

OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

FINLAND

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

FEBRUARY 1979

BASIC STATISTICS OF FINLAND

THE LAND

Area (1 000 sq. km)	337	Population in major cities, 1977:	
<i>of which:</i>		Helsinki	490 205
Cultivated land	27	Tampere	165 418
Forests	187	Turku	165 004
Lakes	32	Urban population	
		(per cent of total)	60

THE PEOPLE

Total population (June 1978)	4 755 000	Manpower by industry in 1977	
Per sq. km of land area	15.6	(per cent of total):	
Average (1973-1977, per thousand):		Agriculture and forestry	13
Live births	13.5	Industry and construction	35
Deaths	9.4	Commerce	15
Net natural increase	4.2	Transport and communication	7
Net increase of population	4.1	Services	30

PARLIAMENT AND GOVERNMENT

Composition of Parliament, number of seats:		Government, number of ministers from:	
Social Democratic Party	54	Social Democratic Party	4
Conservative Party	35	Centre Party	4
Centre Party	39	Democratic League	3
Democratic League	40	Swedish Party	1
Finnish People's Unification Party	1	Liberal Party	1
Swedish People's Party	10	Independent	1
Liberal Party	9	Total	14
Christian League	9		
Finnish Farmers Party	2	Previous general election : September 1975	
Constitutional Party	1	Next general election: March 1979	
Total	200		

PRODUCTION

Gross Domestic Product 1977 (Mk. million)	121 557	Gross Domestic Product by industries in 1977 (per cent):	
GDP per head, US dollars, 1977	6 374	Agriculture and forestry	10
Gross fixed asset formation 1977 (Mk. million)	32 494	Industry and construction	39
		Commerce	9
		Transport and communication	7
		Services	35

THE PUBLIC SECTOR

Public consumption 1977, per cent of GDP	20.4	General government revenue and expenditure, 1977 (Mk. million):	
Gross fixed capital formation 1977, per cent of GDP:		Current revenue	51 911
General government	4.3	Current expenditure	42 321
Public enterprise	2.8	<i>of which:</i>	
Public corporations	2.6	Consumption	24 746
		Transfers	12 025
		Subsidies	5 550

FOREIGN TRADE

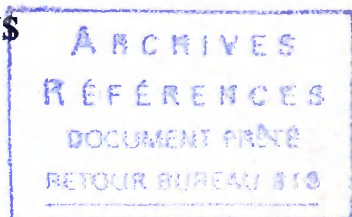
Exports of goods and services, per cent of GDP 1977	30.6	Imports of goods and services, per cent of GDP 1977	29.1
Main exports in 1977 (per cent of total merchandise exports):		Main imports in 1977 (per cent of total merchandise imports):	
Agricultural		Raw materials, etc.	62.3
and forestry products	3.2	Fuels and lubricants	6.7
Wood products	12.5	Investment goods	15.7
Pulp and paper	28.4	Consumer goods	15.3
Metal products	29.7		
Other goods	26.2		

THE CURRENCY

Monetary unit: Markka		Currency units per US \$, average of daily figures:	
		Year 1977	4.021
		November 1978	4.007

NOTE An international comparison of certain basic statistics is given in an annex table.

OECD ECONOMIC SURVEYS



FINLAND

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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The Socialist Federal Republic of Yugoslavia is associated in certain work of the OECD, particularly that of the Economic and Development Review Committee.

* * *

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by the OECD Economic and Development Review Committee
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INTRODUCTION

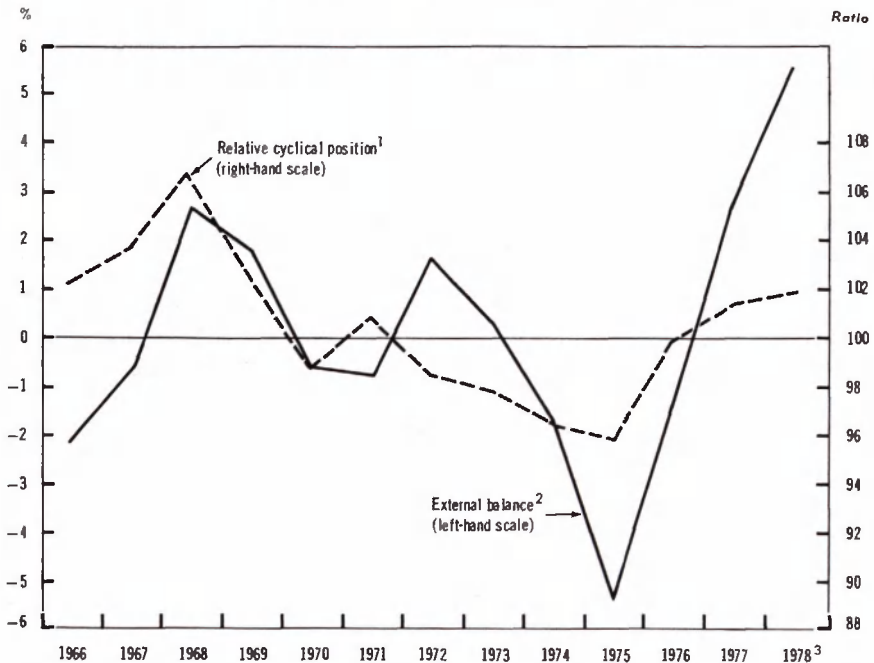
As in 1976 and 1977, the successful adjustment of the balance of payments continued in 1978 when for the first time in a calendar year since 1969 the current account will have been in surplus. Finland's competitive position has strengthened further and domestic cost and price performance improved markedly. Real GNP, instead of stagnating as had been forecast, recovered somewhat, reflecting mainly the impact of expansionary policy measures taken since mid-1977 and strong demand for Finnish exports. Imports on the other hand have remained sluggish. But despite the pick-up in output, the unemployment rate which rose sharply in early 1978 has continued on an upward trend during the year to reach a new post-war peak, employers having initially lengthened working hours rather than taken on new recruits. Reflecting concern about the high rate of unemployment, the 1979 Budget together with the effects of earlier measures, provides for an expansionary fiscal impact. Monetary policy is expected to be accommodating. The prospects in 1979 are for a continuation of the recovery at a rather moderate pace with real GDP rising by around 4 per cent, a rate which would imply limited improvement in labour market conditions. Although cost and price developments could be less favourable than in 1978, this would seem unlikely to endanger Finland's competitive position over the forecast period. The current external account, despite some slowdown in the growth of exports, is likely to remain in surplus.

The present Survey reviews in Part I recent developments in demand and activity, costs and prices and the external sector. Economic policies are discussed in Part II which also examines the institutional structure and implementation of monetary policy in Finland. Part III contains a discussion of the economy's short-term prospects, the main medium-term issues and some policy conclusions.

I RECENT DEVELOPMENTS¹

Following a period of rapid deterioration in price and cost performance and a serious weakening in the country's balance of payments, Finnish economic policy swung over to a very restrictive stance during the course of 1975 and this was essentially maintained until around mid-1977. During this period policy appears to have exercised an unusually restrictive impact on the economy, and by the end of 1977 the external position had improved very sharply, with the current account actually moving into surplus and relative labour cost pressures being brought under much better control. This result was achieved through a severe restriction of domestic demand relative to that abroad as well as through what amounted to an incomes policy, whereby the State intervened with fiscal concessions to moderate wage settlements. On the other hand, consumer prices decelerated little over the period—due partly to the impact of devaluations undertaken in the wake of exchange rate adjustments by other Nordic

Diagram 1 Relative cyclical position and the external balance



1 Ratio of GNP deviations from exponential trend for Finland's fourteen most important OECD trading partners to GDP deviations from trend for Finland. The deviations are calculated from their trend values for the period 1960-1978 and are weighted by the pattern of Finnish exports in 1975.

2 Balance of goods and services as per cent of GDP (1964 prices).

3 Secretariat forecast.

Sources: OECD, National Accounts of OECD countries and Secretariat estimates.

1 At time of publication national accounts for the first three quarters only of 1978 were available. Secretariat estimates for the fourth quarter have been made on the basis of provisional calculations of the Central Statistical Office and of more recent current indicators.

countries and policy action—which entailed a fall in real incomes. Domestic activity remained at a very low level, with GDP rising by less than one per cent on average during the three years to end-1977. Employment declined and the unemployment rate rose sharply.

With a progressive easing in policy stance since around mid-1977 and a sizeable pick-up in external demand, activity began to recover from around the beginning of 1978. Despite the fact that total output is now estimated to grow by around 2 per cent in 1978 rather than stagnate as had been thought likely early in the year, the employment situation remains precarious with the unemployment rate continuing at a very high level. There appears to have been a tendency to increase working hours rather than take on new labour as output picked up. At the same time levels of capital capacity utilisation, though improving, remain low. Relative labour cost performance, however, has continued to develop favourably and the rate of price inflation has dropped sharply to a level below the overall OECD average. The current account of the balance of payments has been in increasing surplus despite a deterioration in the terms of trade.

Domestic developments

Although private consumption initially experienced some reversal of its downward trend in 1978 mainly as a result of fiscal measures to boost household real disposable income, the volume of expenditure remained on average in 1978 at about the previous year's level. The volume of purchases of major durables (especially cars) continued to decline, while expenditure on services rose moderately. The impact of expansionary policy measures appears to have been moderated by developments in

Table 1a Output and expenditure - volume

	1977 Mk. billion	Percentage volume changes from previous year				
		1974	1975	1976	1977	1978 ¹
Private consumption	62.1	4.1	3.7	0.5	-2.2	0
Government consumption	24.7	4.2	6.4	4.7	4.3	5.0
Gross fixed investment*	32.5	3.7	7.0	-9.6	-5.0	-4.6
Final domestic demand	119.3	4.0	4.9	-1.4	-1.8	-0.1
Stockbuilding ²	0.5	2.4	-0.1	-2.2	-1.8	-0.9
Total domestic demand	119.8	6.3	4.6	-3.5	-3.5	-1.1
Exports of goods and services	37.1	-0.9	-14.0	13.7	9.5	8.4
Imports of goods and services	35.4	6.5	0.4	-3.3	-5.9	-3.0
External balance ³	1.7	-2.0	-3.7	3.9	3.9	3.4
GROSS DOMESTIC PRODUCT	121.6	4.3	0.9	0.3	0.4	2.3
* of which:						
Private	27.2	5.4	7.2	-10.9	-5.1	-6.0
Government	5.3	-5.2	5.5	-2.0	-2.2	1.5
Residential building	8.3	5.9	-3.6	-11.6	4.2	-2.0
Non-residential building	6.6	1.3	12.0	-17.6	1.3	1.8
Other construction	5.0	-3.9	3.1	7.7	-8.6	-2.3
Machinery and equipment	12.5	7.0	13.3	-5.3	-11.6	-6.6

1 Secretariat forecast.

2 Including statistical discrepancy.

3 Contribution to GNP growth rate.

Source: Finnish National Accounts and Secretariat estimates and forecasts.

households savings behaviour, as had been the case in 1976². The further increase in the propensity to save, which brought its level to slightly above the longer-term average³, cannot seemingly be explained in terms of changes in the distribution of pre-tax income since there was only a very small gain for non-wage incomes. The main explanation may perhaps have to be sought in a further deterioration in consumer confidence in the wake of the sharp increase in unemployment as well as in the inertia of consumption behaviour in response to income changes as evidenced by the econometric work presented in last year's Survey⁴.

Reflecting the pick-up in output, capacity utilisation rates have been recovering slowly from the historically low levels reached at end-1977. Nevertheless, and despite policy action aimed at promoting such expenditure (see page 27) the volume of private business fixed investment is estimated to have fallen in 1978 for the third year in succession to a level of some 30 per cent below its 1975 peak⁵. The decline, amounting to about 7½ per cent in volume terms, was much the same as in 1977. This reflects the development of expenditure on machinery and equipment as outlays on building have fallen back to around the 1976 level even though starts were up very sharply during the first quarter⁶. The largest cut-back in investment has taken place within the forest industry where, in spite of a substantial increase in export shipments and moderate recovery of profits, the volume of outlays has been only about one-half the 1977 level. Investment in the metal industry has also declined, though the rate of decrease is much smaller than the 45 per cent experienced during 1977. On the other hand, gross fixed capital formation in other manufacturing seems to have recovered. The major part of this increase is attributable to the chemical industries which experienced a relatively fast pick-up in production during the year.

Table 1b **Output and expenditure - value**
Percentage changes

	1974	1975	1976	1977
Private consumption	21	21	13½	9½
Government consumption	26½	29	19	13½
Gross fixed capital formation	29½	26½	0	7½
Final domestic demand	24½	24	10½	9½
Stockbuilding ^{1 2}	7	-3	-1½	-3½
Total domestic demand	30	19	8	6½
Exports of goods and services	36½	0	12	25½
Imports of goods and services	50	9½	3½	9½
External balance ²	-4½	-3½	3½	4
GDP MARKET PRICES	26	16½	12½	10½

1 Including statistical discrepancy.

2 Contribution to GNP growth rate.

Source: Finnish National Accounts Statistics.

2 At that time the effect of a deflationary policy was partly absorbed by a sizeable reduction in the savings ratio.

3 Households' total savings are estimated at some 13 per cent of their disposable income in 1978 compared with 10.9 per cent in 1977 and an average of 12.3 per cent during 1964-1973.

4 See page 8 of the Survey. Furthermore the impact of fiscal concessions on personal incomes fell mainly into the second half of the year. Deducting the "compulsory" element (savings within the private employment pension funds) the savings ratio has risen even more sharply—or from 6.6 per cent in 1977 to just over 10 per cent in 1978.

5 However, its share of GDP in current prices is still only about 1 percentage point below the 1964-1974 average (9.9 compared with 11.0 per cent).

6 The upsurge in starts was in anticipation of pending administrative changes and of the expiration of certain tax concessions for industrial building (in the event, however, these concessions were extended).

Table 2 Current economic indicators
Percentage change from previous year

	1977	1978				July	Aug.	1978	Oct.	Nov
	Q4	Q1	Q2	Q3	Q4			Sept.		
Industrial production	1.2	1.3	5.0	1.2		1.5	3.9	-1.4	5.8	4.2
Building permits ¹										
Total	-12.5	51.7	-2.3	-2.7		-23.3	1.0	10.9	-25.4	-24.0
Dwellings	3.4	27.4	-7.0	-12.2		-9.5	-16.9	-9.4	-1.1	-20.3
Employment	-2.0	-2.4	-1.3	-1.2		-2.0	-0.8	-0.7	0	
Unemployment rate ²	6.8	7.7	7.2	7.2		7.4	7.0	7.0	7.4	7.1
Unemployment/vacancies ratio ²	31.9	29.4	27.5	35.7		32.0	36.4	37.7	38.2	
Consumer prices ⁴	12.1	10.0	8.3	6.1	6.1	6.4	5.4	6.0	6.1	6.2
Commodity exports (volume)	5.1	0.8	18.3	-0.8	12.0					
Commodity imports (volume)	-13.1	-6.1	-5.7	-6.0	0					
Retail sales (volume)	-10.4	-1.0	-3.8	-6.0		-6.8	-5.0	-6.4	-1.7	

1 As measured by cubic volume.

2 Level—monthly figures seasonally adjusted based on labour force surveys.

3 Level—according to Employment Service registration statistics.

4 Not seasonally-adjusted; quarterly data indicate change on corresponding period of preceding year.

Sources: Central Statistical Office, *Bulletin of Statistics, Statistisk Rapport*; OECD, *Labour Force Statistics, Main Economic Indicators*.

The volume growth rate of residential construction slowed somewhat from 1977 when it was the only buoyant element of investment. As with non-residential investment, this mainly reflected the fall-off in the number of starts during 1977 as the pick-up in permits and to a lesser extent in starts during the first half of 1978 only began to be reflected in activity during the latter part of the year. While the level of activity fell short of the authorities' target⁷, the easing which has taken place in credit market conditions as well as the cut-back in the "real" volume of State lending led to a shift in emphasis toward the free (that is, non-State supported) sector. Although available data are very incomplete, additions to stockbuilding appear to have been somewhat smaller in 1978 than last year. Within industry the level of total inventories of finished goods rose during the first half of the year but this was more than offset by a decline in holdings of raw and semi-finished materials⁸.

While total private final domestic demand declined by over 1½ per cent from its 1977 level after having fallen by 3 per cent in that year, the growth rate of public sector final demand accelerated to about 4 per cent (compared with 3 per cent in 1977). Although investment outlays increased after two years of decline, which had reflected the tightening of policy stance and hence the State budget position, the main increase in outlays derived from current expenditure with the expansion of employment-supporting programmes and increased debt servicing commitments. Public investment started to revive from around the end of 1977 primarily on account of increased construction of public buildings.

Except for the metal and machinery industry, where output declined, production of the main industrial sectors rose during 1978. The gains were most pronounced for the forest-based industries, output of which is estimated to have risen by around 10 per cent. At the same time and reflecting the slackness of both foreign and domestic

Table 3 Output by sector
Percentage volume change

	1977 Mk. billion	1973	1974	1975	1976	1977 ¹	1978 ²
Primary industry (excluding forestry)	6.6	-5.3	-0.2	10.8	0.3	-4.5	-7
Forestry	5.0	0.4	0.6	-13.6	-4.4	3.2	2½
Industry	37.1	6.7	4.8	-2.9	1.3	0.7	3
Forest-based	8.4	8.8	-0.7	-25.8	6.7	1.3	11
Metals, engineering	11.8	7.8	11.0	6.2	0	-0.2	-3
Other manufacturing	12.8	4.3	3.4	-2.1	-0.6	0	3½
Building	6.9	8.9	3.7	3.8	-12.3	2.8	0
Road and motorway construction	3.1	1.6	-2.0	1.6	-1.2	-5.3	-2½
Transport and communications	8.1	8.2	5.6	-3.4	1.6	1.3	3½
Trade	11.0	10.0	2.9	3.7	0.3	-6.3	-½
Banking and insurance	3.9	12.3	10.8	11.7	5.3	3.1	1½
Public administration ³	6.0	5.2	5.6	5.2	4.8	3.6	5
Other services	21.6	5.4	5.4	3.5	3.7	3.0	3½
Total	109.3	5.9	4.2	0.5	0.7	0.4	1½

1 Preliminary.

2 Estimated by Central Statistical Office.

3 Including defence.

Source: Finnish National Accounts.

7 Whereas it had been desired to keep the number of completions at their 1977 level these probably fell, according to preliminary estimates, by about 3 per cent. The volume of State housing loans (deflated by the housing cost index) fell by about 1 per cent in 1978. Two-thirds of dwellings completed last year were partly financed by such loans.

8 In particular, holdings of round wood by the forest-processing industries declined sharply early in the year as supplies were interrupted by a dispute over stumpage prices.

capital formation, production of investment goods has fallen by a good 5 per cent. As a result of crop failures in the autumn the volume of agricultural production is estimated to have fallen by around 9 per cent in 1977. At the same time building and construction activity fluctuated somewhat during the year, but on average the level of output declined slightly despite the revival of starts early in the year. On the other hand, the private service sector registered some recovery from the unusually severe impact which the general slowdown had had on its activity, with output rising by 2-3 per cent. The level of activity within the trading sector remained about unchanged at its 1977 level even though private domestic demand continued to fall (albeit less sharply than in the preceding year). The growth rate of the output of government services decelerated to reach its longer-term average growth rate of 5 per cent.

Conditions in the labour market have continued to deteriorate during 1978. Total employment fell for the fourth year in succession, although the decline of 1½ per cent on average for the year was a percentage point slower than in 1977, and was confined to the independent (that is, other than wage and salary earners) element of the labour force. This, together with the virtual stabilisation in the participation rate which had been falling for three years, can be essentially attributed to the fact that the service sectors again began adding to staff⁹. While the male participation rate pursued its downward movement, the rate for women, who are particularly attracted to service industries, resumed its earlier upward trend. In spite of the moderate recovery in industrial production, employment in industry is estimated to have fallen by around 3 per cent in 1978 compared with 1977, but average hours worked rose by a similar amount¹⁰. While perhaps in part still reflecting a residual element of lagged adjustment to the decline in output levels and to the labour hoarding which had earlier been evident in industry, the structure of output movements was also unfavourable from the employment viewpoint. As indicated earlier, activity in the relatively labour-intensive metal industry has fallen sharply, while the forest-based industries, which experienced a sizeable increase in output, are capital-intensive. The rate of departure of workers from the agricultural sector slowed down in 1978—probably mainly due to the lack of alternative employment opportunities—though it still amounted to over 6 per cent.

With the size of the labour force picking up slightly to regain its 1976 level, the average unemployment rate in 1978 is estimated to have risen by a good percentage point from the 6.1 per cent average registered in 1977. When adjusting for seasonal influences the rate moved up during the year although some improvement had been discernible in the second quarter¹¹. Net emigration to Sweden declined to no more than 6.6 thousand in 1978, or only about two-thirds of the average figure during the two preceding years as the demand for labour in that country continued to be very slack. Although regional differences in labour market conditions remain substantial, unemployment in the more heavily industrialised areas has been relatively higher than in earlier cycles. A further structural feature is that white-collar workers have been more severely affected than in the past. Whereas early in the downturn the authorities had introduced schemes designed to subsidise the cost of keeping labour within industry, this approach was not pursued when the prospects for an early upturn in activity receded. Instead, greater emphasis has been placed on supporting employment in the private sector through expanding final demand. Expenditure on employment support

9 However, employment fell quite sharply within the trade (retail and wholesale) sector, where wage rates under the 1977 incomes agreement were increased substantially more than average.

