developments in certain items of national income in the period 1974—1977.

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

	1974	1975	1976	1977*
Compensation of employees	43 885.7	54 507.4	63 158.1	68 648.7
Income from unincorporated enterprises	8 721.1	10 402.0	10 089.4	10 635.7
Household income from property	7 052.9	7 371.9	8 083.1	8 800.7
General government income from property and entrepreneurial activities	2 097.8	2 440.7	2 761.9	3 261.5
Corporate saving	4 734.5	3 721.2	3 205.9	3 686.2
Direct taxes on corporations	1 339.2	1 634.4	2 298.7	2 156.9
less: interest on the public debt	532.7	594.5	677.2	930.2
less: interest on consumers' debt	312.5	379.0	428.7	470.7
National income	66 986.0	79 104.1	88 491.2	95 788.8
Net factor income from abroad	925.4	1 409.5	1 623.8	2 223.1
Net domestic product at factor cost	67 911.4	80 513.6	90 115.0	98 011.9

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

	1974	1975	1976	1977*
Households:				
Disposable income	49 032.1	58 404.2	62 791.6	69 915.7
Consumption	41 063.7	49 783.4	56 644.9	62 116.8
Saving	7 968.4	8 620.8	6 146.7	7 798.9
Corporations:				
Disposable income (=saving)	4 734.5	3 721.2	3 205.9	3 686.2
General government:				
Disposable income	20 952.4	25 187.7	32 339.8	34 336.0
Consumption	14 219.8	18 331.6	21 751.2	24 746.0
Saving	6 732.6	6 856.1	10 588.6	9 590.0
Total:				
Disposable income	74 719.0	87 313.1	98 337.3	107 937.9
Consumption	55 283.5	68 115.0	78 396.1	86 862.8
Saving	19 435.5	19 198.1	19 941.2	21 075.1

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

	1974	1975	1976	1977*
Private consumption expenditure	41 063.7	49 783.4	56 644.9	62 116.8
General government consumption expenditure	14 219.8	18 331.6	21 751.2	24 746.0
Gross private capital formation	20 264.8	25 687.9	25 307.4	27 212.0
Gross general government capital formation	3 680.6	4 474.3	4 848.8	5 281.7
Increase in stocks and statistical error	8 513.2	6 139.8	4 335.0	474.9
Exports of goods and services	24 923.7	24 868.6	29 644.7	37 143.5
less: imports of goods and services	28 491.9	31 325.0	32 409.8	35 418.0
Expenditure on gross domestic product	84 173.9	97 960.6	110 122.2	121 556.9
Net factor income abroad	— 925.4	— 1 409.5	— 1 623.9	— 2 223.1
Expenditure on gross national product	83 248.5	96 551.1	108 498.4	119 333.8

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

	1974	1975	1976	1977*
Construction of buildings	+4	+ 3	—14	+ 3
Dwellings	+6	— 4	—12	+ 4
Other	+1	+12	—18	+ 1
Road and waterway construction	—4	+ 3	— 7	— 7
Machinery and equipment	+7	+13	— 5	—11
Volume of fixed capital formation	+4	+ 7	—10	— 5







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# BANK OF FINLAND

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## Board of Management

Mauno Koivisto  
*Governor*

Ahti Karjalainen      Pentti Uusivirta

Rolf Kullberg      Ele Alenius

Harri Holkeri

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## Directors

Markku Puntila      Seppo Lindblom

Eino Helenius      Pentti Koivikko

Kari Nars

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## Senior officials

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

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

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

Antti Lehtinen      J. Ojala  
*Capital Transfers*      *Foreign Exchange Control*

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

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

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

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

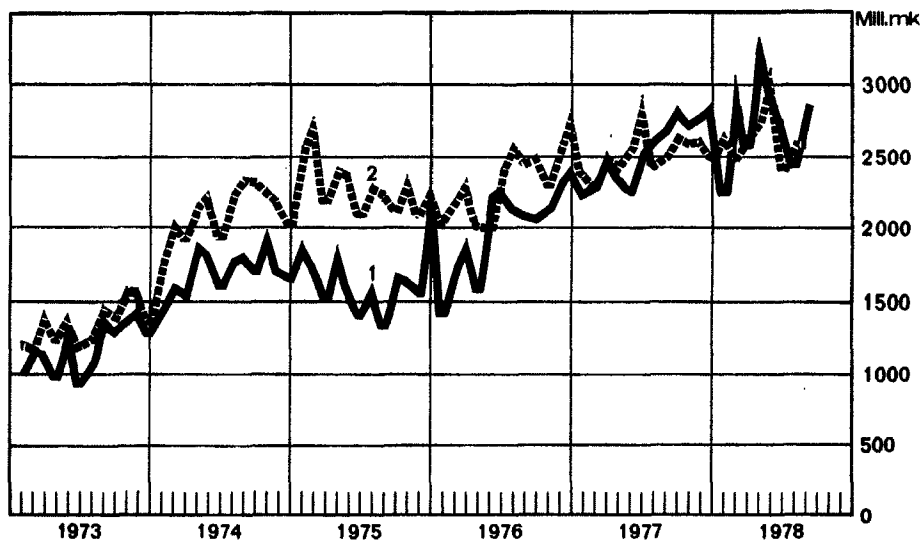
Stig G Björklund      Antti Luukka  
*Banking Services*      *Cash*

U. Levo  
*International legal affairs*

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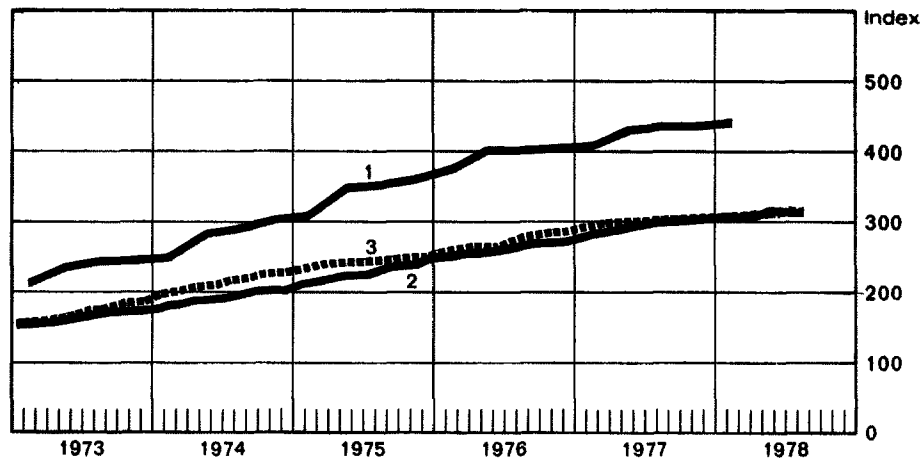
**FOREIGN TRADE, 1973 - 1978**

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



**PRICES AND WAGES, 1973 - 1978**

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



**PRODUCTION, 1973 - 1978**

- 1. Total index of industrial production 1964 = 100, seasonally adjusted monthly figures
- 2. Volume index of gross domestic product 1964 = 100, seasonally adjusted quarterly figures