10 The total number of hours worked is estimated to have remained about unchanged.

11 The within-year development of the unemployment rate was particularly difficult to assess in 1978. Unlike past years, the high level of numbers unemployed resulted in a considerable divergence in the results of seasonal adjustments made by multiplicative and additive factor methods respectively. Both indicated, however, an upward trend.

Table 4 Cyclical labour market policy expenditure

	Expenditure				Number of persons affected ¹			
	Mk. million				Thousands			
	1975	1976	1977	1978	1975	1976	1977	1978 ^a
Mobility allowances	3	3	2	8	12.4	8.3	4.1	2.8
Cyclical grants to enterprises	—	12	6	4	—	1.0	0.4	0.3
State public works ²	456	683	568	600	6.0	7.4	5.7	5.5
Special procurement orders to industry	—	34	25	226	—	0.2	0.1	4.5
Employment training	188	352	473	659	8.7	11.7	17.5	22.0
Special Labour Ministry appropriation ³	21	59	122	415	0.6	2.3	4.4	18.0
Other ⁴	48	61	75	112	5.3	4.8	4.2	5.2
Total	716	1 204	1 271	2 021	33.0	35.7	36.4	58.3
<i>Memorandum items:</i>								
Cyclical loans to enterprises	—	11	32	15	—	0.5	1.3	0.6
Unemployment benefits ⁵	203	452	854	1 195	27.6	57.9	96.4	140.0

1 Average per month of persons directly affected by the programmes.

2 That element of public works projects financed by specific unemployment appropriations.

3 Includes State support to local governments for employment purposes and special appropriations for youth employment, etc.

4 Public works for unemployed white collar workers and measures for disabled persons.

5 Benefits paid from unemployment insurance funds and State unemployment assistance.

6 According to 1978 Budget.

NOTE A considerable degree of arbitrariness must necessarily attach to defining which measures should be included in the table. For example, expenditure on regional development policies, which have obvious implications for employment but which are considered of a more structural than cyclical nature, have been excluded.

Source: Finnish submission to OECD.

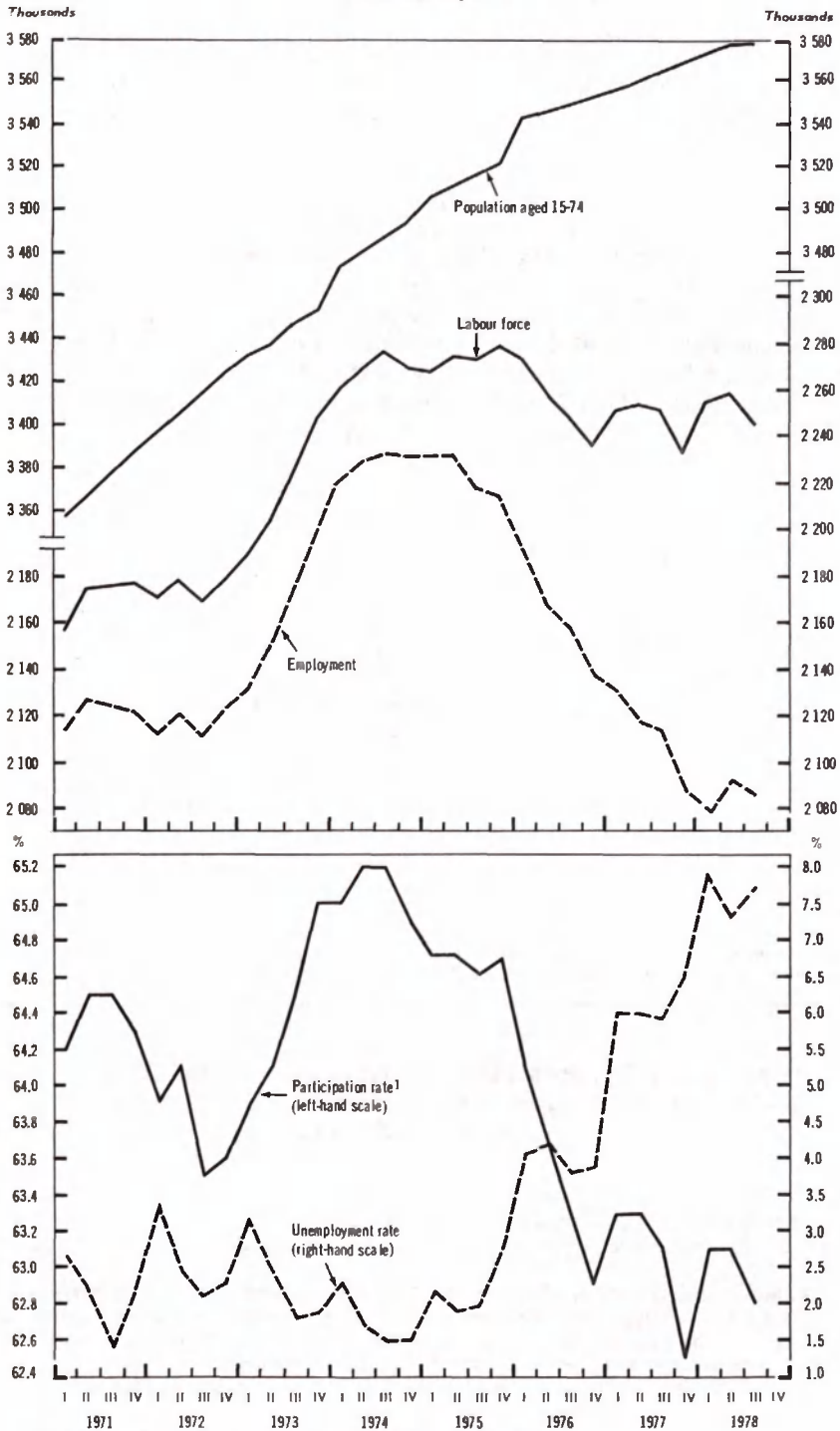
mainly within the public sector, was increased substantially in 1978 (or by some 60 per cent in nominal terms after having stagnated in 1977 (Table 4). The total numbers of persons directly affected by the various programmes amount to the equivalent of some 2½ per cent of the labour force. As in many other countries youth unemployment remains a serious problem, with the average unemployment rate among the 15-24 years age group rising by a couple of percentage points in 1978 from the 14.7 per cent figure recorded in 1977¹². While measures taken in this specific area have been increased substantially, they do not yet seem commensurate with the magnitude of the problem¹³.

Finland witnessed a further easing in both price and cost pressures in 1978. Contrary to developments in 1977, however, the improvement in price performance, at least as measured at the consumer and wholesale levels, was more marked than on the wages side. The continued relatively slack demand in both labour and goods markets can no doubt be attributed a major role in this outcome, but policy action oriented to restraining the growth of wage rates and other labour costs has also had an important bearing. The impact of policy action is particularly evident from the difference between movements in gross and disposable private sector incomes due to a substantial

12 However, in relative terms (the youth unemployment rate being about 2½ times the overall average figure) the problem is no more serious than in a number of other OECD countries. See, for example, C. Sorrentino, "International unemployment statistics compared", *The Banker*, July 1978.

13 Expenditure on specific measures to support youth unemployment, though difficult to determine accurately, appears to have amounted to around some Mk. ½ billion in 1978, or about one-quarter of total expenditure shown in Table 4. On the other hand, unemployment among younger people (15-24 year olds) accounts for almost 40 per cent of the total.

Diagram 2 Labour market developments
Seasonally adjusted



Source: Ministry of Labour, *Labour reports*.

easing in the net taxation burden. At the same time a system of voluntary price restraint was agreed upon in December 1977 with the major central business organisations.

The sectorwise incomes settlements made in the spring of 1977 following failure of the labour market organisations to reach a centralised agreement, provided a good basis for maintaining the improved control over wage rates which had been gained after the 1975 inflationary peaks¹⁴. The settlements, most of which are in force until end-February 1979, were originally estimated to raise the index of negotiated wage rates by about 5½ per cent on average in 1978. However, the provisions of the agreements were modified by two subsequent policy packages; the first presented in December 1977 deferred certain of the wage rate increases while the second, introduced in March 1978 following the February devaluation, partly reversed these postponements¹⁵. As a result the index of negotiated rates is, according to Ministry of Finance calculations, estimated to have risen by only 4¼ per cent on average in 1978, compared with 5¼ per cent the preceding year¹⁶. At the same time wagedrift has abated further to only about 2 per cent, giving an overall increase in average earnings for the economy as a whole of some 7 per cent.

Table 5 Wages, costs and prices
Percentage change over previous year

	1975	1976	1977	1977		1978	
				I	II	I	II ¹
Wage and salary earnings	21.9	14.9	8.5	7.9	8.8	6.7	7.0
Unit labour costs ²	23.5	15.1	8.2	7.3	9.0	2.7 ⁴	
Consumer price index	17.9	14.4	12.6	12.6	12.7	9.1	6.1
Food	20.6	16.3	18.6	20.0	17.3	7.9	0.4
Housing	12.4	5.4	7.3	4.6	9.8	9.2	3.6
Other	18.3	16.1	11.6	11.8	11.6	9.6	9.1
Production prices	14.8	8.2	8.5	10.0	7.0	3.6	3.3
Manufacturing	14.2	8.4	8.2	10.1	6.5	2.9	3.3
Domestic market goods	15.9	10.7	9.0	10.6	7.7	4.6	3.8
Export goods	10.8	-0.1	6.0	7.7	4.5	-0.7	1.7
GDP deflator ³	15.3	12.1	9.9	10.3	9.7	7.3 ⁴	

1 Based on five months except for consumer price index.

2 Compensation of employees per unit GDP at constant prices.

3 Market prices.

4 Preliminary.

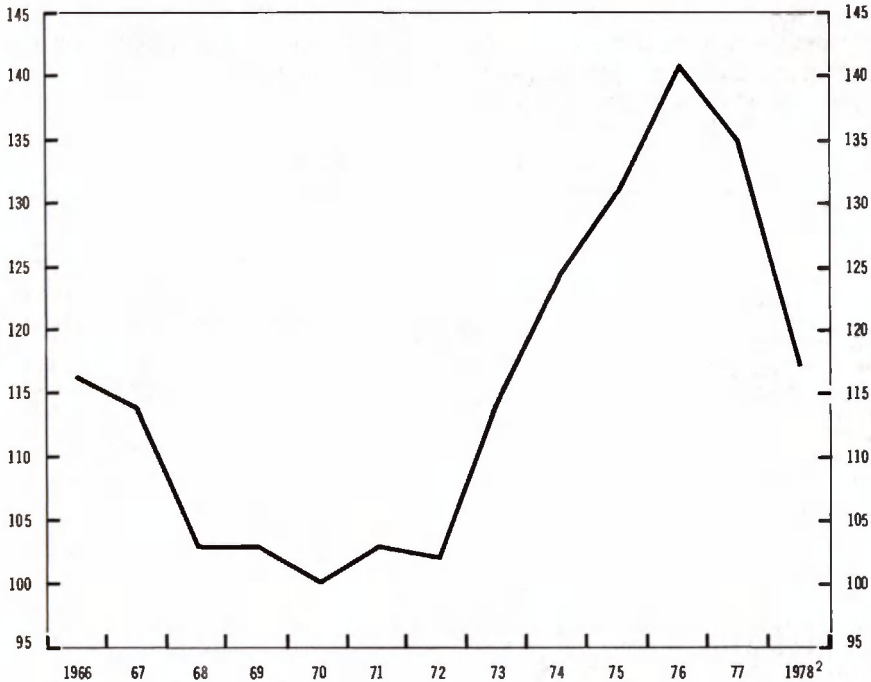
Sources: Finnish National Accounts and Central Statistical Office, *Bulletin of Statistics*.

With paid labour input remaining on average about unchanged for the year, the total wage bill is estimated to have risen by about 6½ per cent. The various reductions decided upon in rates of employer social security contributions have led to these rising

14 See last year's Survey (page 13) for details of the settlements which broadly followed the recommendations of a mediator appointed by the State after the breakdown of negotiations between the parties.

15 The agreements had provided for re-opening of negotiations should the exchange rate of the markka change significantly. Though not stated explicitly, "significantly" was generally taken to mean about 10 per cent. The 8 per cent devaluation in February 1978 had brought the total effective decline in the markka's external value to 17 per cent during the period from the signing of the agreements. The State mediator's proposal that 1½ percentage points of the 2½ per cent wage increase due in February 1979 be brought forward to May 1978 as compensation was accepted.

16 Included in the index of negotiated increases is the effect of an "earnings guarantee" clause contained in the agreements which ensures a certain minimum amount of wagedrift.

Diagram 3 Finnish relative unit labour costs¹

1 Ratio of weighted unit labour costs in Finland's fourteen most important trading partners to those in Finland (expressed in US dollars). For weighting see footnote (1) to Diagram 1.

2 Secretariat forecast.

Sources: Swedish Employers' Confederation "Wages and total labour costs for workers. International survey 1966-1976"; Finnish National Accounts Statistics and OECD estimates.

by a mere 2½ per cent¹⁷, implying an increase in total labour costs of only some 5½ per cent on average for the year, compared with 8¾ per cent in 1977. With total output estimated to have risen by around 2¼ per cent in 1978, overall unit labour costs have decelerated to about 3 per cent with the figure for manufacturing industry perhaps even lower and clearly below that for the country's main trading partners. For the second year running, Finland has thus succeeded in substantially improving its competitive position, with relative labour costs having been brought back to around the level prevailing in the mid-1960s (Diagram 3), which in historical perspective appears to have been relatively favourable¹⁸.

At the producer level prices are estimated to have risen by less than 4 per cent, which essentially reflects prices of goods sold on the domestic market¹⁹. Helped by the pick-up in output, overall corporate profits rose by an estimated 17½ per cent, but

17 Employers' rates of contribution to employee pension funds were reduced by together 2 percentage points in 1978, which was only partly offset by a ½ percentage point increase in their rate of contribution to unemployment insurance.

18 The improvement is estimated at around 12 per cent in 1978. See Diagram 10 of the January 1978 Survey of Finland for a longer-term perspective of relative unit labour costs.

19 Prices of exports, which account for less than 20 per cent of sales, rose slightly faster.

their share in national income is still below the past average²⁰. Deflated by consumer prices, real wages are estimated to have fallen by around 1 per cent for the year, following the 3½ per cent fall in 1977. However, the fiscal concessions granted within the framework of various policy packages, together with a somewhat faster growth of other factor incomes, resulted in household real disposable incomes rising by some 2½ per cent after two years of decline²¹.

Table 6 Household disposable income

	1977 Mk. billion	Percentage changes from previous year			
		1975	1976	1977	1978 ¹
Wages and salaries	54.8	23.1	14.1	7.2	6.4
Employers' contribution to social security	13.9	28.9	23.9	15.2	2.3
Income of unincorporated enterprises	10.7	19.3	-3.0	6.0	0.2
Income from property	8.8	4.7	9.0	9.5	4.2
Factor income	88.1	21.1	12.5	8.4	4.8
Transfers received	11.9	23.0	19.8	15.2	14.6
Direct taxes	28.9	27.8	28.7	5.0	-4.8
Other deductions ²	1.4	23.6	21.6	9.8	12.1
DISPOSABLE INCOME	69.7	19.0	7.4	11.0	10.3
Real disposable income	35.5	1.0	-6.1	-1.4	2.5
	Average 1964-1973	Percentage shares			
<i>Memorandum items:</i>					
Saving as per cent of disposable income	12.3	14.8	9.7	10.9	13.0
Compensation of employees as per cent of factor income	70.4	75.4	77.7	77.9	78.5
Direct taxes as per cent of factor income	22.2	29.6	33.9	32.8	29.8

1 Estimated.

2 Transfers to the public sector, net transfers abroad and interest on consumers' debt.

Source: Finnish National Account Statistics.

Based on year-on-year movements, the growth rate of consumer prices decelerated from around mid-1977 to a figure of 5.6 per cent by August 1978, but then accelerated slightly to a rate of 6.2 per cent by November. This latter figure was still clearly below the 8.3 per cent average for the OECD area as a whole and only about one-half the 12.1 per cent recorded during the preceding twelve months. This favourable development has owed much to food prices which rose by only about ½ per cent over the period²²; excluding this element, the index decelerated from 10.6 to

20 On a pre-tax basis their share of national income is estimated at 7½ per cent for 1978, compared with 9¼ per cent on average during the 1960s. According to a survey by the Confederation of Finnish Industries manufacturing industry made a loss equivalent to ½ per cent of net sales in 1977.

21 Households' net transfers to the general government sector fell from the equivalent of 19 per cent of their factor income in 1977 to 15 per cent in 1978. Personal income tax brackets were adjusted by 13 per cent in compensation for the 12.7 per cent rise in consumer prices in 1977 and certain income tax reimbursements were brought forward to December from March 1979. In addition it was decided in March 1978 to reduce the rate of employee contribution to the old-age pension and health insurance up to end-1978 by ¾ percentage point. This last-mentioned rate was subsequently reduced by a further ½ percentage point from mid-year. In all, policy measures are estimated to have boosted household disposable income by about 5 per cent.

22 This result largely reflects the temporary turnover tax reductions on dairy products, increased subsidy payments and a moderation of the price rise for imported food.

8.3 per cent between the two periods. With a slight fall in December, the year-on-year rate of increase for the overall index amounted to 5.9 per cent, of which some 3½ percentage points are attributable directly to the impact of policy actions²³.

The foreign sector

A continued strong export performance combined with a weak demand for imports has led to a further appreciable strengthening of the real foreign trade balance, which for the third year in succession has provided a positive contribution (of almost 3½ percentage points) to the GNP growth rate. Although the terms of trade began to deteriorate from around the beginning of 1978, the current account has remained in surplus since the second half of 1977. Hence that element of the Government's medium-term economic strategy announced in mid-1977 concerning limitation of the current account deficit to about 2 per cent of GDP has been more than fulfilled. Reflecting devaluations of 3 per cent in September 1977 and 8 per cent in February 1978, the effective exchange rate of the markka declined by an average of 12½ per cent (annual rate) during the first half of 1978 compared with the preceding six months²⁴. Apart from sizeable speculative capital outflows preceding the devaluations, the exchange markets have not reflected the disturbances which have been a feature of the international scene and Finnish official foreign exchange holdings have been built up strongly.

In seasonally-adjusted terms the volume of Finnish exports has developed rather erratically, but are estimated to have risen by some 8½ per cent (s. a. a. r.) during the first half of 1978. Exports of forest-based products continued to be a prime mover. A pick-up in construction activity in the major European markets has raised the demand for timber products, while the need to replenish inventories, coupled with reduced North American competition, has led to a sharp increase in pulp shipments²⁵. Sales of newsprint have also been buoyant. Exports of metal products appear to have done quite well despite the unfavourable international climate, thanks in part to shipments to the Soviet Union which also absorbed a considerable increase in engineering products early in the year. Exports of chemical products were also slightly higher following the extremely sharp increase in the second half which had accompanied the coming on stream of new production facilities. Total export volumes fell sharply in the third quarter but then experienced a very substantial revival in the final months of the year. Pulp and paper sales have held up unexpectedly well²⁶ and deliveries of ships to the Soviet Union have led to some acceleration in the growth of exports to that market. For the year as a whole merchandise exports rose by around 7 per cent in volume which, adjusting for shipments to the COMECON countries which were down by about 5 per cent, would indicate a gain of about 5 per cent in Finland's share of OECD and other (largely OPEC) markets which — calculated on a purely geographic basis without regard to commodity composition — grew by little more than 3 per cent.

23 That is, including the impact of the devaluations, which are estimated to have raised the index by 2 per cent in 1978.

24 At the beginning of November 1977, following a period from June 1973 when there were no established margins for fluctuations in the exchange rate of the markka (though in practice policy was aimed at maintaining a fairly stable external value in relation to a trade-weighted basket of currencies), the Currency Act was amended to formally reintroduce margins of 2½ per cent around an index number which reflects movements in those currencies most important for Finnish trade.

25 There was probably also an element of anticipatory buying as Scandinavian producers had widely publicised the need to raise pulp prices after their sharp fall earlier in the year.

26 The overall volume of forest product shipments this year is expected to about equal the 1973 peak level.

Table 7 Balance of payments
Mk. billion

	1975	1976	1977	1978 ¹	1977				1978 ¹			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
					Seasonally adjusted							
Exports, fob	20.2	24.4	30.8	35.1	7.4	7.2	8.2	8.4	8.1	9.0	8.5	9.5
Imports, cif	27.9	28.5	30.6	32.3	7.3	7.9	7.6	7.7	7.4	8.0	7.8	9.1
TRADE BALANCE	-7.8	-4.1	0.1	2.8	0.1	-0.7	0.6	0.6	0.7	1.0	0.7	0.4
Transport, net	1.0	1.2	1.4	-0.5	-0.2	-0.4	-0.2	-0.4	-0.7	-0.5	0	0.7
Other services, net	0.3	0.3	0.4									
Investment income	-1.4	-1.7	-2.4									
Transfer payments, net	-0.1	-0.1	-0.1									
CURRENT BALANCE	-8.0	-4.5	-0.6	2.3	-0.1	-1.1	0.4	0.2	0	0.5	0.7	1.1
					Not seasonally adjusted							
Current balance	-8.0	-4.5	-0.6	2.3	0	-1.3	0.4	0.2	0.2	0.3	0.6	1.2
Long-term capital	5.1	4.2	3.2	2.8	0.3	0.4	0.4	2.1	0.8	1.1	1.1	-0.2
Net borrowing	5.3	4.3	3.7	3.3	0.5	0.4	0.6	2.2	1.0	1.2	1.2	-0.1
Other ²	-0.2	-0.1	-0.5	-0.5	-0.2	0	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1
Short-term capital	2.1	0.1	-3.1	-2.1	-1.0	-0.1	-0.8	-1.3	-0.1	0	-0.6	-1.4
Trade credits, net	2.1	-1.2	-2.0		-0.7	-0.2	-0.2	-1.0	-1.0	-0.2	-0.1	
Other ²	0	1.3	-1.1		-0.3	0.1	-0.6	-0.3	0.9	0.2	-0.5	
CHANGE IN RESERVES	-0.7	-0.1	-0.5	3.0	-0.6	-0.9	-0.1	1.1	0.9	1.4	1.1	-0.4
<i>Memorandum item:</i>												
Exchange rate (Markkaa per US \$)	3.67	3.86	4.02	4.11	3.81	4.04	4.07	4.14	4.08	4.24	4.12	3.98

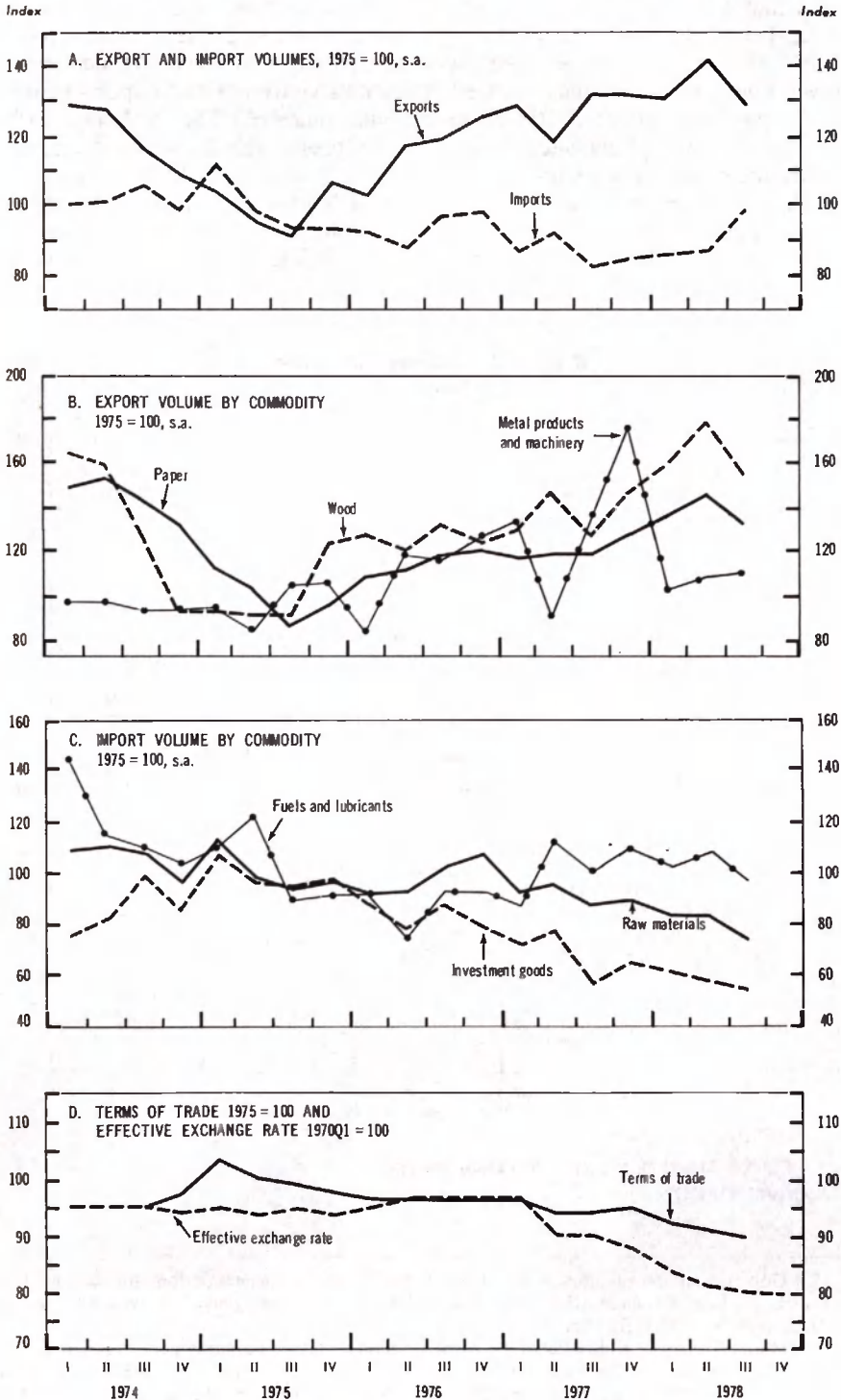
¹ Preliminary.

² Long-term trade credits, direct investment, etc.

³ Including errors and omissions.

Source: Bank of Finland, *Monthly Bulletin*.

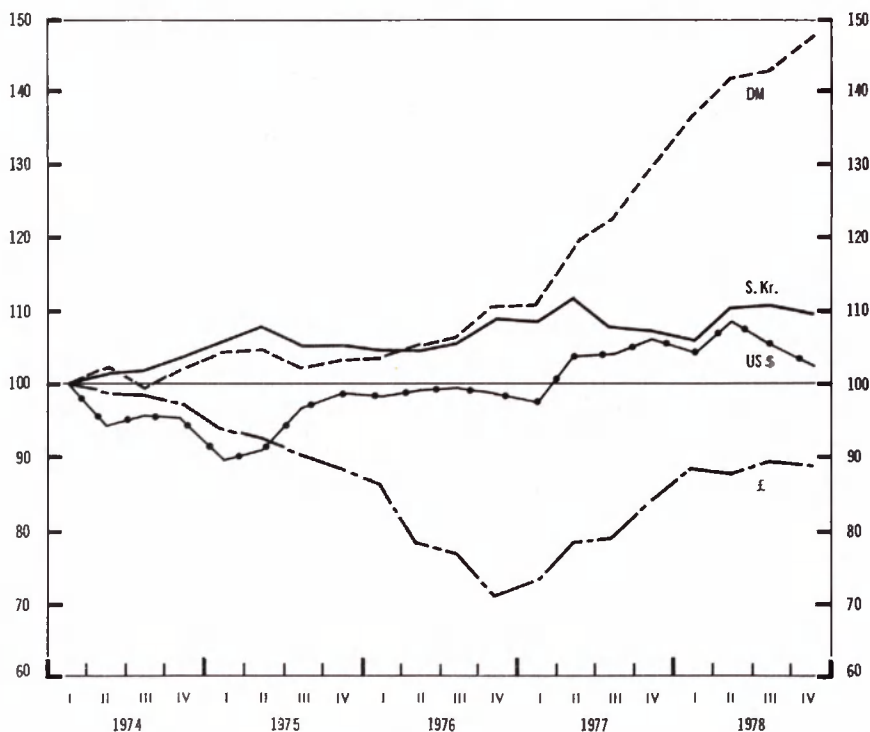
Diagram 4 Foreign trade, terms of trade and effective exchange rate



Sources: Central Statistical Office *Bulletin of Statistics* and Secretariat estimates.

Import demand picked up in seasonally-adjusted terms only very slowly during the first half of the year after the very sharp decline experienced throughout 1977. Even so, this reflected entirely purchases of raw materials and other producer goods to replenish declining inventories. Otherwise the structure of domestic demand was relatively favourable from the balance-of-payments viewpoint and imports of investment and consumer goods continued to fall quite sharply²⁷. The weakness has been evident for all major goods categories, which can presumably in part be explained by the improved relative competitiveness of domestic producers²⁸. As in the case of exports, import volumes then fell sharply in the third quarter, but subsequently picked up in the last quarter. For the year as a whole the volume of imports fell by some 5 per cent from the 1977 level, with investment goods falling by around 19 per cent.

Diagram 5 Exchange rate indices¹
1974Q1 = 100



1 Finnish Markkaa per unit of foreign currency.

Source: OECD.

27 Government consumption, which was the most expansive element of domestic demand, has an almost negligible import content, while volume expenditure on machinery and equipment, which is highly import-intensive, has fallen further.

28 During the first ten months of 1978 the wholesale price of imported goods rose by 10½ per cent on average compared with the corresponding part of 1977, while the price increase for domestically-produced goods amounted to less than 4 per cent. In 1977 imports accounted for just under 10 per cent of consumer expenditure on goods.

During the first half of 1978 Finland experienced a merchandise terms-of-trade loss of over 6 per cent (annual rate). While the impact of the decline in the effective exchange rate of the markka (amounting to 12½ per cent annual rate during this period) was strongly reflected in unit value import prices, which rose in domestic currency terms at an annual rate of over 9 per cent compared with the last half of 1977, export prices increased by less than 3 per cent. This latter development reflected mainly sharp reductions in US dollar prices of the order of 20 per cent for pulp as well as a slight weakening in metal prices. By the final quarter of the year, however, the terms of trade appear to have stabilised as export prices accelerated (due inter alia to the raising of pulp prices), at the same time as the impact of the earlier devaluations on import prices attenuated. For the year as a whole merchandise export prices rose by 6 per cent and import prices by 11 per cent, implying an average terms-of-trade loss of around 5 per cent.

The relatively sharp terms of trade deterioration during the first half of 1978 outweighed the positive impact of the favourable movement in volume trade flows on the Finnish balance of payments. In seasonally-adjusted terms the surplus on the trade account declined in this period to an annual rate of Mk 1.9 billion²⁹ (equivalent to about US\$ 0.5 billion or 1½ per cent of GDP) from the Mk 2.4 billion registered in the last half of 1977. On the other hand, while debt servicing commitments continued to rise strongly³⁰, the overall invisibles deficit declined slightly, with a strengthening in the tourist balance and income earned on construction projects abroad making important contributions. For the current account balance as a whole, the surplus remained unchanged at some Mk 1 billion (annual rate) between the two half years, or the equivalent of ¼ per cent of GDP. During the second half of 1978 the volume trade balance continued to strengthen while the terms of trade stabilised. On balance, the current account is estimated to have strengthened quite noticeably to a seasonally-adjusted annual rate of some Mk 3½ billion, implying the first surplus (of some Mk 2¼ billion or about 1½ per cent of GDP) on a calendar year basis since 1969.

Net long-term capital inflows during 1978 of Mk 2.8 billion were below the 1977 level (Mk 3.2 billion). With the supply of funds abundant in international financial markets, the net proceeds of bond issues amounted to Mk 2.8 billion, with the other elements of long-term movements (direct borrowing, trade credits and direct investment which were all of relatively minor importance) yielding a small outflow. Essentially for domestic policy reasons the central government met its borrowing requirements to an unusually large extent abroad during this period, accounting for no less than 35 per cent of the gross proceeds of new foreign issues³¹. The short-term capital account (including errors and omissions) was virtually in balance following an outflow of Mk 3 billion during the last half of 1977. The particularly heavy outflow during the final quarter of 1977 and beginning of 1978 in the form of a sharp reversal in the direction of trade credit movements was associated with speculation concerning the exchange rate of the markka. Following the devaluation in February these pressures virtually disappeared. During the first eleven months to end-November 1978 Finland's total (private and official) net convertible foreign exchange position improved from a deficit

29 Calculated on the basis of exports f.o.b. and imports c.i.f. An approximate adjustment to put imports on a f.o.b. basis would raise the value of the trade account surplus by about Mk. 2.3 billion and reduce the services balance correspondingly.

30 Interest payments of Mk. 1.4 billion were 16 per cent higher than a year earlier. Taking into account redemption payments and dividends as well, total servicing costs of long-term commitments amounted to some Mk. 3.9 billion, or almost 50 per cent more than during the first half of 1977.

31 Furthermore, a large part of the value of all other bond flotations abroad was accounted for by public sector industrial or financial corporations.

of Mk 1.2 billion to a credit of Mk 1.9 billion (US \$ 0.4 billion); net official holdings of Mk 3.8 billion were equivalent to about six weeks of imports³².

II ECONOMIC POLICY

Policy stance eased from around mid-1977 from the very tight line which had been pursued since 1975. This action was prompted by the sharper than expected contraction in domestic demand and rapidly increasing unemployment on the one hand and by the strengthening of the foreign account on the other. The degree of easing was quite cautious at first³³, but as the inflation rate began to come down and the foreign account continued to improve rapidly (with in fact the current account moving into surplus after mid-1977) a successively more expansionary stance was adopted. In all, four main inter-budgetary policy packages have been presented since mid-1977³⁴. The general strategy, guided by the medium-term policy programme announced in June 1977, has been designed to stimulate business investment and support employment, while taking specific measures to dampen price and cost inflationary pressures. The consequent weakening of State finances, which has been largely financed by borrowing abroad, coupled with the strengthening on the current account of the balance of payments, has led to a marked easing in domestic monetary conditions. Direct controls of one kind or another over prices continue to be maintained.

Fiscal policy

The 1978 main budget, which had been based on an assumed GDP growth rate of 2½ per cent and of an inflation rate (as measured by consumer prices) of 9 per cent, provided for increases of 8.4 per cent in both budget revenue and expenditure (excluding financial transactions and debt amortisation) over the 1977 outcome³⁵. This implied a budget surplus, at Mk 1.3 billion (or some 1.1 per cent of 1977 GDP) of almost unchanged absolute amount. The main measure contained in the budget was a downward adjustment of income tax brackets by an average of 13 per cent in compliance with the undertaking given at the time of the 1977 incomes negotiations (in order to moderate the size of settlements) to reduce tax scales in line with the increase in consumer prices³⁶. However, a number of other expansionary cum stabilisation mea-

32 Reflecting the heavy State borrowing abroad, official reserves held by the Bank of Finland rose from Mk. 1.5 to Mk. 3.8 billion, while other institutions (essentially the commercial banks) reduced their debt from Mk. 2.8 to Mk. 1.8 billion. At the same time holdings of inconvertible foreign exchange (almost all in Roubles and held by the Bank of Finland) amounted to Mk. 0.7 billion.

33 While the main 1977 budget envisaged a surplus (before financial transactions) of Mk. 1.6 billion (or some 1.4 per cent of 1976 GDP), the actually achieved surplus was only slightly smaller (Mk. 1.2 billion). However, the borrowing requirement rose from a forecast Mk. 1.4 billion to an actual Mk. 2.1 billion.

34 Together, these packages are estimated to have raised State borrowing requirements by Mk. 2.8 billion in 1978, while the inflation adjustment of tax scales is "costed" at Mk. 1 billion.

35 Finland has the practice of introducing supplementary budgets during the course of a year. Compared with the 1977 main budget the increases amounted to 12.4 and 14.0 per cent for income and expenditure respectively.

36 The consumer price index rose on average by 12.7 per cent in 1977. The size of allowable tax deductions was adjusted upwards by a similar amount and wealth tax scales reduced by a somewhat larger amount. Although these changes were estimated to cost some Mk. 1.4 billion, the new withholding scales were not introduced until March so that the revenue shortfall for 1978 on a cash basis is estimated at Mk. 1.2 billion (the difference being due for subsequent reimbursement in March 1980).

tures were also introduced³⁷. Taking into account increases in certain public charges, discretionary measures announced in the budget were estimated to cost about Mk. 1 billion. In March it was decided to release companies' Investment Fund deposits relating to 1976 income³⁸.

Including four supplementary budgets which were passed during the course of the year, the actual outcome for the State budget in 1978 is estimated to show an increase in revenue of only 4.0 per cent (to Mk. 33.9 billion) and in expenditure by 11.3 per cent (to Mk. 34.9 billion), leaving a deficit of some Mk. 1.0 billion (or 0.8 per cent of GDP). Taking into account net financial transactions including debt amortisation and operation of the extra-budgetary funds, the State's gross borrowing requirement is estimated to have amounted to Mk. 4.4 billion, compared with Mk. 2.1 billion in 1977, the rise being mainly due to the costs of the stimulation measures. The principal measures taken during the year were the decision made in August to bring forward to December the reimbursement of one-third of excess tax withholdings from 1977 income³⁹ and to a lesser extent further turnover tax reductions for dairy products and

Table 8 Public sector revenue and expenditure

	Mk. billion			Percentage change from previous year		
	1977	1978 ¹	1979 ²	1977	1978	1979
<i>General government</i>						
<i>(National accounts basis)</i>						
Taxes	49.0	49.6	55.4	8.9	1.3	11.7
Direct	23.3	22.3	25.3	3.3	-4.4	13.5
Indirect	17.8	20.9	22.8	18.3	12.5	13.4
Social security contributions	7.8	7.2	7.3	6.8	-7.2	1.2
Other	3.3	3.8	3.8	12.7	14.3	0.3
TOTAL REVENUE	52.3	53.4	59.2	9.2	2.1	10.8
Consumption	24.7	27.3	30.8	13.5	10.5	13.0
Investment	8.5	9.1	9.5	7.3	6.7	4.9
Transfers to households	11.9	13.6	15.0	15.2	14.6	9.9
Subsidies	5.5	5.8	7.0	8.4	5.2	19.0
Other	0.1	0.1	0.2	16.2	8.6	30.9
TOTAL EXPENDITURE	50.7	55.9	62.4	12.2	10.2	11.6
Budget surplus	1.5	-2.6	-3.3			
Other net ³	1.3	1.3	1.6			
Financial saving	2.8	-1.2	-1.7			
<i>Central Government⁴ (Cash basis)</i>						
Revenue	32.6	33.9	38.0	7.2	4.0	12.1
Expenditure ⁵	31.4	34.9	39.6	13.4	11.3	13.4
Revenue balance	1.2	-1.0	-1.6			
Net financial transactions ⁶	2.6	2.5	2.4			

1 Estimated.

2 Forecast. For Central Government according to approved 1979 budget.

3 Public sector factor income and net transfers abroad.

4 Excluding extra-budgetary funds.

5 Excluding financial investments.

6 Repayments of loans granted by State less lending and other financial investments.

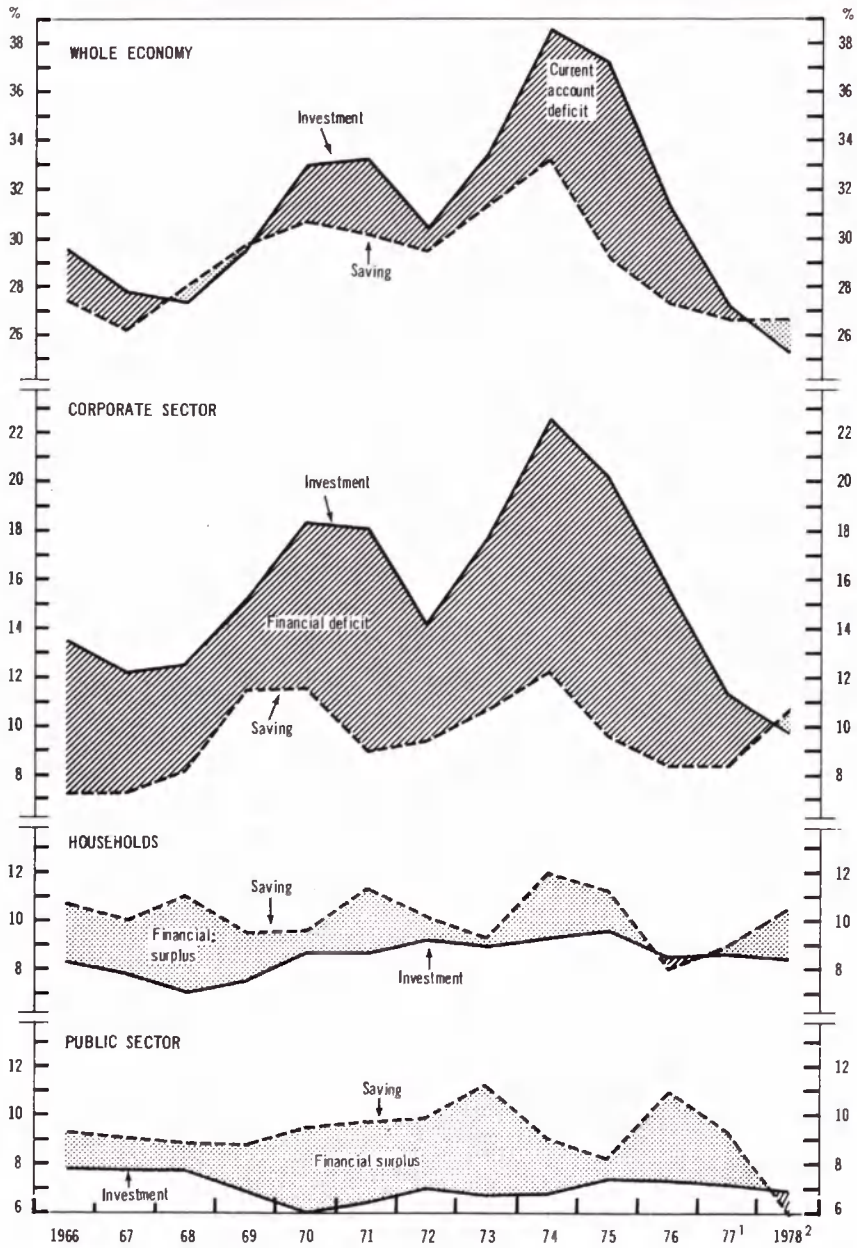
Sources: National Budget for 1979 and Finnish submission to the OECD.

37 Including extra tax concessions for the lowest paid and reductions in employer contribution rates to child endowment and health insurance as well as in employee social security contribution rates. The two last-mentioned do not directly affect the budget, the proceeds being paid into the Social Insurance Institution.

38 At the same time the period during which deposits relating to 1975 income could be used was extended. However, at the time only some Mk. 33 million remained in these Funds.

39 The entire sum due for reimbursement had earlier been postponed to March 1979. In the absence of this early reimbursement (amounting to Mk. 780 million) budget income would have risen 2 1/4 percentage points faster.

Diagram 6 Sector financial balances
Per cent of GDP



1 Preliminary.

2 Estimated.

Source: Finnish National Account Statistics, Finnish submission to OECD.

industrial investments. Income and wealth tax receipts declined by over 12 per cent and the overall gross tax burden on the private sector⁴⁰ (including social security contributions and local government taxes) fell by two percentage points. The faster than budgeted growth of expenditure was primarily due to employment measures, un-employment compensation and other social security benefits. The overall net tax burden on the private sector is estimated to have fallen by 3 percentage points (by 4 percentage points on household factor income).

Monetary policy

The weakening in government finances is reflected in the very unusual pattern of financial savings. The public sector has moved into deficit, while corporations, which have traditionally required external funds for about one-half of their investment requirements, as well as households and the current account of the balance of payments were in surplus⁴¹. Partly for technical reasons associated with difficulties in placing government debt with the private sector⁴² and partly reflecting concern by the authorities that private borrowers might be "crowded out" at a time when it is desired to encourage investment, the central government has covered more than half of its borrowing requirements abroad and also had recourse to the Bank of Finland⁴³. This has contributed to a marked easing in liquidity conditions and to some adjustments being made in the implementation of monetary policy in order to enhance the authorities' control over developments.

The stance of monetary policy was eased in line with fiscal policy toward mid-1977 as the financial position of the government weakened; the balance of companies' import deposits was repaid and the Bank of Finland on occasion made substantial placements in the call money market. However, the speculative outflows of capital during the final quarter associated with exchange rate speculation (the Bank of Finland's net foreign assets fell by Mk. 1 billion during this quarter) as well as a seasonal strengthening in government finances led to a quite sharp tightening in liquidity conditions. Following the February 1978 devaluation and with the more expansionary fiscal stance, private sector liquidity has eased substantially, with the Bank of Finland adopting an overall accommodating stance while seeking, however, to maintain its control over liquidity developments. While the traditional main policy

40 That is, transfers from the private to the public sector expressed as a percentage of GDP.

41 The distribution of financial surpluses/deficits on average during the period 1966-1975 compared with estimates for 1978 (in per cent of GDP) are :

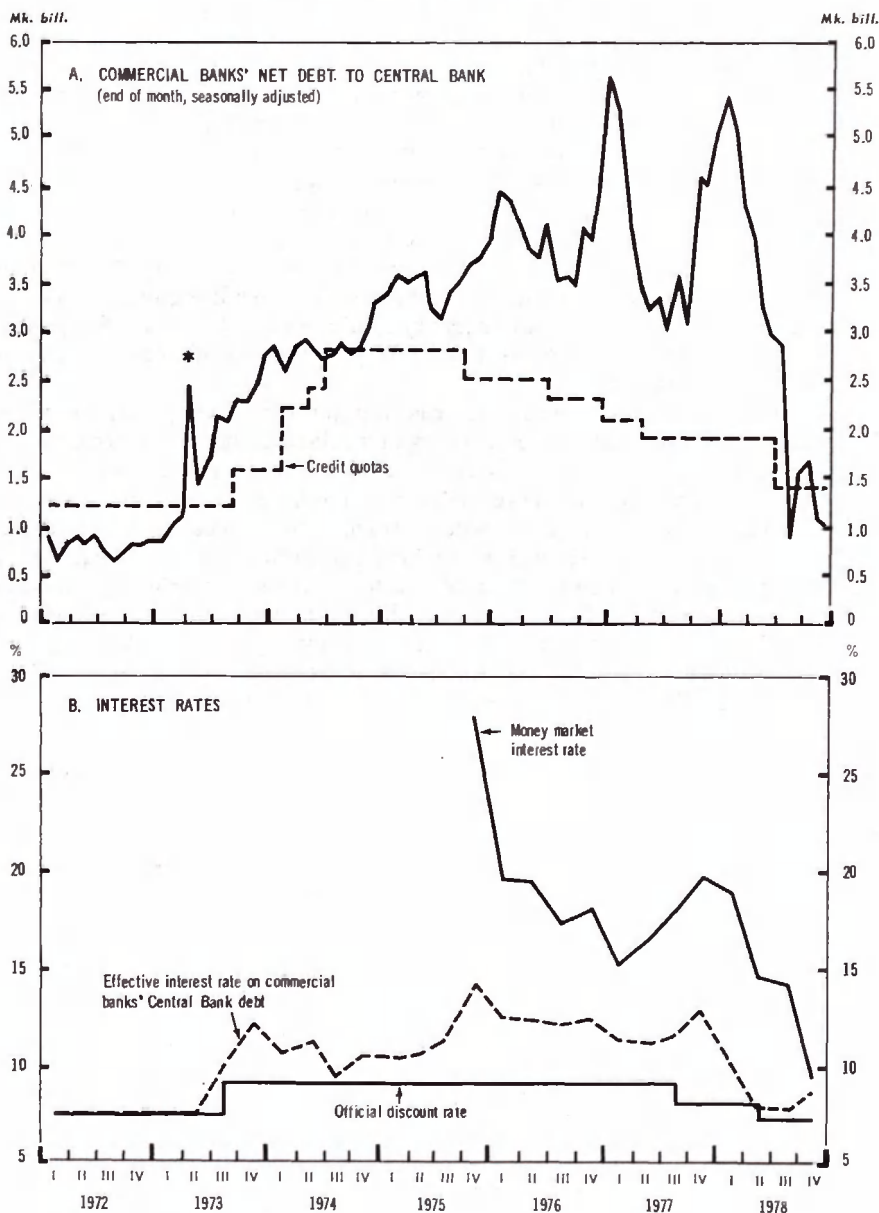
	Average 1966-1975	1978
Public sector	2.3	-1
Households	2.0	2
Corporations	-6.8	½
Total (= current account balance)	-2.5	1 ½

42 See section on medium-term issues below. By way of exception the commercial banks agreed in September this year to purchase that part of certain bond issues (totalling Mk. 0.5 billion) which were not taken up by the domestic non-bank sector.

43 Some 60 per cent of borrowing has been from abroad this year. Traditionally, the Bank of Finland has not lent to the Government, loans being obtained from the Post Office Bank which acts as ordinary banker to the State. However, exceptionally and in conjunction with the March 1978 fiscal package the Bank agreed to making a 2-year Mk. 0.7 billion loan designed to finance the estimated shortfall of revenue due to the temporary reduction in turnover tax on certain industrial investments and in employers' child endowment contributions.

weapons—control over the availability and cost of central bank credit as well as over long-term capital inflows—have been resorted to, the Bank during the course of 1978 increased its reliance on control exercised through influencing conditions in the call money market. The size of the banks' credit quotas has been reduced but the limits within which resort may be made to the call money market have been in-

Diagram 7 Monetary indicators



* Affected by strike.

Source: Finnish submission to OECD.

creased⁴⁴. At the same time a bonus system, designed to provide an incentive for the banks to comply with the authorities' policies⁴⁵, has been in operation.

Complementary to fiscal action, monetary measures of a more general nature have been taken in an effort to stimulate investment. Interest rates have been reduced and qualitative lending guidelines issued to the banks⁴⁶. Nevertheless, the demand for funds has been slack and the corporate sector has been able to reduce its net liabilities to the banking sector. During the twelve months to November 1978 the commercial banks' total lending to the public rose by only 6.3 per cent, or by some 8.3 percentage points less than their deposit growth. Although the amount of central government borrowing from the non-bank public has increased in absolute terms and the Bank of Finland's issues of deposit certificates have increased, the banks had reduced their net liabilities to the Bank from Mk. 5.0 billion at end-1977 to Mk. 2.2 billion by mid-September, although subsequent outflows of short-term capital led to their borrowing's increasing again to reach Mk. 3.3 billion by end-year. This is reflected in a sharp fall in the call money market interest rate, which is a good indicator of the tightness of liquidity conditions, to its lowest level since the market was established on an official basis in late 1975.

The management of monetary policy

As noted above, monetary conditions eased substantially during the course of 1978 as a result of a weakening in central government finances, funded to a large extent by borrowing abroad, coupled with a strengthening in the current account of the balance of payments. As investment, and hence the demand for investible funds by the corporate sector, has been sluggish, the commercial banks have been able to reduce their net liabilities to the Bank of Finland, to whom they are traditionally in debt, so that by end-August 1978 their borrowing was almost down to their basic quota for the first time in over 5 years. Such a development, if pursued to a point where the banks liquidated entirely their central bank debt, could weaken the monetary authorities' control⁴⁷. One of the factors behind the government decision to become a major borrower in the international markets, and thereby contributing to this liquidity build up, has been the difficulty of placing government debt in the domestic markets⁴⁸. The following paragraphs provide a brief description of the background to, and techniques of, monetary policy control in Finland.

44 The basic quotas were reduced in June and September 1978 by together Mk. 0.9 billion to Mk. 1.0 billion. At the same time the limit for access to the call money market was raised to 300 per cent of the basic quotas and in October was further increased to 500 per cent. The limit for direct borrowing from the Central Bank has remained unchanged at 170 per cent. Administratively, control over the cost and availability of funds to the banks is more flexible through operating on conditions in the call money market than through modifications to the banks' credit quotas.

45 A bank which achieves its individually set debt target qualifies for a bonus approximately equal to the penalty cost of borrowing. The system was first applied during the period January-August 1977 and was revived, with certain modifications, in January 1978.

46 The discount rate was reduced by 1 percentage point to 7 ¼ per cent in May 1978 after having been reduced in the preceding October. Under the system of variable rates which applies in Finland, interest rate changes have a faster and more direct impact on cost levels than under the more usual system whereby rate changes do not affect the terms of existing contracts. The Bank issued new credit policy guidelines in December 1977 which largely followed those then in existence, but with the addition of housing to the priority sectors. The guidelines are backed up by a recommended scale of lending rates.

47 For a period of about 1 ½ years up to early 1973 commercial bank borrowing was below quota and during most of this time their deposit growth rate exceeded that of their lending. However, at the beginning of 1973 the growth rate of advances began to accelerate to reach a figure of about 25 per cent by year-end and it was not until the end of 1975 that the rate dropped below 20 per cent.

48 Debt management strategy in 1978 may also have been influenced by the short-term capital outflow which occurred in late 1977 and the beginning of 1978 which, given its effect on domestic liquidity, could have provided a "crowding out" fear if the government deficit were placed domestically.

Each country has its own particular institutional arrangements which importantly constrain and otherwise influence the lines along which monetary policy formulation and implementation will tend to evolve. It would, accordingly, seem instructive to present some comparisons between relevant elements of institutional background in Finland and a selection of other OECD countries⁴⁹. A brief review of the objectives and instruments of monetary policy in Finland follow and some concluding remarks are then made.

Finland's relatively small size, its GDP being the seventh smallest among the 24 OECD Member countries, probably has two major implications in the present context. First, smaller countries tend to be more dependent on foreign trade than large countries and may hence tend to be more prone to relatively violent fluctuations in the "liquidity base" through the current account, under conditions of fixed (or relatively fixed) exchange rates, over which the authorities may have little control⁵⁰. However, Finland's foreign sector relative to GDP is not quite equal to the average for the overall OECD and is clearly below the average for the smaller Member countries⁵¹. Nevertheless, Finnish domestic cyclical developments tend to be export-led. Moreover, the volatility of trade flows appears to be particularly marked, probably reflecting relatively heavy reliance on a limited number of products and markets, which can be expected to complicate the task of policy⁵². Secondly, securities markets may not be sufficiently large (too thin) to allow open market operations to be pursued. Indeed, Table 9 indicates that not only in absolute but also even in relative GNP/GDP terms the total volume of Finnish domestic bonds is the smallest among the 13 countries for which data are available. As far as the volume of outstanding central government bonds is concerned, less comparative statistics are available, but it seems evident that here again the market is very small in Finland. The reason for this is that the Central Government has, except on rare occasions, been in surplus⁵³.

While the table would suggest the relative importance in terms of GDP of share issues in Finland compared with the situation particularly in other smaller countries,

49 Such comparative exercises must, of course, be treated with due caution if possibly misleading conclusions are not to be drawn. Yet, often control techniques may be discussed and criticised on the basis of an implicit "model" which may be more or less appropriate to a country's institutional background.

50 The extent to which such countries, operating under fixed exchange rates, will be able to pursue an independent monetary policy may be limited as capital flows may counteract policy-induced changes in domestic monetary conditions. Generally, foreign sector transactions influence the money base where the monetary authority intervenes in the foreign exchange market. The severity of the problem may, of course, be attenuated by the imposition of direct controls over capital flows.

51 For example, in 1976 Finnish exports and imports of goods and services averaged 28.5 per cent of GDP compared with 29.4 per cent (unweighted) for the overall OECD and 33.0 per cent for the seventeen smaller Member countries.

52 For a discussion of the dependence of domestic conditions on fluctuations in foreign demand see the 1978 Annual Survey of Finland, pages 26 et seq. Taken over the period 1960 to 1976 Finland experienced a markedly greater degree of volatility in its export volumes as well as export and import prices than did on average five other selected smaller countries (Australia, Denmark, New Zealand, Norway and Sweden). Interestingly enough, however, the Finnish trade balance was less volatile, suggesting a greater tendency for fluctuations in export and import values to cancel out. Volatility was measured as the second moment about the origin of deviations from the trend growth rate, with prices measured in US dollars.

53 See *OECD Economic Outlook, Occasional Studies*, "Public Sector Budget Balances", July 1976. On average over the period 1965-1975 the surplus (as measured by net lending) was equal to 3 per cent of GDP. Of the 16 countries considered in this study only the Norwegian central government sector had a larger surplus (equal to 4 per cent of GNP). For the overall general government sector Finland still recorded a surplus of 3½ per cent of GNP, which was only exceeded by Sweden where the figure was almost 4 per cent. Of course, even if a government is a net lender, to the extent that its lending operations exceed its financial savings, it will have to borrow.

Table 9 Structure of domestic financial liabilities¹
End-1975

	Shares		Bonds				Loans by financial institutions ²			
	\$ Billion	Per cent	Total		Central Government		Total		Commercial banks	
			\$ Billion	Per cent	\$ Billion	Per cent	\$ Billion	Per cent	\$ Billion	Per cent
Austria	2.85	8.1	7.73	21.9	..	..	..	..	..	..
Belgium ³	14.10	24.5	45.31	78.7	20.22	35.1	34.15	59.3	..	..
Denmark ⁴	4.60	14.1	31.21	95.7	..	..	..	..	..	..
FINLAND	5.27	20.7	3.52	13.9	0.82	3.2	16.90	66.5	5.42	21.3
France	35.98	11.2	54.97	17.1	6.87	2.1	..	..	..	..
Germany	28.14	7.2	121.33	30.9	..	..	..	..	323.25 ⁵	82.3
Italy	19.03	14.8	82.56	64.3	..	..	134.85	105.0	67.85	52.8
Japan ⁴	53.83	9.6	238.37	42.4	79.77	14.2	792.83	141.1	327.89 ⁶	58.3
Netherlands ⁷	5.16	6.9	18.52	24.8	..	..	70.89 ⁷	95.0	20.70 ⁷	27.7
Norway ⁴	3.22	9.8	13.42	40.7	5.66	17.2	28.63	86.9	11.52 ⁸	34.9
Sweden	..	..	39.16	59.6	..	..	59.88	91.2	17.01	25.9
United Kingdom	91.52	43.9	56.73	27.2	41.26	19.8	118.27	56.7	64.37 ⁹	30.9
United States	805.03	52.7	846.14	55.3	186.52	12.2	1 132.05	74.0	436.50	28.6

1 Stocks of selected financial liabilities expressed in US \$ billions and as per cent of respective country's GNP/GDP.

2 Excluding loans within the sector.

3 As at end-1974.

4 As at end-1976.

5 All banks excluding Bundesbank.

6 Includes long-term credit and trust banks as well as Bank of Tokyo.

7 Includes debt certificates.

8 Includes savings banks.

9 All banks excluding savings banks.

.. = Data not available.

NOTE The data in this table should be treated as conveying orders of magnitude only, given differences in definitions and valuation methods between countries. For further details see source. Where possible claims on the external sector have been excluded.

Source: OECD Financial Statistics.

this gives a misleading picture of their role as a source of corporate finance⁵⁴. Somewhat surprisingly, lending by financial institutions, either overall or by commercial banks alone, appears to be relatively less important than in the other 9 countries for which data are available. Nevertheless, as shown in Table 10 claims by the Bank of Finland on the commercial banks, even though the position may fluctuate considerably, have on average been a major factor in reserve money formation⁵⁵. Except for Japan the 8 countries shown in Table 10 can be divided into two broad categories according to the relative importance of claims on the banks or the government as sources of reserve money creation. The first four (including Finland) represent the bank-debt oriented group, though with Germany not a very clear case, while the last three countries (Sweden, the United States and United Kingdom) belong to the other category. In Japan both sources are of roughly equal importance.

Given that capital inflow from abroad and commercial bank borrowing in the Central Bank form the primary bases for domestic credit creation, policy is concerned essentially with control of these two flows. As long-term capital inflows are subject to official approval, the Bank of Finland is able to exercise effective control over this source (at least in setting an *upper* limit on private borrowing). On the other hand, short-term capital movements related to commercial transactions are normally not subject to control. Being linked to trade flows, the magnitude of such movements may be very considerable at times and difficult to regulate when attempts have been made to do so⁵⁶, as indeed has been the case in other countries. Hence, the primary onus of policy rests on control of commercial banks' lending capacity and of long-term capital inflows⁵⁷.

Table 10 Structure of reserve money formation¹
Average 1968-1977, per cent

	Claims on:			
	Foreign sector	Government	Deposit banks	Other private sector
Denmark	44.6	-51.8	22.0	85.2
FINLAND	49.5	-7.7	40.9	17.3
France	37.1	12.1	50.7	—
Germany	72.8	10.1	17.1	—
Japan	36.5	31.0	32.5	—
Sweden	35.8	55.5	5.4	3.3
United Kingdom	-53.6	152.6	—	1.0
United States	15.9	80.5	3.6 ²	—

1 Average percentage net contribution to reserve money formation of claims by the Central bank. In certain cases the totals do not correspond to reserve money as defined in source owing to netting out of claims and liabilities.

2 Federal Reserve float.

Source: IMF "International Financial Statistics".

54 Reflecting a residential financing arrangement particular to Finland, about one-half of the value of outstanding shares are issued by housing companies formed by groups of individuals to erect apartment blocks.

55 Reserve money (or the money base) can be broadly defined as assets which constrain the growth of the money stock. In practice the assets so designated may vary between countries.

56 Short-term capital movements tend to be influenced more by exchange rate expectations than relative interest rate movements. Concerning the relative unimportance of the latter see Pertti Kukkonen "The Transmission of Monetary Policy through Credit Rationing", Conference on the monetary mechanism in open economies, Helsinki, August 4-9, 1975.

57 The commercial banks account for about one-quarter of total credit giving to the public and the other deposit banks (co-operative and savings banks) as well as the State-owned Post Office Bank for another quarter. Two of the commercial banks operate as "central banks" to the savings and co-operative bank movements.

Since the commercial banks are traditionally in debt to the Central Bank, their credit expansion capacity can be regulated by varying their conditions of access to such debt as well as to their borrowing in the call money market which is also subject to control by the Bank of Finland⁵⁸. As some two-thirds of their lending is to the business sector it is essentially business behaviour which is affected in the first instance. Individual credit quotas are set for each commercial bank, within which funds may be borrowed directly from the Bank (by bill discounting) at the official discount rate⁵⁹. However, borrowing may exceed these basic quotas up to a prescribed limit, which is itself variable, though a progressively rising penalty charge is then added to the basic discount rate⁶⁰. A limit, also expressed in relation to the basic quota is set on access to call money market funds as well. Whereas the basic discount rate, which influences the entire range of interest rates in Finland, as well as the penalty surcharge are subject to infrequent change, modification to the size of the basic quota and to the relative limits to penalty borrowing has been the most important single tool of monetary policy in Finland⁶¹. Such changes modify of course the cost of central bank borrowing, with interest rates unchanged and since it can effectively control the lending rate of the banks, the Bank of Finland is largely able to prevent the increased cost, which a reduction in quotas implies, from being passed on by the banks to their customers.

Both cost and availability effects play a role in the process of adjustment to a quota change, though the relative importance of the former is likely to vary directly with the period during which a bank remains in debt to the Central Bank. In the short run, reaction to the cost aspect may well be outweighed by customer service considerations⁶². This basic control instrument is supplemented by a number of other more direct measures, including qualitative guidelines for bank lending, backed up by guidelines for interest rate differentiation and scrutiny of maximum and average interest rates as the more permanent features. At the same time financing is provided to

58 The fact that the discount rate is lower than their (controlled) average lending rate gives the banks little incentive to reduce their debt, at least beyond the basic quota limit.

59 The commercial banks, which account for about one-third of lending by all financial institutions, are 7 in number. That two account for about three-quarters of all business, which no doubt is an advantage from the viewpoint of administering policy, represents a high degree of concentration. A recent study (Inter-Bank Research Organisation, "Banking Systems Abroad", London, 1978) indicates that the share of the "majors" in all commercial banking business in 9 selected countries ranged from 43 per cent in Italy and the United States to 87 per cent in Sweden (accounted for by four banks in the last-mentioned country).

60 Concerning variations in the prescribed limits see footnote 44. The penalty rate, which is at present subject to a 4 per cent ceiling, is applied (in addition to the basic discount rate) to the bank's total borrowing, implying a steeply rising marginal cost. In theory, the call money market rate can be expected to reflect such marginal borrowing rates at any point of time. A bank may borrow even beyond its maximum limit, but only against securities on a buy-back arrangement, which implies a further sharp increase in interest cost, and subject to submitting to special surveillance of its lending policies by the Bank of Finland. Such cases are rare.

61 The relative frequency of discount rate and quota size changes is evident from Diagram 7. The 1 percentage point reduction in the discount rate in October 1977 to counter the cost impact of the devaluation of the markka had been the first change in four years. As noted on page 27 above, there has been a trend recently toward placing greater emphasis on control of the banks' access to funds in the call money market compared with control over their direct borrowing in the Central Bank. This, however, represents a technical modification to procedures rather than any basic change in approach.

62 The fact that deposit and lending interest rates are fixed for all banks accentuates the competitive aspect of other services. At end-1977 the banks' net liabilities to the Bank of Finland as well as the gap between their own lending rates and those in the call money market were unusually large owing to the speculative outflows of short-term capital. Nevertheless, their net liabilities of Mk. 4.3 billion were equivalent to only some 17 per cent of their advances to the public at the same time as their *average* borrowing rate from the Bank of Finland amounted to about 14 per cent, while their average lending rate was 9 per cent. At the time the call money market rate of 23 per cent was close to its then legal ceiling of 25 per cent.

certain business activity through the direct provision of central bank finance to a greater extent than in most countries as evidenced by Table 10, though this is typically not used as a countercyclical tool. On the other hand, for reasons more socio-economic than purely economic, an active interest rate policy, in the normal sense of the term, has not been resorted to⁶³. Thus, at the bank/customer level, given that the banks' controlled lending rates are maintained below a level which would "clear the market", the adjustment of credit volume is much more clearly on a rationing, non-price basis.

This approach can be contrasted with the more traditional one which is characterised by reliance on open-market operations and flexible exchange rates and which tends to be represented in the larger economies having well-developed securities markets. These countries have also been those which have opted for money supply growth targets since the smallness of their foreign sectors facilitates control over money supply movements. However, it is not easy to classify countries into simple categories according to monetary policy control approach given the latter's multi-dimensional nature. Furthermore, control methods are subject to continuous review and development, so that countries are liable to move between categories. Broadly speaking, however, one may at present distinguish the United States and Canada which come closest to the "traditional" approach whereby policy action is aimed at influencing market interest rates and thereby over the more recent past helping to achieve intermediate money growth objectives. Other countries may give a more absolute value to the money supply targets as such, having resort to more direct credit controls as a means toward ensuring their achievement (Japan and France), while the United Kingdom would seem to represent an intermediate case⁶⁴. A further element of difference is the relative openness of the economies to capital flows from abroad, ranging from Japan and France which exercise very tight controls over such movements to, for example, certain episodes of the German experience when, for example in 1960-61, the domestic impact of a tightening of monetary policy may have been counteracted by large capital inflows.

In a sense control over the commercial banks' lending capacity implies also control over the money supply as the two entities are large elements in the assets and liabilities respectively of the banks' balance sheets⁶⁵. However, for practical purposes the Finnish authorities consider that credit creation is more amenable to control, which in turn reflects their view of the transmission mechanism. In eschewing a money supply target variable, the Finnish authorities indicate that movements in demand deposits in Finland are related essentially to corporate transactions requirements and so are linked to this sector's income movements which in turn are heavily influenced by quite pronounced fluctuations in export receipts. That is, available evidence suggests that the causal relationship runs from income to money rather than vice

63 Interest rates in Finland are variable in the sense that the rates on almost all outstanding contracts are adjusted to movements in current rates. Thus interest rate changes have comparatively little impact on the timing of expenditure decisions but a correspondingly greater impact (both in terms of size and speed) on cost levels.

64 With regard to the transmission process the United States, for example, relies on interest rate changes to influence real demand through cost and wealth effects. The main real variables affected are business and residential investment through modifying the cost of capital and private consumption through a combined cost/wealth effect. Up to around mid-1978 credit availability constraints in the housing market were an important link in the transmission process. In Japan where the banks are also as a matter of course heavily indebted to the Central Bank and interest rates kept relatively stable, policy impact is confined essentially to business investment while private consumption is affected to a much lesser extent.

65 As at end-1977 advances to the public represented 68 ½ per cent of commercial bank assets, while total deposits of the public accounted for 46 per cent of liabilities.

versa. As indicated above, those countries which have adopted money supply growth targets have tended to be large countries where the size of the foreign sector has permitted easier control over monetary aggregates. A recent survey of 12 countries⁶⁶ (those listed in Table 9 less Austria) shows that four of them (Belgium, Netherlands and Norway as well as Finland) do not have recourse to open market operations⁶⁷, while all but two (the United States and Germany) exercise some sort of control over the volume of credit creation, although only three (Norway and Sweden apart from Finland) used this as a principal policy objective. One-half of the countries exercise control over market interest rates (Belgium, Denmark, Norway, Sweden and the United Kingdom, to which should be added Finland). This survey serves to emphasise that the stark contrast between Keynesian (characterised by credit volume and interest rate control) and "monetarist" approaches tends to be blurred in actual monetary management practice even though basic philosophical differences may be discernible.

It is difficult to assess the relative efficiency of a particular set of techniques in achieving the final objective of economic policy, since this would imply comparing the hypothetical results of alternative techniques, which may work well in one country, applied to a perhaps very different environment. Yet part of the problem is that the institutional background itself may well be influenced to an important extent by the techniques themselves—in other words that the system may be interdependent. In the Finnish case, for example, the relative underdevelopment of securities markets is cited as an impediment to pursuing open market operations. The degree of this underdevelopment is evidenced not only by the data in Table 9 above, but also by the virtual non-existence of secondary markets⁶⁸. However, it is possible that if interest rates had been allowed greater freedom a more viable securities market might have developed, even though tax regulations have also had an important influence. Open market operations play a role at present in a number of other small countries.

The rigidities of the financial transmission process which became manifest in 1978 seem at least in part to follow from this underdevelopment. The financing links which have developed on the basis of a normal pattern of savings distribution within the economy appear to have difficulty in adapting to a situation of little demand for funds on the part of corporations matched by a change in the government sector's status from that of net lending to net borrower⁶⁹. A further aspect worthy of comment is that the transmission of monetary policy impact may be somewhat slowed in the Finnish bank-debt based system as the banks, given the basis on which they compete, may continue to absorb the impact for a relatively long time until the cost begins to "bite" significantly and the effect then passed on to final borrowers.

Since the potential profitability of projects will certainly assume major importance among the criteria which the banks apply in considering loan applications, it might seem that a system which relies on credit rationing at the bank/customer level may not yield a greatly different result from the resource allocation viewpoint compared with a system depending on greater freedom of interest rates. However, while

66 "Kreditpolitiken i andra länder", *Svenska Bankföreningen, Ekonomisk revy*, 1978:9.

67 In a sense Bank of Finland participation on the call money market could be considered a surrogate for open market operations.

68 The annual turnover of bonds, debentures and shares is estimated at only about 1-2 per cent of the value of securities outstanding.

69 The commercial banks, which lend to the corporate sector on a short-term but roll-over basis, are averse to reducing the liquidity of their portfolios by purchasing bonds for which virtually no secondary market or automatic discounting arrangement with the Central Bank exist. The savings and co-operative banks' lending, which is of long-term nature, is largely directed to housing, agriculture and personal loans. These institutions have not lent to the Government and have virtually no bond holdings. Only about 5 per cent of insurance company investments are in bonds, while about three-quarters are in the form of loans chiefly to industry and trade as well as for housing purposes.

this may apply *within* a given bank, the problem remains of the allocation of funds *between* banks and again between the different groupings of financial institutions. The allocative problem is not negated by admitting the existence of imperfections in markets where greater emphasis appears to be placed on resource allocation by the price mechanism.

III PROSPECTS AND CONCLUSIONS

Short-term prospects

The three most important factors which seem likely to influence developments in the economy in 1979 are the stance of domestic economic policy, the demand for Finnish exports and the development of wage and other cost pressures :

- i) While conscious of the desirability of reducing the degree of idle capacity in the economy, the authorities in formulating the 1979 Budget proposal recognised the potential fragility of progress made so far in reducing inflation and strengthening the current external account. Thus, on the basis of full-employment budget balance calculations made by the Finnish authorities, the 1979 Budget as such would be less expansionary than in 1978. However, when taking into account the lagged impact of earlier measures, it is estimated that the expansionary impact of fiscal action will continue to grow, reaching a peak in the first half of 1979. In addition, the Government has proposed to Parliament a package of measures devised to ensure a moderate outcome of the centralised income negotiations and which will add further to the expansionary impact. It is assumed in the following forecasts that monetary policy will remain broadly neutral with special measures being taken, if necessary, to combat the recent substantial increase in private sector liquidity.
- ii) In contrast to experience in recent years, the growth of Western markets is expected to accelerate noticeably while shipments to the Soviet Union will fall quite sharply, leaving the growth rate of exports below the expected 1978 outturn.
- iii) External inflationary pressures in the form of import price movements are expected to moderate quite noticeably in 1979 even when account is taken of the impact of the recently decided increase in international oil prices. Although the centralised incomes agreement reached between the labour market parties provides for quite moderate wage increases, the growth rate of labour costs is estimated to accelerate this year, but this should not entail any deterioration in Finland's relative cost position.

For the first time since the adjustment process began in 1975, final domestic demand in 1979 is expected to make a larger contribution than the foreign balance to overall GDP growth, which is forecast to amount to some 4 per cent. With productivity growth per person expected to improve, there appears limited scope for bringing the unemployment rate down from its present high level. On the other hand, the growth of wage rates is forecast to accelerate and, even given the expected improvement in productivity, Finland may at best make no further progress in improving its relative competitive position. Consumer prices are also expected to accelerate within 1979, though the average increase for the year should be only about ½

percentage point higher than the 1978 figure⁷⁰. With the terms-of-trade deterioration coming to an end, the current account is calculated to remain in surplus during the forecast period.

The economic policy and external environments

A primary influence in the formulation of broad policy strategy continues to be the medium-term policy objectives announced by the Government in mid-1977, the major provisions of which relate to maintaining the unemployment rate below 2½ per cent from the early 1980s, while keeping the current account deficit on the balance of payments to below 2 per cent of GDP and preventing the gross burden of taxation from rising above its 1977 level⁷¹. As indicated in Part I of this Survey the severe tightening in policy up to mid-1977 and subsequent introduction of various stimulatory cum stabilisation packages has largely contributed to a sharp downturn in labour cost pressures and to a marked improvement in the external account. This has created the scope for allowing policy to continue to exercise an expansionary impact with a view to stimulating output and making some inroads into the present high level of unemployment. Though it is held that this stimulus should preferably operate through private investment and exports, it is recognised that these elements of demand will probably prove insufficient, so that local government investment is being accelerated and private consumption also supported mainly through personal income tax rate reductions.

Table 11 Short-term forecasts

	1977 Mk. billion	Percentage volume changes from previous year		
		1977	1978 ¹	1979 ¹
Private consumption	62.1	-2.2	0	2
Government consumption	24.7	4.3	5.0	4
Gross fixed investment	32.5	-5.0	-4.6	5½
Final domestic demand	119.3	-1.8	-0.1	3½
Stockbuilding ²	0.5	-1.8	-0.9	½
Total domestic demand	119.8	-3.5	-1.1	3½
Exports of goods and services	37.1	9.5	8.4	5½
Imports of goods and services	35.4	-5.9	-3.0	5½
Gross domestic product	121.6	0.4	2.3	4
<i>Memorandum items:</i>				
Gross fixed investment				
Private	27.2	-5.1	-6.0	6
Government ³	5.3	-2.2	1.5	4½
Consumer prices ⁴		12.6	7.6	8
Household real disposable income		-1.4	2.5	2½
Saving ratio ⁵		10.9	13.0	13½
Current account (US \$ million)		-160	550	500

1 Secretariat estimates and forecasts.

2 Percentage point contribution to GDP growth rate. Including statistical discrepancy.

3 Excluding public enterprises.

4 Consumer price index.

5 Households' saving as per cent of disposable income.

Sources: Finnish National Accounts Statistics and Secretariat forecasts.

70 The increase in housing rents allowed from September 1978, which is estimated to raise the consumer price index by some ¾ percentage point, will for technical reasons not be reflected in that index until February 1979.

71 The gross tax burden amounted to 41.0 per cent in 1977 after reaching a peak of 41.5 per cent the preceding year. Taking into account local government taxes and social security contribution rates, this tax objective would imply a limit of about 2 per cent in the real annual average growth rate of State budgetary expenditure.

The 1979 ordinary Budget provides for increase of 12.1 and 13.4 per cent in revenue and expenditure respectively (excluding financial transactions) compared with the estimated 1978 cash outcome⁷². While the proceeds of personal income and wealth taxation are estimated to rise by almost 21 per cent, adjusting for the bringing forward of Mk. 780 million of income taxation reimbursements from March 1979 to December 1978 would reduce this figure to a mere 3.6 per cent and the growth of total revenue from 12.1 to 7.3 per cent. This rather modest increase reflects primarily the impact of the adjustment of tax brackets for inflation. At the same time, however, certain indirect tax concessions (including extended exemption of certain basic foodstuffs from sales tax and reductions in rates applying to certain capital expenditure as well as increased depreciation allowances to stimulate private investment) are being continued in whole or in part, but some public charges (including railways and postal) are being raised. On the outlay side, probably some 2-3 thousand persons less will be covered by State employment-supporting works appropriations than in 1978 as emphasis is to be placed more on channelling aid through local governments and indirectly via support to promote investment.

In all, a slight increase in the central government budget deficit from its present level to around Mk. 1.5 billion, or about 1 per cent of 1978 GDP is forecast in the Budget proposal. Taking into account net financial transactions, including debt amortisation, the gross borrowing requirement is Mk. 5.1 billion. Including in addition the operation of the extra-budgetary funds (which reflect inter alia the impact of certain industry support measures), the State's overall borrowing requirement is estimated to increase to about Mk. 6 billion from the Mk. 4½ billion 1978 figure⁷³. In addition, the fiscal policy package proposed in conjunction with the incomes agreement reached in early January 1979 between the central employer and union organisations is estimated to increase the central government deficit by a gross Mk. 1.6 billion (or just over 1 per cent of GDP)⁷⁴. However, when account is taken of the expected stimulative effect of the package on revenue as well as reduction in certain transfer commitments, the net "cost" is likely to be closer to Mk. 1¼ billion. The local government sector's overall budgetary position (as measured by its net lending) is expected to remain in balance. The impact of general government operations, whose gross tax burden is estimated to amount to 38½ per cent and so remain within the medium-term objective, will also depend on the methods by which this requirement is financed.

Finland's OECD markets are expected to grow in volume by around 6 per cent in 1979, which represents a considerable improvement on the 1-2 per cent growth during the past two years⁷⁵. As this revival can be very largely ascribed to an expected pick-up in Swedish imports, which more than offsets a contraction in the United Kingdom market, it is probable that if account were taken of the commodity structure of trade flows, the growth of Finnish markets would be less. While forest industry exports are at present maintaining their buoyancy, the restocking cycle among pulp

72 At an annual rate the indexation of personal income and wealth tax scales is estimated to "cost" Mk. 930 million, but with the new scales not being applied until February, the cash loss to the Treasury is estimated at Mk. 750 million in 1979. The cost of all discretionary measures is estimated at some Mk. 1.1 billion, or just under 3 per cent of total budgeted revenue.

73 Negotiations are being conducted with the private banks with a view to their taking up a certain volume of government debt as had been the case in 1978.

74 The main provisions of the package are a 1 per cent reduction in withholding tax scales for personal income (which does not, however, affect finally assessed tax liability), a reduction in employer social security contribution rates and various measures to stimulate employment (for further details see Annex).

75 As measured by the growth of non-oil OECD imports weighted by the geographic structure of Finnish exports.

purchasers may well be approaching an end, while housebuilding activity (which is important for wood products) is expected to be rather slack⁷⁶. However, the unfavourable impact of these considerations on total OECD exports could be largely outweighed by some gain in market shares as a result of the recent improvement in Finnish competitiveness. At the same time, the outlook for the Soviet Union market, which at present absorbs just under one-fifth of total exports, is particularly unfavourable. The volume of shipments is forecast to fall by around 12 per cent, which will affect in particular metal and engineering products⁷⁷. Overall exports are forecast to grow at about 6 per cent within 1979, giving an average growth rate for the year of some 5 per cent.

Domestic demand, output and employment

Household real disposable income is estimated to rise by around 2½ per cent as in 1978. When private employment pension fund saving is excluded, freely disposable real income should rise by around 2 per cent compared with an estimated 5 per cent in 1978. There should be a backlog of demand for (particularly major) durables following declines in expenditure over the recent past, while continued exemption of certain foodstuffs from turnover tax should lend support to this element of household demand. On the other hand, consumer spending could be held back by uncertainty in the face of the expected continuation of very weak conditions in the labour market. Taking into account the lagged impact of tax reimbursements made at the end of 1978, private consumption is forecast to rise by 2 per cent, which would nevertheless imply a decline in the voluntary savings ratio from 10 per cent in 1978 to 9½ per cent⁷⁸. The latest investment intentions survey carried out by the Bank of Finland in November 1978, points to an increase in the volume of planned manufacturing fixed capital formation amounting to 16 per cent in 1979. This sharp upward adjustment to planned outlays compared with the preceding survey carried out six months earlier, which had indicated a volume fall of 12 per cent, probably reflects the recovery in output and profits as well as the business sector's more optimistic assessment of prospects. This more optimistic view had already become evident from other surveys, including one by the Confederation of Finnish Industries carried out in September.

While private final domestic demand is forecast to rise by around 3¼ per cent in 1979, public expenditure on present plans is estimated to increase by about 4 per cent. This latter figure represents a slowdown from the 4½ per cent growth preliminarily estimated for 1978 and would seem about in conformity with the limits on expenditure provided for under the February 1977 agreement between central and local government organisations. However, expenditure plans could be subsequently influenced particularly by developments in the labour market.

The Confederation of Industries survey referred to above indicated that, contrary

76 For the seven largest OECD countries residential construction is forecast to make a negative contribution to growth in 1979. While this estimate is heavily influenced by the United States, this aspect could still imply increased North American competition in the European markets.

77 The Soviet Union accounts for one-third of metal industry exports. Finnish exports tend to be concentrated in the first three years of its 5-year agreements with the Soviet Union. Hence a reduced level of export activity can be expected in 1979 and 1980, the final two years of the present agreement; the pattern has in fact been more pronounced during the present agreement than usual owing to a particularly strong concentration of shipments earlier in order to compensate for the slackness in Western markets and to close the bilateral trade gap created by the increase in the price of oil (two-thirds of which comes from the Soviet Union).

78 The voluntary savings rate, which averaged 10.9 per cent during 1966-1975, adjusts both disposable income and savings by excluding pension funds. The savings ratio as normally measured in the national accounts would remain at around the 1978 figure of 13 per cent.

to earlier expectations, there was a small increase in orders—mainly in the forest and chemical industries—during the third quarter of 1978. However, with slack demand continuing to be by far the main impediment to expanding output, industrial production is forecast to rise by around 4 per cent in 1979, with the main contributions coming from the forest based industries within manufacturing as well as the utilities and mining sectors⁷⁹. Reflecting this, forestry output is also forecast to rise quite strongly, while service sector activities are expected to expand at about the same rate as in 1978. Assuming that the participation rate remains on average stable and that emigration continues at a low level, the labour force is expected to rise very slightly, or by not quite $\frac{1}{4}$ per cent. The drift of manpower out of the agricultural sector will continue, while the service sector should again add to employment. With the level of activity within the metal industry, which is important from the employment viewpoint, likely to be rather slack, industrial employment could decline further in the course of 1979. The extent to which labour input demand may continue to be adjusted through extending average hours rather than adding to employment represents a major element of uncertainty. On balance, the unemployment rate is likely to vary little from the 1978 average figure, though some improvement may take place in the latter part of 1979.

Incomes, prices and the external account

Inflationary pressures could start to strengthen during the course of 1979. The main provisions of the incomes agreement reached between the central organisations of employers and unions in early January this year, which remains in force thirteen months to end-February 1980, are for a general $2\frac{1}{4}$ per cent increase in wage rates as from the beginning of February 1979 and increases of about $1\frac{1}{2}$ per cent under an earnings guarantee arrangement payable to industry in December 1979 and to other groups in March 1980. Furthermore, there is provision for a special increase from December should the consumer price index exceed a certain threshold by October of this year⁸⁰. Excluding eventual adjustments under this last-mentioned clause, the settlement is estimated to raise wage rates by an average of $2\frac{1}{2}$ per cent over the 1978 level. With the rescheduled increases under the 1977 agreement contributing $5\frac{1}{2}$ percentage points, the index of negotiated wage rates is calculated to rise on average by about 8 per cent. Assuming a continued low rate of wagedrift, given the expected slack labour market conditions, average wage rates seem likely to rise by around 10 per cent. With employment forecast to increase by about $\frac{1}{2}$ per cent and taking into account social security contributions, total unit labour costs would on this basis rise by about $6\frac{1}{2}$ per cent, with costs possibly rising somewhat less in industry⁸¹. This could put pressure on profit margins both within the open sector, as foreign prices may rise by only some 5-6 per cent, as well as in other sectors to the extent that some form of price control is retained as an element of a new incomes agreement.

The total wage bill is thus estimated to rise by somewhat over 10 per cent but the other elements of income somewhat more slowly. Furthermore, whereas income tax reductions and increased social service benefits are estimated to have boosted dis-

79 If an increase in bilateral trade volumes with the Soviet Union could be negotiated, the level of activity in the engineering industry would benefit even if this would not yet be reflected in exports in 1979.

80 The $2\frac{1}{4}$ per cent increase on February 1st is to be added to the 1 per cent already due under the amended provisions of the 1977 agreement. If the consumer price index exceeds 233 (that is, some 7.8 per cent over the December 1978 level), wage rates are to be fully adjusted for such excess should the over-run exceed 1 per cent, otherwise a flat amount of 17 penni/hour is to be paid. It is to be noted that price control arrangements remain unchanged.

81 The reduction in employer social security contributions provided for in the Government incomes policy package is estimated to cut labour costs by 1 percentage point.

posable income by almost 5 percentage points in 1978, net transfers to the government sector in 1979 are expected to reduce the growth rate of household disposable income by some 1 percentage point to just under 9 per cent, or to slightly below 1 per cent in real terms. Although the growth rate of consumer prices is forecast to rise on average by about 8 per cent, some within-year acceleration by the end of the forecast period is expected, despite a reduction in external price pressures⁸². Apart from labour cost pressures, some 2 percentage points of the increase is attributable to the net effect of policy measures (including agricultural price increases).

The volume of imports is forecast to rise faster than the overall level of activity as the structure of domestic demand shifts towards those elements with a relatively high import content. Although the average growth rate of some 5 ¼ per cent for imports of goods and services expected for the year is about the same as for exports, a net positive contribution to GDP growth is still expected from the foreign real balance. With export prices forecast to grow somewhat slower than import prices (5 ¼ compared with 6 per cent), the current account on the balance of payments is expected to remain in surplus to the tune of around \$ ½ billion, or equivalent to some 1 per cent of GDP⁸³.

Some medium-term issues

Recent developments and prospects for 1979 need to be viewed against the medium-term objectives laid down by the Government in mid-1977. The two major objectives of the medium-term stabilisation policy covering the five years to 1982 were :

- i) A rate of unemployment of under 2 ½ per cent by the start of the 1980s. In view of recent trends, the authorities have, however, recently indicated that even a 4 per cent unemployment rate may be difficult to achieve.
- ii) A current account deficit equivalent to under 2 per cent of GDP.

The main assumptions underlying these objectives were for an average annual growth rate of GDP in the OECD area weighted by the structure of Finnish exports equal to 3-3 ½ per cent, an average growth of export volumes of 7 ¼ per cent, and a slower rise of Finnish inflation than that of competitors⁸⁴. On this basis, real GDP was projected to rise at an average annual rate of 4 ½ per cent.

At the time the 1977 stabilisation policy was enunciated the magnitude of the tasks facing the authorities was considerable. The deficit on the current external account, which had averaged about \$ 165 million (1 ¼ per cent of GDP) in the years 1967 to 1973, jumped to over \$ 1 200 million in 1974 and to around \$ 2 200 million in 1975 (over 8 per cent of GDP). The rate of price inflation, generally above the OECD average in the late 1960s and early 1970s, accelerated sharply to 17.9 per cent in 1975. In response to these growing imbalances the authorities in 1975 tightened monetary policy to dampen domestic demand and inflationary pressures and then in 1976 and 1977 the main burden of expenditure reduction was placed on fiscal policy.

The first eighteen months of the stabilisation policy have witnessed marked success in removing the imbalance in the current external account, a surplus being recorded in the second half of 1977 and in 1978. Reflecting the sharp improvement in

82 Assuming that the cost of Finnish oil imports rises in line with the recently announced schedule and that this is passed on to consumers, the direct impact is estimated to raise the consumer price index by just under ½ percentage point.

83 The oil price increase is estimated to raise the deflator for imports of goods and services by about 1 per cent and to add some Mk. 0.4 billion to the import bill.

84 The assumption was a 5 per cent annual rate of inflation compared with 6 per cent in the OECD area.

the competitiveness of Finnish industry—due both to the effect of devaluations and to moderation in wage costs—and a recovery in demand for Finnish exports, the volume of exports over this period has slightly exceeded the rate implied in the medium-term projections. At the same time—as noted earlier—the authorities have been successful in bringing inflationary pressures under better control. Earnings have been rising at about an 8 per cent annual rate since early 1977 while the year-on-year rise in consumer prices was down to about 6 per cent by late 1978, a rate which is currently below the OECD average. However, progress in these areas has involved large costs in terms of output and employment with levels of both capital and labour resource utilisation rates dropping to post-war historically low levels. In view of the room for manoeuvre provided by the improvement in the current external account and the substantial deceleration in the inflation rate, the authorities began easing fiscal policy as from mid-1977 and monetary conditions have been substantially relaxed. Within the overall policy framework, considerable reliance has been placed on stabilisation packages designed to secure moderate wage increases through the granting of direct and indirect taxation concessions as well as increased social security benefits. Reflecting the measures and the sharp revival of exports, the growth of output has picked up, but as discussed above, the employment situation has yet to show improvement; the unemployment rate rose to about 8 per cent, despite a 2 percentage point fall in the participation rate.

The short-term prospects discussed in the preceding section suggest that, in terms of the medium-term objectives, 1979 will largely be a year of marking time. Although growth of output is forecast to accelerate to around 3½ per cent, this is short of the growth of potential. Accordingly, it seems unlikely that there will be any reduction in the degree of underutilisation of resources. While the current external account is expected to remain in comfortable surplus, some small deterioration in both price and cost performance could occur. The outlook for 1979 thus throws into relief the extent of the medium-term adjustment still to be realised. In an appendix to the 1979 Budget proposal, the authorities calculated that to reduce the unemployment rate to below 4 per cent by 1982 by relying primarily on exports would require an annual average increase in export volumes and GDP of 10 and 5-6 per cent respectively. The comparable figures over the period 1964 to 1973 were 8¼ per cent for exports and around 5 per cent for real GDP. An annual growth of exports close to this longer-term trend in the years to 1982, however, would probably lead to unemployment falling relatively slowly. In view of the strong probability that the growth of world trade up to 1982 will be somewhat slower than in the decade to 1973, the medium-term growth objective may need reviewing unless there is a marked improvement in the structure of external trade or growing reliance is placed on domestic action to raise output. These two main options are briefly discussed below.

The first option of improving the structure of external trade would, at least over the next few years, appear to turn primarily on the question of competitive advantage in order to further penetrate foreign markets. In the past, substantial gains in export earnings have been made through increasing the degree of fabrication of exports. While considerable scope probably exists for further change in this direction over the longer term, the impact of structural policies to this end would likely be relatively small in the period to 1982. As regards the further reduction of imports in relation to aggregate demand, scope would also seem to be limited. Reflecting the earlier restrictive policy, imports have fallen sharply, but a recovery is underway with the pick-up in domestic demand. Moreover, the limited size of the domestic market would mitigate any major advance in import substitution in a competitive environment, and so would the structure of Finnish imports with raw materials accounting for over 70 per cent of the total, a share which has increased markedly in recent years. Accord-

ingly, any sustained boost to employment from the external sector in the period up to 1982 would seem to depend on increasing export market shares through enhancing the competitiveness of Finnish exports.

As noted earlier, the measures taken in 1977 and 1978 to ease cost pressures in conjunction with moderate pay settlements and devaluation of the markka have resulted in an improvement in the price competitiveness of Finnish exports. Partly reflecting this, Finland's share in Western markets has risen considerably in 1977 and 1978 and is expected to improve further in 1979. One fundamental question therefore would seem to be how to at least maintain or improve the competitive edge while other structural policies are being put in place. A second and related consideration is the profitability of the export sector which, despite the recent improvement, remains weak by historical standards. This, together with the high indebtedness of this sector, is an important factor inhibiting the switch of resources needed to achieve adaptation of exports to changing external conditions.

The second option of greater reliance on domestic expansion than implied in the medium-term stabilisation objectives would be subject to a number of constraints, in particular, the foreign balance and inflation. This alternative also needs to be viewed against the official objective of restraining the proportion of total taxation in GDP to at most the 1977 rate. As regards the external constraint, any strong revival of domestic demand, given its relatively high import content, would of course lead to renewed demand for imports which, if not more than offset by export growth, would quickly undermine the balance of payments adjustment made to date. The external constraint is exacerbated by debt servicing commitments. Largely reflecting the earlier large current account deficits and concomitant borrowing, servicing of the country's foreign debt is estimated to have absorbed about 11½ per cent of total export earnings in 1978. Although this figure may fall after 1980, it can be expected to remain a considerable burden over the medium term. If the problem of external debt servicing is not to be exacerbated, the extent of borrowing abroad will have to be kept within strict limits. As regards the inflation constraint, a marked strengthening of demand over an extended period could be expected to be quickly reflected in increased wage and price pressures through changing expectations, thus putting at risk the competitive position which is central to the task of medium-term adjustment. There would also be the problem of managing the monetary consequences of an increase in the public sector borrowing requirement if inflation is to be kept under control⁸⁵.

Conclusions

The marked improvement in the recent period of the balance of payments and price performance has eased somewhat two major constraints on the expansion of demand. In view of the sharp rise in unemployment in recent years, some policy stimuli to demand have therefore been introduced over the last eighteen months as outlined in Part II of this Survey. However, in considering economic policy within the context of the medium-term requirements of the economy and in the absence of a marked pick-up in world demand, account needs to be taken at the outset of the possible fragility of the progress made in reducing inflation and in improving the balance of payments:

- i) Progress in reducing the growth in costs and prices in 1978 reflected the relative weakness of domestic demand as well as cuts in indirect taxes and

85 The general government deficit in 1978 is estimated at about 1 per cent of GDP which is modest in comparison with many other Member countries. However, the financing of any widening of the deficit without an undue expansion in liquidity—mainly a technical problem—could necessitate some institutional changes in the financial sector.

mandatory and voluntary price controls, elements of which may not be operative—at least to the same extent—in 1979. Indeed, the Secretariat forecasts point to an acceleration, albeit small, in both price and cost inflation in 1979; within the course of the year, the rate of price inflation may well be above the OECD average which could later endanger Finland's competitive position. However, as the authorities have recognised, if there is to be worthwhile and sustained progress in increasing employment while keeping a viable balance of payments, any loss of competitiveness will have to be avoided. This in turn suggests that considerable restraint in wage settlements and other income increases over an extended period will be essential.

- ii) Although the competitive position has improved and export market shares have been gained, part of the sharp turnaround in the current external account is attributable to the effect on imports of the restrictive policies pursued in the two years to mid-1977. Imports would respond to any strong boost to domestic demand and again weaken the current account position.

The Finnish authorities have again this year provided fiscal concessions in order to ensure a moderate wages settlement. In order to further reduce cost pressures, the burden of employers social security charges is also being eased. Under circumstances where the gains so far registered in correcting earlier imbalances could easily come under considerable strain, this approach toward utilising the limited scope available for reflationary action appears to have been judicious. Finland's competitive position should thereby be ensured at least over the coming year. However, in a somewhat longer time perspective, the fact that fiscal incentives have made an important contribution to securing moderation of income claims in the past, may not necessarily imply their continued appropriateness at all times in the future. The room for tax cuts will obviously depend on the economic situation and notably the level of activity and the balance-of-payments position. Thus, if the main medium-term objectives are to be approached, it would seem essential to work out longer-run income determination arrangements acceptable to all parties. In this context, it is important to take account of the profitability of industry and particularly in the open sector. As noted earlier, the profit position is still relatively weak and is no doubt acting as a damper on productive investment. Within this framework it is important to recognise the probability that re-emergence of strong wage and income pressures could quickly lead to a reversion to restrictive policies.

An alternative approach to improve profitability and competitiveness would be use of the exchange rate as has been done on three occasions in the recent past. The beneficial effects of the latest devaluations appear to have been maintained relatively well. Nevertheless, any changes in the exchange rate carry a substantial risk of leading to heightened difficulties about income distribution and thus any moves in this direction require careful consideration. Indeed, the authorities' present overall strategy of trying to moderate cost pressures and ensuring that firms are in a position to finance productive investment as its need becomes apparent, while devising policies aimed at diversifying and widening the industrial base of the open sector, would seem to be largely appropriate in current conditions.

Within the general framework of demand management set out in the 1979 Budget, it would seem imperative therefore that top priority be given to consolidation or even improvement of current cost and price performance. The threshold-type adjustment to wage rates for price movements allowed for in this year's incomes settlement should provide an extra incentive to this end. The volatility of Finnish foreign trade prices and their transmission both from the import cost side and the income effects of export price movements on the domestic economy pose a problem in this

respect. Attempts have been made in the past to dampen the effects of large fluctuations in export prices but, partly due to the absence of necessary legislation, success has been limited. The introduction of stabilisation measures such as the proposed export deposit scheme as part of an overall anti-inflationary strategy for the medium-term would seem appropriate.

The recent build-up in domestic liquidity would also seem to constitute a potential danger to the sound management of the economy. As was pointed out in Part II above, this development can in part be attributed to certain structural weaknesses in the Finnish financial sector and hence would probably take some time to remove. Nevertheless, there would seem to be some scope for taking shorter-term counter-measures while methods to give the authorities greater control over credit expansion are developed. It also seems that consideration of financial market mechanisms which would better mobilise domestic savings and ease the difficulties of financing public sector operations may be timely.

In conclusion, measures taken to reduce domestic imbalances have been consistent with the recommendations contained in the concerted international reflationary programme. Finland should also benefit from the stimulatory action decided upon by some other Member countries, particularly Germany, in line with the programme. Against this background, the broad economic strategy adopted by the Finnish authorities of permitting a controlled expansion of demand based on both short and medium-term considerations to absorb gradually economic slack, while giving high priority to dampening cost and price developments, would seem to offer the best chances of further success. Although progress in reducing unemployment will inevitably be slow, the objectives of the 1977 medium-term stabilisation policy are well conceived and efforts to abide closely by the original objectives would seem desirable. The main risk probably rests with the development of costs and prices and it is in this area that greater consensus needs to be obtained if an increase in employment over the medium term is to be sustained.

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Annex

CALENDAR OF MAIN ECONOMIC EVENTS

1977

1st July

Law introduced providing for voluntary agreements between State and elderly farmers during 1977-1979 for purpose of limiting agricultural production.

Coverage of cash payment scheme for imports reduced (to rather more than 30 per cent of total imports) by exemption of several basic industrial raw materials and producer goods.

Customs duties on items subject to "normal" timetable in trade with EEC countries and certain socialist countries abolished.

1st August

Suspension of sales tax on industrial building started by end-March 1978 and finished by end-1979.

31st August

Effective exchange rate of Finnish markka reduced by 3.1 per cent.

Government decides to raise agricultural income by Mk. 443 million, less Mk. 33 million on account of beef prices having exceeded target price level.

2nd September

Price control tightened temporarily up to end-April 1978, by inter alia lengthening the period for considering price increase applications and freezing the allowance for firms' operating surplus.

16th September

1978 Budget proposal submitted to Parliament (see 30th December 1977).

30th September

Government proposal to increase State Investment Fund's borrowing limit to Mk. 3 billion.

1st October

Discount rate reduced by 1 percentage point to 8 ¼ per cent and export financing facilitated.

Employer social security contribution rates temporarily reduced by 1 percentage point to end-April 1978.

7th October

Second supplementary budget approved. Additional expenditure (Mk. 153 million) attributable mainly to the June 1977 stimulatory programme. Borrowing authority increased by Mk. 500 million.

1st November

Law on tax relief deposits enters into force. Deposits of minimum Mk. 200 and maximum Mk. 2 000 made for 36 months during each of four consecutive quarters entitle depositor to reduce income tax liabilities by amount equal to 8 per cent of such deposits. Rate of interest exceeds that paid on 24-month deposits by ½ percentage point.

Monetary Act amended to express external value of Finnish markka in terms of foreign exchange index based on 1974 which indicates average changes in rates of foreign exchange important for Finnish foreign trade. According to Cabinet decision index may vary between 107.1 and 112.0 (that is, by 4.5 per cent).

8th November

Cabinet Decision on principles for granting investment credits, bringing guidelines issued in April 1976 into harmony with Government programme stimulating economic activity through i.a. abolition of several earlier restrictions (including investment in service, housing and general government sectors).

23rd November

Bank of Finland makes US\$ 100 million drawing on its foreign credit facilities.

29th November

Bank of Finland makes US\$ 200 million drawing on its foreign credit facilities.

2nd December

State Investment Fund's borrowing limit increased to Mk. 3 billion.

8th December

Policy package designed to stabilise price and income developments and to stimulate economic growth presented:

- i) Postponement of wage and salary increases due in March 1978 by 6 months and of those due in October 1978 by 4 months. Supplementary pension indexation due on 1st July 1978 postponed to 1st January 1979. March 1978 adjustment of farmers' incomes also postponed by 6 months, dividends frozen at 1977 level and industry and forest owners to agree on stumpage prices that support competitiveness of forest industry;
- ii) Central organisations of industry request members to hold back price increases until end-August 1978. Rents frozen until end-August and no increases in indirect taxes and public charges (additional to those presented in the Budget) to be implemented in 1978;
- iii) Employer supplementary pension contribution rates to be reduced by 2 rather than the 1 percentage point decided earlier and insured persons' social security payments reduced for period of six months by 1 ¼ percentage points. Tax scales marginally adjusted in the lowest income brackets;
- iv) Electricity tax reduced during 1978 in branches mainly producing for export and some selective support to alleviate youth unemployment and increased support to housing construction envisaged.

In all, the package is estimated to add Mk. 800 million to public expenditure, while the reductions in social security contributions and the further adjustment of tax scales could reduce public revenue by some Mk. 800 million.

Period for use of Investment Funds from profits of accounting periods terminating by end-1974 extended to end-1978.

15th December

Bank of Finland issues new credit policy guidelines calling for favourable treatment of:

- i) working capital requirements of firms with favourable long-run demand prospects;
- ii) productive investment — in particular, projects with large domestic input and significant impact on employment;
- iii) housing, in particular projects co-financed by the State;

and low priority for financing:

- iv) imported goods, in particular excess stockbuilding;
- v) investment projects in commerce and other service sectors;
- vi) consumer goods.

23rd December

Third supplementary budget approved. Additional expenditure (Mk. 1.4 billion) mainly attributable to increased commitments due to higher than expected inflation and unemployment rates. Borrowing authority increased by Mk. ½ billion to Mk. 2.4 billion.

28th December

Bank of Finland announces re-introduction of the target and compensatory system for commercial bank borrowing in Central Bank for period January-June 1978. The target level set at Mk. 5 billion during first months of the period and Mk. 4 billion in May-June.

30th December

1978 budget approved. Total expenditure estimated at Mk. 37.6 billion (up 14 per cent on 1977 ordinary budget) and total revenue (excl. borrowing) at Mk. 35.7 billion (up 13 per cent). Borrowing set at Mk. 1.9 billion. Income and wealth tax brackets and most important deductions adjusted by 13 per cent

on average (additional adjustments made for those in lowest income brackets). Suspension of sales tax on certain foodstuffs to be continued in 1978. Excise duties on motor petrol and diesel oil raised by 10 pennies/litre and excise duties on fuel oils partly re-imposed, motor vehicle tax on trucks for trailers increased, stand-by stockpiling charge of 1.6 pennies/litre to be levied on petrol in 1978, State Railways tariffs raised by 7½ per cent on average and certain postal tariffs by 8 per cent on average.

31st December

Act on Safeguarding Economic Development, introduced in conjunction with December 8 policy package, gives Government powers of surveillance and control over wages and salaries, agricultural income, rents and insurance premiums etc. up to end-February 1979.

1978

1st January

Employer supplementary pension contribution rates reduced by 2 percentage points to 10 per cent for long-term employees and by 1 percentage point to 11 per cent for short-term employees.

Employer unemployment insurance contribution rate increased from 0.5 to 1 per cent of total wage and salary bill.

9th January

Tax concessions during 1978-1983 to be granted to shipping companies ordering ships built in Finland.

Tax concessions for promotion of metal industries extended to apply to construction projects abroad.

17th January

Retail prices of alcoholic beverages raised by average 9.3 per cent.

19th January

Government decides in principle on certain expenditure reductions and deferrals as well as on other measures to improve State financial position.

1st February

Tobacco product prices raised by average of 10 per cent.

6th February

Bank of Finland arranges US\$ 200 million credit facility with international banking group.

16th February

Effective exchange rate of Finnish markka reduced 8 per cent (new limits for fluctuation of currency index being 116.4 and 121.7 — see 1st November 1977).

16th March

Use of Investment Funds from profits of accounting periods ending in 1975 and 1976 permitted to end-1978.

30th March

First supplementary budget approved. Expenditure (Mk. 0.7 billion) attributable to additional measures for stimulating economic activity (see 8th December 1977). Borrowing authority increased by Mk. 2.8 billion to Mk. 4.5 billion.

State-appointed incomes policy mediator recommends revisions to collective wage agreements in accordance with their devaluation clause; 1.5 percentage points of wage increases due at beginning of February 1979 should be paid as special supplement from 1st May 1978. Increases due under second stage of earnings guarantee provision should be made in conjunction with general wage increases due at beginning of February 1979. Saturdays following Christmas and Easter should be holidays.

31st march

Government decides in principle on measures for curbing inflation and safeguarding households' purchasing power as well as for reviving investment and employment (see 27th April, 1st and 2nd May, 7th and 22nd June and 1st July 1978).

26th April

Retail prices of alcoholic beverages raised by average 10.1 per cent.

27th April

Bank of Finland accords Mk. 700 million loan to State to be drawn in 1978-79 for financing programme announced on 31st March.

1st May

Discount rate reduced from 8 ¼ to 7 ¼ per cent.

Temporary reduction in employer social security contribution rates extended to end-December 1978 but size of cut reduced to 0.5 percentage point to end-December 1978 (employer social security contribution rates thus vary from 8.375 to 9.375 per cent — see 21st October 1977).

2nd May

To increase agricultural income in conformity with revisions to collective wage agreements, target price of milk raised by 3 pennies/litre, implying increase of Mk. 92 million in agricultural income.

10th May

Bank of Finland arranges US\$ 100 million credit facility with international banking group.

15th May

Bank of Finland reduces coverage of cash payment scheme for imports to equivalent of about one-quarter (previously one-third) of value of commodity imports.

1st June

Commercial banks central credit quotas reduced from Mk. 1.9 billion to Mk. 1.4 billion. Amounts by which banks allowed to exceed their quotas and their right to resort to call money market slightly increased.

5th June

Bank of Finland repays stand-by credit of US\$ 200 million drawn toward end-1977.

7th June

Sales tax rate halved on manufacturing machinery and equipment ordered during period 1st April 1978 — 30th June 1979 and delivered by end-1979.

Exemption of industrial building from sales tax extended to buildings started not later than end-September 1978 and completed by end-December 1978 (see 1st August 1977).

16th June

Second supplementary budget approved. Expenditure (Mk. 1.1 billion) attributable mainly to unemployment compensation and measures to stimulate economic activity (see 31st March). Borrowing authority increased by Mk. 880 million to Mk. 5.4 billion.

22nd June

Grants to be given equal to 7.5 per cent (in special cases 15 per cent) of cost of machinery and equipment purchased by manufacturing industries where justifiable from industrial or employment policy viewpoint.

1st July

Insured persons' social security contribution rates reduced by further ½ percentage point each for period to end-1978 (see 8th December 1977).

11th August

Government decides in principle on measures to curb inflation and stimulate investment, consumption and employment. Basic rate of employer supplementary pension contribution to be 11.7 per cent for 1979 and reduction of ½ percentage point in rate of employer social security contribution to be continued to end-1979. Insured persons' social security contribution rates to continue at reduced (by ¼ percentage point) rate during February-December 1978 and one-third of tax reimbursements (amounts withheld in excess of finally assessed liability) postponed to March 1979 to be made in December 1978. To stimulate investment and increase employment, general government sector's own and co-financed investments, as well as opportunities for part-time employment, to be increased.

31st August

Agricultural target prices and price support increased, raising agricultural income by Mk. 336 million (about Mk. 118 million had been deducted to compensate for prices in excess of target levels for certain products). Right to longer holidays increases agricultural income by additional Mk. 50 million.

1st September

Commercial banks' central bank credit quotas reduced from total of Mk. 1.4 billion to Mk. 1.0 billion and amounts by which quotas may be exceeded and access to call money market slightly increased. Bank of Finland's share in domestic suppliers' financing raised from 40 to 50 per cent. In accordance with Government's general guidelines of 30th December, 1977, housing rents may be raised by maximum 40 pennies/square metre/month.

18th September

1979 budget proposal submitted to Parliament. Expenditure estimated at Mk. 43.5 billion (up 16 per cent on 1978 ordinary budget), revenue (excluding borrowing) at Mk. 38.5 billion (up 8 per cent) and borrowing at Mk. 5.0 billion. Personal income and wealth tax brackets as well as certain deductions to be adjusted by 8 per cent to compensate for inflation, suspension of sales tax on basic foodstuffs and reduction in sales tax on certain investment continued. Some public charges raised (incl. postal and railway passenger by 8 per cent and railway freight by 5 per cent).

20th September

Bank of Finland issues credit policy guidelines, whereby i. a. investments with high domestic input to be favoured.

17th October

Commercial banks' access to call money market increased to 500 per cent of their central bank credit quotas.

27th October

Third supplementary budget approved. Expenditure (Mk. 174 million) attributable to August 1978 measures. Borrowing authority increased to Mk. 6 billion.

Government proposes several changes in business taxation, especially to benefit small and medium-sized firms; for example, a new form of reserve, based on wage bill, proposed. Also several modifications to law on Investment Funds proposed, designed to make use of Funds more attractive.

Exemption of industrial buildings from sales tax proposed to be extended to buildings started not later than end-June 1979 (see 7th June 1978).

31st October

Bank of Finland reduces scope of cash payment scheme for imports to cover 18 per cent of value of commodity imports.

16th November

Use of Investment Funds from profits of accounting periods ending 1975-1977 permitted to end-1979 (see 16th March 1978).

3rd December

Government proposes temporary acceleration of depreciation allowances for industrial investment.

7th December

Unemployment fund benefits increased by 6 per cent.

1979**9th January**

Central organisations of employers and unions sign thirteen-month incomes agreement, the main provisions of which are:

- i) 1st February 1979 — general wage increase of 2 ¼ per cent (in industry 30 pennies/hour plus ½ per cent, latter to be distributed according to agreement between labour market parties at union level). These increases are in addition to 1 per cent increase scheduled under modified provisions of preceding agreement.
- ii) 1st March 1980 — 1 ½ per cent earnings guarantee increase. Payment to industry, however, in form of 17 penni/hour increase from 1st December 1979.
- iii) Should consumer price index exceed 233 (1972 = 100) by October 1979, compensation to be paid in form of special wage increase from 1st December 1979. If excess greater than 1 per cent wage rates to be adjusted to compensate fully for the excess, otherwise flat-rate compensation of 17 penni/hour to be paid.

At same time Government proposes policy package including:

- i) Reduction of 1 per cent in withholding tax scales applied to personal income as from 1st February 1979 (estimated to reduce general government cash revenue — but not final tax liabilities — by Mk. 0.2 billion).
 - ii) Reduction in employers' social security contribution rate by 1 ½ percentage points from 1st February (estimated cost Mk. 0.9 billion in 1979).
 - iii) Other concessions to households include:
 - a) extension of ¼ percentage point reduction in old-age pension contribution rate to end-1979,
 - b) reduction in insured persons' health insurance contribution rate extended from end-1979 to end-February 1980,
 - c) unemployment benefits to be raised by 7 ½ per cent for family people,
 - d) child endowment benefits to be raised by average 10 per cent from 1st October 1979, and
 - e) graduated reduction in seniority qualifications for fifth annual week of holidays.
 - iv) Increased expenditure on employment support, including public works (Mk. 200 million), transfers to local governments to combat youth unemployment (Mk. 130 million), other miscellaneous measures (Mk. 65 million) and number of housing starts to be increased. Furthermore, assistance to be given to local government investments started during period 1st January — end-August 1979 and completed by end-August 1980.
- entire package estimated to cost gross Mk. 2 billion, of which Mk. 1.6 billion applicable to 1979.

STATISTICAL ANNEX

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Table A Supply and use of resources
Mk. million, current prices

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Consumers' expenditure on goods and services	18 682	20 998	22 902	24 941	28 987	34 025	41 064	49 783	56 645	62 117
General government current expenditure on goods and services	5 693	6 212	6 914	7 937	9 295	11 162	14 220	18 332	21 751	24 746
Gross fixed asset formation	7 802	9 171	11 262	12 977	15 101	18 523	23 945	30 162	30 156	32 494
Change in stocks ¹	1 421	2 294	3 113	2 775	1 481	3 755	8 513	6 140	4 335	475
NATIONAL EXPENDITURE	33 598	38 675	44 191	48 630	54 864	67 465	87 742	104 417	112 887	119 832
Exports of goods and services (non-factor)	8 308	10 096	11 950	12 429	15 135	18 245	24 924	24 869	29 645	37 143
Imports of goods and services (non-factor)	7 758	9 758	12 549	13 398	15 090	18 964	28 492	31 325	32 410	35 418
GROSS DOMESTIC PRODUCT AT MARKET PRICES	34 148	39 013	43 592	47 661	54 909	66 746	84 174	97 961	110 122	121 557

¹ Including statistical discrepancy.

Source: Finnish submission to the OECD.

Table B Supply and use of resources
Mk. million, 1970 prices

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Consumers' expenditure on goods and services	19 510	21 472	22 902	23 558	25 575	27 297	28 422	29 470	29 687	28 359
General government current expenditure on goods and services	6 286	6 544	6 914	7 263	7 777	8 231	8 580	9 128	9 579	9 795
Gross fixed asset formation	8 930	9 977	11 262	11 670	12 410	13 089	13 574	14 520	13 153	12 256
Change in stocks ¹	936	1 818	3 113	2 846	1 583	2 512	3 799	3 799	2 448	2 408
NATIONAL EXPENDITURE	35 662	39 811	44 191	45 337	47 345	51 129	54 375	56 917	54 867	52 818
Exports of goods and services (non-factor)	9 377	10 950	11 950	11 783	13 462	14 455	14 329	12 330	14 054	15 086
Imports of goods and services (non-factor)	8 581	10 498	12 549	12 479	13 034	14 713	15 666	15 732	15 244	14 010
GROSS DOMESTIC PRODUCT AT MARKET PRICES	36 458	40 263	43 592	44 641	47 773	50 871	53 038	53 515	53 677	53 894

¹ Including statistical discrepancy.

Source: Finnish submission to the OECD.

Table C Gross domestic product by industry of origin¹
Mk. million, 1970 prices

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
Agriculture, forestry and fishing	5 047	5 249	5 408	5 345	5 020	4 876	4 879	4 824	4 749	4 686
Mining and quarrying	306	345	370	297	348	367	362	361	413	440
Manufacturing	9 256	10 455	11 710	12 010	13 436	14 276	14 995	14 472	14 563	14 507
Electricity, gas and water works	803	937	1 037	1 080	1 220	1 350	1 399	1 414	1 475	1 602
Construction	3 210	3 434	3 702	3 666	3 906	4 174	4 265	4 402	3 983	4 019
Transport, storage and communication	2 337	2 539	2 721	2 757	2 942	3 184	3 364	3 249	3 300	3 386
Wholesale and retail trade	3 110	3 491	3 787	3 954	4 337	4 773	4 912	5 091	5 109	4 789
Finance, insurance and real estate	863	903	946	1 067	1 198	1 345	1 490	1 665	1 750	1 803
Owner-occupied dwellings	2 011	2 094	2 193	2 297	2 414	2 539	2 679	2 817	2 938	3 062
Public administration and defence	1 578	1 639	1 702	1 787	1 904	2 002	2 115	2 226	2 334	2 416
Community, social, and personal services	4 269	4 535	4 760	4 960	5 236	5 526	5 830	6 007	6 260	6 458
Miscellaneous services	490	522	571	618	673	715	747	744	729	705
GROSS DOMESTIC PRODUCT AT FACTOR COST	33 280	36 143	38 907	39 838	42 634	45 127	47 037	47 272	47 603	47 873

¹ According to OECD definition.

Source: Finnish submission to the OECD.

Table D Central government revenue and expenditure

Fiscal years = calendar years

Mk. million

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977 ^a
CURRENT REVENUE¹	9 298	10 232	11 603	13 308	15 639	19 439	24 105	28 696	36 528	39 240
Direct taxes on households	2 955	3 386	4 118	4 938	6 125 ²	8 132 ²	10 464 ²	12 988	17 458	17 452
Direct taxes on corporations	485	405	425	378	455 ²	562 ²	708 ²	868	1 403	1 164
Indirect taxes	5 057	5 593	6 101	6 900	7 867	9 324	11 163	12 783	15 068	17 827
Income from property and entrepreneurship	492	530	595	659	737	837	1 122	1 181	1 403	1 549
Other domestic current transfers	298	315	361	430	446	578	645	852	1 147	1 208
Current transfers from the rest of the world	11	4	3	2	9	6	3	24	49	40
CURRENT EXPENDITURE¹	7 418	8 155	9 065	10 319	12 163	14 135	19 176	24 827	29 339	33 535
Purchase of goods and services	2 479	2 635	2 927	3 336	3 864	4 499	5 623	7 190	8 204	9 177
Defence	597	586	651	742	849	1 043	1 219	1 615	1 752	2 043
Civil	1 883	2 049	2 276	2 594	3 015	3 456	4 404	5 575	6 452	7 134
Subsidies	982	1 190	1 427	1 463	1 660	1 725	3 340	4 431	5 050	5 472
Interest on the public debt	286	300	289	299	302	287	263	273	300	508
Current transfers	3 671	4 030	4 422	5 222	6 338	7 624	9 951	12 933	15 785	18 378
To other public authorities	1 106	1 190	1 335	1 500	1 856	2 397	3 135	4 542	5 843	6 972
To households, etc.	2 545	2 804	3 054	3 684	4 421	5 125	6 710	8 259	9 827	11 272
To the rest of the world	19	36	33	38	61	102	106	132	115	134
NET CURRENT SAVING	1 880	2 077	2 539	2 989	3 476	5 304	4 929	3 869	7 188	5 705
Depreciation and other operating provisions	179	202	223	248	278	329	411	477	594	731
GROSS SAVING	2 059	2 279	2 761	3 237	3 754	5 633	5 340	4 346	7 783	6 436
Gross fixed asset formation ²	1 464	1 416	1 378	1 525	1 901	2 138	2 573	3 255	3 721	3 900
SURPLUS ON CURRENT AND FIXED INVESTMENT ACCOUNT (FINANCIAL SAVING)	595	863	1 383	1 712	1 853	3 495	2 767	1 091	4 061	2 536

1 Including the National Pensions Institute.

2 Including the National Pensions Institute and government enterprises.

3 Figures are not fully comparable with those for previous years.

4 Preliminary.

Source: Finnish submission to the OECD.

Table E Balance of payments
US \$ million

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977 ¹
Exports of goods, fob	1 626	1 975	2 294	2 344	2 930	3 802	5 473	5 500	6 321	7 654
Imports of goods, cif	1 602	2 030	2 643	2 800	3 192	4 335	6 799	7 614	7 384	7 619
TRADE BALANCE	24	-55	-349	-456	-262	-533	-1 326	-2 114	-1 063	35
Transportation, net	115	138	171	157	178	261	285	268	309	346
Travel, net	-2	1	34	59	82	89	87	29	6	-1
Other services, net	-6	-3	4	16	18	8	28	59	64	102
Investment income and transfers, net	-67	-60 ⁴	-99	-114	-133	-212	-286	-415	-484	-642
CURRENT BALANCE	64	21	-239	-339	-117	-387	-1 212	-2 173	-1 169	-159
Long-term borrowing	297	251	352	650	735	486	725	1 834	1 590	1 606
Amortization of long-term loans	-207	-172	-165	-204	-299	-358	-408	-394	-463	-683
Long-term export credits (net)	-40	-43	-60	-49	-92	9	-59	-58	-50	-60
Other long-term capital items (net) ²	-19	-12	-48	-20	-26	-30	-6	17	12	-57
Short-term capital ³	47	-8	269	134	-78	75	568	570	46	-768
NON-MONETARY TRANSACTIONS	142	37	109	172	123	-205	-392	-204	-33	-122
SDR allocations	—	—	21	20	21	—	—	—	—	—
Change in reserves of										
Central Bank (incl. IMF credit tranche)	158	-27	134	132	66	-128	-196	121	-20	42
Other	-16	64	-4	60	78	-77	-196	-325	-13	-164

1 Estimates.

2 Including direct investment.

3 Including errors and omissions.

4 Including the writing off by the Government of Sweden of a debt of about \$19 million.

Sources: Bank of Finland Monthly Bulletin, and Finnish submission to the OECD.

Table F Labour market

	Labour force surveys						Employment exchange service					
	Labour force		Employment		Unemployment (per cent of civilian labour force)		Unemployed persons seeking work			Unfilled vacancies		
	Orig.	Adj.	Orig.	Adj.	Orig.	Adj.	Orig.	Adj.	Insured	Orig.	Adj.	
	1 000 persons				Per cent		1 000 persons			1 000 persons		
1970	2 167		2 126		1.9		37.7		18.8		13.3	
1971	2 172		2 123		2.3		44.1		23.7		11.7	
1972	2 173		2 118		2.5		59.5		28.1		15.8	
1973	2 215		2 164		2.3		50.2		24.5		23.4	
1974	2 268		2 229		1.7		40.1		20.6		29.8	
1975	2 272		2 221		2.2		50.9		27.8		18.5	
1976	2 254 ¹		2 163 ²		4.0 ¹		80.2		41.0		11.2	
1977	2 248		2 111		6.1		132.5		59.3		6.4	
Quarterly:												
1974	1	2 188	2 259	2 137	2 221	2.3	1.7	51.7	42.0	27.1	23.6	28.8
	2	2 289	2 268	2 250	2 229	1.7	1.7	39.5	39.7	19.0	33.6	29.6
	3	2 355	2 275	2 319	2 232	1.5	1.8	34.8	40.0	19.3	35.8	29.8
	4	2 241	2 268	2 207	2 230	1.5	1.6	34.6	38.0	16.9	26.3	31.1
1975	1	2 198	2 266	2 150	2 231	2.2	1.8	47.2	39.3	26.9	20.7	25.4
	2	2 294	2 275	2 250	2 232	1.9	1.9	43.1	43.3	22.4	23.3	20.7
	3	2 343	2 260	2 295	2 206	2.0	2.4	49.9	58.0	29.4	19.6	16.2
	4	2 251	2 283	2 189	2 212	2.8	3.1	63.4	69.3	32.3	10.5	12.8
1976	1	2 195	2 269	2 104	2 191	4.1	3.5	89.3	75.0	48.6	10.1	12.5
	2	2 268	2 261	2 174	2 168	4.2	4.1	81.2	81.0	42.2	13.7	11.8
	3	2 327	2 253	2 238	2 158	3.8	4.4	69.8	82.7	35.8	13.8	11.3
	4	2 195	2 228	2 108	2 132	3.9	4.4	80.4	87.7	37.3	7.4	9.1
1977	1	2 186	2 249	2 055	2 130	6.0	5.1	128.7	108.3	68.9	6.3	7.8
	2	2 268	2 251	2 132	2 117	6.0	6.0	133.7	132.0	63.5	8.2	7.1
	3	2 329	2 243	2 192	2 103	5.9	6.7	118.0	141.3	46.5	7.0	5.7
	4	2 208	2 242	2 064	2 087	6.5	7.4	149.7	164.0	58.3	4.1	5.1
1978	1	2 194	2 254	2 005	2 077	8.6	7.2	194.5	163.7	88.1	4.3	5.4
	2	2 273	2 257	2 106	2 092	7.4	7.3	172.2	170.7	71.9	7.0	6.0
	3	2 326	2 239	2 167	2 079	6.8	7.9	161.8	195.0	63.2	6.0	4.9

1 According to the renewed Labour Force Sample Survey.

2 Including employed whose occupational status and branch of industry are unknown.

Sources: Central Statistical Office, Bulletin of Statistics, and OECD, Main Economic Indicators.

Table G Production and employment by sector (continued on following page)

		Industry								Forestry		
		Industrial production, 1970 = 100								Employment (thous.)		
Total	Mining and quarrying	Manufacturing								Acc. to labour force survey	Timber fellings (thous. m ³)	Labour force in commercial logging
		Total	Food, beverages, tobacco	Textiles, clothing, leather	Wood and wood products	Paper and paper prod.	Chemicals, etc.	Metal products	Elec., gas, and water	Number of persons		
ISIC	21-29	31-39	31	32	331-2	341	35	38	41-42			1 000 pers.
1970	100	100	100	100	100	100	100	100	100	570	45 218	64
1971	102	79	102	103	101	103	100	108	102	579	41 806	53
1972	114	94	114	111	109	109	112	124	118	578	36 220	41
1973	122	99	121	112	110	118	120	133	127	584	34 749	40
1974	128	98	128	113	117	107	124	133	143	613	34 595	35
1975	123	97	122	112	121	76	95	122	155	609	29 288	30
1976	125	100	123	109	122	82	99	128	153	587	27 430	28
1977	122	104	118	107	108	89	96	125	138	578	27 971	

Sources: Central Statistical Office, Bulletin of Statistics, and Bank of Finland, Economic Indicators for Finland, and OECD, Main Economic Indicators.

Table G Production and employment by sector (continued)

	Agriculture			Building and construction						Commerce				
	Production		Employment ²	Building permits granted		Work in progress end of period		Dwellings completed (thous.)	Employment ²	Retail sales			Passenger car registrations (thous.)	Employment in commerce ¹
	Quantity of milk received by dairies (mill. liter)			Total	of which: Dwellings	Total	of which: Dwellings			Value ³	Volume ³			
	Orig.	Adj.									Orig.	Adj.		
				Mill. cu. m.										
1970	2 801		404	41.42	17.96	36.56	14.95	49.7	187	198	130		92.1	312
1971	2 797		374	42.63	19.54	37.64	17.09	50.4	184	216	135		75.3	316
1972	2 796		339	47.73	20.56	40.57	18.10	59.9	180	242	149		101.4	320
1973	2 734		304	54.96	24.68	51.42	21.29	62.4	185	287	158		118.6	341
1974	2 711		303	53.23	22.35	52.84	20.66	73.0	187	344	164		96.6	350
1975	2 722		277	51.42	19.65	52.45	18.51	69.4	189	202	122		117.6	345
1976	2 840		245 ⁴	46.89	19.95	51.85	19.08	57.5	160 ⁴	232	123		92.7	321 ⁴
1977	2 822		223	41.88	18.86	48.38	18.65	56.1	152	239	113		90.5	308
Quarterly: 1974														
1	591	701	277	10.33	3.65	49.20	19.85	13.8	172	277	143	158	20.4	344
2	828	695	307	16.64	7.96	54.56	22.24	18.9	190	328	161	165	25.7	356
3	771	677	337	14.53	6.15	56.88	23.51	17.1	200	356	167	166	29.1	359
4	518	622	291	11.73	4.58	52.84	20.66	23.2	187	414	187	169	21.4	342
1975														
1	534	635	258	12.59	3.31	50.24	18.16	15.7	179				38.9	326
2	797	672	282	15.90	7.46	54.44	20.07	19.0	192				34.3	343
3	782	687	293	12.21	4.84	56.38	20.89	16.4	199	208	124	123	28.9	364
4	607	721	275	10.71	4.04	52.45	18.51	18.3	186	228	132	120	15.5	350
1976														
1	611	726	239	8.52	3.04	48.82	16.64	12.1	146	197	109	123	24.3	315
2	839	710	245	14.00	7.39	51.73	19.43	14.1	161	229	124	127	27.2	321
3	798	701	273	12.42	5.43	55.22	21.56	12.8	173	237	124	122	24.1	336
4	592	700	219	11.96	4.09	51.85	19.08	18.5	158	264	135	121	16.9	307
1977														
1	584	695	215	6.73	2.92	47.95	17.24	11.2	147	202	99	114	26.3	295
2	826	701	222	13.22	7.00	51.52	20.09	14.5	151	242	114	114	25.6	312
3	813	714	245	11.41	4.72	52.69	21.41	13.2	164	251	118	115	23.5	324
4	599	708	209	10.52	4.21	48.38	18.65	17.3	150	262	121	109	15.1	300
1978														
1	579	687	197	10.20	3.72	44.63	16.25	11.1	136	218	98	112	25.9	289
2	824	700	215	12.92	6.51	47.13	18.70	14.2	151	252	110	110	20.9	305

1 According in labour force surveys, thousand persons.

2 Including sales tax; 1964 = 100 up to 1974, 1972 = 100 from 1975.

3 1964 = 100 up to 1974, 1972 = 100 from 1975.

4 According to the renewed Labour Force Sample Survey.

Sources: Central Statistical Office, Bulletin of Statistics, and Bank of Finland, Economic Indicators for Finland.

Table H Imports: Prices, volume, value and by commodity group

	Import prices (Markka) 1949 = 100				Volume of imports ¹ 1975 = 100					Value of imports Mk. million						
	Total	Crude materials	Simply pro- cessed	Finished goods	Total		Raw mate- rials, etc.	Fuels and lubri- cants	Invest- ment goods	Con- sumer goods	Total	Raw mate- rials, etc.	Fuels and lubri- cants	Invest- ment goods	Consumer goods	
					Orig.	Adj.									Adj.	Adj.	Adj.	Pas- senger cars	Other
1970	277	269	258	305	80		86	85	66	69	11 071	6 891	422	1 949	379	1 370
1971	292	281	259	336	79		84	82	71	66	11 734	7 037	571	2 333	326	1 417
1972	319	297	287	370	82		88	92	63	77	13 107	7 842	609	2 354	479	1 771
1973	383	340	381	417	93		98	96	73	92	16 599	9 916	729	2 919	632	2 336
1974	535	500	598	496	100		105	114	87	92	25 666	16 525	1 978	3 857	507	2 775
1975	554	509	586	555	100		100	100	100	100	28 002	17 058	1 670	5 222	704	3 285
1976	555	539	535	589	96		100	88	84	95	28 555	17 828	1 581	4 966	693	3 410
1977	621	641	567	662	88		92	102	70	93	30 708	19 128	2 066	4 828	772	3 831
Quarterly: 1974																
1	497	480	550	455	95	100	108	144	75	81	5 699	3 616	543	798	96	644
2	534	491	599	498	96	101	110	114	82	87	6 216	4 118	402	875	121	684
3	548	512	612	506	105	106	107	110	100	101	6 855	4 404	503	1 100	149	696
4	561	515	631	522	101	94 ²	97	107	86	92	6 896	4 387	530	1 084	141	751
1975																
1	569	498	648	539	107	111 ²	112	110	107	111	7 381	4 522	387	1 359	232	879
2	558	504	607	547	95	99	99	121	98	96	6 703	4 053	387	1 243	184	826
3	552	514	581	550	94	93	93	89	94	96	6 666	4 054	433	1 217	179	740
4	539	519	510	584	100	93	95	91	96	91	7 250	4 426	464	1 403	109	840
1976																
1	529	507	506	572	87	92	91	91	88	88	6 326	3 740	338	1 280	159	797
2	544	514	533	578	84	88	92	75	77	90	6 248	3 874	272	1 114	187	794
3	568	556	556	591	98	97	102	93	86	96	7 532	4 772	493	1 238	150	851
4	580	582	543	617	107	98	106	93	78	100	8 449	5 442	478	1 334	197	968
1977																
1	587	579	545	636	83	87	93	87	72	92	6 785	4 169	331	1 198	173	903
2	618	633	568	661	88	92	95	112	77	96	7 710	4 712	457	1 308	226	973
3	641	684	587	667	84	82	87	100	57	88	7 689	4 991	628	965	172	899
4	638	668	570	686	93	80	83	91	63	89	8 524	5 256	650	1 357	201	1 056
1978																
1	637	633	577	704	78	84	91	95	62	83	7 389	4 531	406	1 295	183	969
2	655	635	593	738	83	87	94	115	57	90	8 029	5 005	518	1 190	247	1 066

¹ Yearly figures are averages of unadjusted quarterly figures.

² Affected by strike and the like.

Sources: Board of Customs, Monthly Bulletin of Foreign Trade, Central Statistical Office, Bulletin of Statistics, and Bank of Finland, Economic Indicators for Finland.

Table I Exports: Prices, volume, value and by commodity group

	Prices 1949 = 100		Volume of exports ¹ 1975 = 100					Value of exports Mk. million					
	Total	of which: Pulp	Total		Wood ind. prod.	Paper ind. prod.	Metal and engin. prod.	Total	Agri- cultural and forestry prod.	Manufactured products			
			Orig.	Adj.	Adj.	Adj.	Adj.			Total	of which:		
											Wood ind. prod.	Paper ind. prod.	Metal and engin. prod.
1970	343	354	102		148	127	67	9 687	257	9 356	1 536	3 883	1 828
1971	360	381	98		149	119	60	9 897	292	9 582	1 643	3 797	1 764
1972	376	363	113		156	134	74	12 082	325	11 732	1 809	4 376	2 547
1973	505	387	121		166	145	82	14 605	402	14 163	2 451	5 264	2 928
1974	671	574	121		131	144	99	20 686	414	20 192	3 154	7 872	4 245
1975	741	847	100		100	100	100	20 247	385	19 790	2 177	7 225	5 357
1976	739	818	117		126	114	116	24 505	721	23 656	2 892	7 860	6 892
1977	784	733	129		139	121	120	30 931	976	29 807	3 854	8 798	9 184
Quarterly: 1974													
1	627	476	124	129	164	148	98	4 610	197	4 397	727	1 659	952
2	655	516	124	128	159	153	98	5 182	70	5 099	867	1 823	1 105
3	687	601	114	118	125	144	94	5 129	55	5 039	889	2 085	899
4	714	702	119	109	93	134	94	5 765	92	5 657	671	2 305	1 289
1975													
1	764	812	100	104	93	112	96	5 139	139	4 985	315	2 062	1 161
2	749	861	92	95 ²	92	103	85	4 713	70	4 625	481	1 784	1 175
3	725	863	89	91 ²	92	87	104	4 496	71	4 407	535	1 570	1 228
4	724	853	116	107	123	97	106	5 883	104	5 757	646	1 808	1 777
1976													
1	716	841	99	103	128	108	84	5 009	242	4 755	600	1 849	1 061
2	734	818	114	118	120	111	117	5 896	122	5 723	600	1 802	1 841
3	753	823	116	119	133	118	116	6 133	97	6 015	853	2 003	1 617
4	752	789	136	125	124	120	127	7 468	260	7 163	839	2 206	2 372
1977													
1	763	767	123	130	130	116	134	7 007	414	6 563	779	2 083	1 915
2	800	763	115	119	146	119	90 ²	6 858	227	6 602	962	2 061	1 805
3	791	734	129	132	132	119	134 ²	7 974	142	7 786	1 029	2 169	2 594
4	781	668	143	119	132	115	101	9 092	193	8 856	1 084	2 485	2 871
1978													
1	771	599	124	130	155	133	107	7 785	329	7 435	910	2 443	1 929
2	781	612	136	140	187	149	103	8 659	139	8 479	1 193	2 630	2 337

1 Yearly figures are averages of unadjusted quarterly figures.

2 Affected by strike and the like.

Sources: Board of Customs, Monthly Bulletin of Foreign Trade, Central Statistical Office, Bulletin of Statistics, and Bank of Finland, Economic Indicators for Finland.

Table J Foreign trade by area
 Million US dollars, monthly averages

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977
<i>Imports, cif</i>										
United States	6.0	8.6	11.4	10.5	11.7	17.1	28.8	35.0	31.8	29.7
United Kingdom	17.7	22.5	28.9	31.5	31.3	36.6	48.4	55.0	48.7	55.1
Sweden	19.0	25.6	35.4	38.5	45.9	64.3	90.7	101.4	97.8	85.0
Norway	3.0	4.6	5.2	6.1	7.6	9.9	16.9	16.5	18.9	23.4
Germany (Fed. Rep.)	20.3	27.4	36.2	38.0	44.1	60.9	83.2	90.2	90.1	87.0
Other OECD	29.0	37.1	47.7	52.5	63.0	86.8	120.5	141.6	129.1	131.6
Total OECD	95.0	125.8	164.8	177.1	203.6	275.6	388.5	439.7	416.4	411.8
Centrally planned economies	27.6	28.0	35.9	42.7	42.3	58.4	127.5	132.9	135.1	150.6
Other	10.1	14.8	19.1	13.2	20.6	27.8	52.2	62.2	64.6	72.8
World	132.7	168.6	219.8	233.0	266.5	361.8	568.2	634.8	616.1	635.2
<i>Exports, fob</i>										
United States	8.0	9.9	9.0	9.5	11.8	14.1	17.4	14.6	15.0	28.3
United Kingdom	28.0	30.3	33.5	37.4	44.8	61.7	86.3	66.2	75.0	75.8
Sweden	14.3	21.9	29.0	31.0	42.9	48.0	73.0	81.1	89.9	100.6
Norway	3.6	4.0	7.1	7.4	10.4	13.2	13.4	21.6	18.8	34.7
Germany (Fed. Rep.)	14.3	16.5	20.2	20.0	24.6	31.1	38.4	36.6	49.4	64.5
Other OECD	32.9	42.2	47.6	47.9	56.8	80.6	108.8	90.7	111.8	136.6
Total OECD	101.1	124.8	146.4	153.2	191.3	248.7	337.3	310.8	359.9	440.5
Centrally planned economies	26.3	29.3	31.2	28.5	38.8	46.5	79.2	111.0	127.7	144.8
Other	8.9	11.3	14.6	14.7	15.5	24.5	41.3	36.8	40.9	54.7
World	136.3	165.4	192.2	196.4	245.6	319.7	457.8	458.6	528.5	640.0

Source: OECD, Foreign Trade Statistics, Series A.

Table K Prices and wages

	Consumer prices, 1972 = 100					Wholesale prices 1949 = 100			Building cost ¹	Wage and salary earners' average earnings 1964 = 100					
	Total	Food	Rent	Fuel and light	Clothing and footwear	Total	Do- mestic goods	Import- ed goods		All wage and salary earners	of which:			Con- struction	
											Agri- culture	Forestry	Manufacturing Total		of which: Wage earners
1970						297	300	286	138	164	181	171	165	170	168
1971						312	315	302	149	185	210	211	188	195	191
1972	100	100	100	100	100	338	342	325	161	206	253	235	212	222	215
1973	111	112	116	110	111	398	401	385	188	238	316	278	246	260	251
1974	129	130	144	161	128	495	498	482	233	285	395	317	297	314	310
1975	153	157	162	184	150	562	575	513	259	347	507	411	358	383	372
1976	174	182	171	200	166	626	646	548	152	399	598	491	413	442	411
1977	196	216	183	221	181	692	713	610	171	433	669	537	450	484	439
Quarterly: 1974															
1	121	117	135	151	121	462	462	461	220	254	352	266	266	284	279
2	127	127	141	156	125	485	487	479	234	287	379	336	297	316	306
3	133	136	146	165	130	507	510	493	236	295	400	360	306	327	320
4	137	139	154	174	138	525	533	494	242	306	543	352	318	342	337
1975															
1	143	143	156	180	143	546	555	508	247	315	466	367	330	354	345
2	150	155	161	183	146	560	572	512	260	354	498	440	364	392	377
3	155	161	164	185	151	566	580	515	263	358	513	463	365	390	378
4	161	167	166	187	159	576	592	516	265	366	558	441	373	399	388
1976															
1	168	169	168	190	163	598	617	527	145	382	582	447	391	416	396
2	171	176	169	198	164	610	629	537	148	404	592	530	418	449	411
3	177	190	171	202	164	639	660	560	154	406	600	538	418	448	416
4	182	194	174	209	173	655	677	570	159	407	637	487	424	456	422
1977															
1	187	201	174	212	176	676	699	588	166	411	650	482	426	457	423
2	194	214	179	218	181	689	710	606	170	437	664	573	453	488	438
3	201	224	187	223	180	698	720	615	174	440	670	564	458	493	444
4	204	225	191	231	186	704	723	632	176	445	706	535	462	499	450
1978															
1	206	223	192	235	187	711	729	645	177	448	726	549	465	501	452
2	210	224	194	235	193	720	734	667	179	457	734	574	478	517	457
3	213	225	196	236	191	732	744	686	181	467	742	604	489	528	464

1 1964 = 100 up to 1975, 1973 = 100 from 1976.

Sources: Central Statistical Office, Bulletin of Statistics, and National Accounts.

Table L Money and credit
Mk. million, end of period

	Central Bank ⁶						Commercial and savings banks ³								Money supply IMF definition ⁴	
	Dis- count rate per cent	Net foreign assets	Net claims on public sector	Claims on Finnish credit institutions		Net claims on corporate sector	Lending ¹			Net foreign assets (IMF def.)	Bank deposits ²					
				Total net	of which: Redis- counted bills ²		Total	of which:			Sight deposits ⁵		Time deposits			
								Com- mercial banks	Savings banks		Total	of which: Comm. banks	Total	of which: Comm. banks		
Orig.																
1970	7.00	1 859	-2	834	836	59	18 505	7 963	4 342	-374	1 508	1 143	16 266	6 099	3 445	
1971	8.50	2 449	8	838	849	-30	21 409	9 234	4 795	-223	1 734	1 343	18 418	6 962	4 025	
1972	7.75	2 791	126	756	753	248	25 272	10 667	5 503	133	2 371	1 851	21 353	8 096	4 960	
1973	9.25	2 346	-334	2 615	2 556	113	31 259	13 365	6 497	51	2 892	2 144	24 299	8 989	6 115	
1974	9.25	1 669	-258	3 405	3 034	436	37 922	15 869	7 716	-731	3 478	2 551	28 371	10 213	7 267	
1975	9.25	1 667	-962	4 135	3 385	394	44 296	17 773	9 108	-2 668	4 642	3 447	33 317	11 764	9 772	
1976	9.25	1 437	-686	3 531	2 920	1 092	49 538	19 090	10 616	-2 785	4 394	3 030	37 299	12 789	9 601	
1977	8.25	557	63	4 226	3 091	1 174	55 221	20 739	12 309	-2 767	4 343	2 824	42 161	14 195	9 871	
Quarterly: 1974	1	9.25	2 237	-373	2 555	2 560	158	32 450	13 595	6 772	-114	2 380	1 806	24 897	9 079	5 376
	2	9.25	2 392	-319	2 918	2 794	157	34 202	14 293	7 015	-284	2 628	1 992	25 503	9 205	5 904
	3	9.25	2 201	-347	2 943	2 703	234	35 780	14 826	7 341	-243	2 872	2 161	26 292	9 370	6 145
	4	9.25	1 669	-258	3 405	3 034	436	37 922	15 869	7 716	-731	3 478	2 551	28 371	10 213	7 267
1975	1	9.25	1 667	-246	3 657	3 275	279	39 817	16 773	8 060	-1 205	3 381	2 530	29 421	10 520	7 666
	2	9.25	1 932	-201	3 439	3 083	348	41 277	17 303	8 312	-1 709	3 809	2 822	30 291	10 851	8 101
	3	9.25	1 832	-697	3 908	3 565	426	42 852	17 734	8 749	-2 140	3 531	2 546	31 324	10 959	7 677
	4	9.25	1 667	-962	4 135	3 385	394	44 296	17 773	9 108	-2 668	4 642	3 447	33 317	11 764	9 772
1976	1	9.25	1 434	-1 127	3 813	3 035	671	45 297	17 902	9 453	-2 241	4 336	3 007	33 983	11 837	8 909
	2	9.25	1 423	-970	3 979	3 358	802	46 591	18 396	9 728	-2 098	4 222	3 004	34 712	11 963	8 975
	3	9.25	1 237	-773	3 584	3 031	1 153	47 691	18 453	10 148	-2 244	4 094	2 856	35 366	11 896	8 803
	4	9.25	1 437	-686	3 531	2 920	1 092	49 538	19 090	10 616	-2 785	4 394	3 030	37 299	12 789	9 601
1977	1	9.25	1 609	-306	3 258	2 769	1 014	49 975	19 208	10 804	-3 075	4 265	2 911	38 074	12 783	9 497
	2	9.25	1 394	-68	3 428	2 768	1 229	51 154	19 514	11 145	-3 148	4 617	3 199	39 426	13 222	9 996
	3	9.25	1 621	22	3 128	2 700	1 210	52 709	20 026	11 644	-3 601	4 422	2 961	40 231	13 355	9 669
	4	8.25	557	63	4 226	3 091	1 174	55 221	20 739	12 309	-2 767	4 343	2 824	42 161	14 195	9 871
1978	1	8.25	2 387	117	2 524	2 454	1 091	55 302	25 599	12 553	-3 519	6 682	2 922	42 878	15 350	10 059
	2	7.25	3 930	171	1 542	1 607	925	56 767	26 123	12 914	-2 924	7 589	3 713	44 676	16 210	11 247
	3	7.25	4 500	265	1 507	1 107	939	57 529	25 774	13 477	-2 269	7 400	3 475	45 861	16 328	11 071

1 New series in 1971.

2 Discounted bills from 1970 (including an insignificant amount of rediscounted bills).

3 Including mortgage banks, co-operative stores, co-operative banks, and Post-Office Bank.

4 Currency outside banks and sight deposits.

5 Excluding Post-Office Giro accounts.

6 Owing to revision of Bank of Finland accounting procedures, the data before and after December 1974 are not strictly comparable.

7 New series from 1978.

Sources: Bank of Finland, Monthly Bulletin, and IMF, International Financial Statistics.

INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Reference period	Units	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia ¹	
POPULATION	Mid-1977	Thousands	14 073	7 520	9 830	23 316	5 089	4 740	53 084	61 400	9 268	221	3 195	56 446 ²	113 863	357	13 853	3 128	4 043	9 773	36 672	8 255	6 327	42 135	55 919	216 817	21 720	
	»	Inhabitants per sq. km	2	90	322	2	118	16	96	247	70	2	45	187	302	138	410	12	12	106	73	20	153	54	229	23	85	
	Mid-1967 to Mid-1977	Net average annual increase %	1.8	0.3	0.3	1.3	0.5	0.3	0.7	0.4	0.6	1.1	1.0	0.7	1.3	0.6	1.0	1.4	0.7	0.7	1.1	0.5	0.4	2.5	0.2	0.9	0.9	
EMPLOYMENT	1977	Thousands	6 000	2 989	3 711	9 754	2 414	2 101	20 884	24 488	(3 167)	(94)	1 022	19 847	53 420	147	4 555	1 215	1 824	3 781	12 439	4 099	2 817	14 151	24 550	90 546	8 887 ³	
	»	of which: Agriculture, forestry, fishing Industry ⁴	6.6	11.8	3.3	5.7	9.1	12.9	9.6	6.8	(28.4)	(14.9)	23.1	15.9	11.9	6.1	6.3	11.6	9.0	32.5	20.9	6.1	8.5	55.8	2.7	3.6	47.3	
	»	Other	32.5	40.6	37.9	28.9	30.4	37.7	45.3	37.7	(30.3)	(37.2)	30.3	38.6	35.4	44.9	33.2	34.6	32.3	33.1	37.2	34.3	42.7	13.6	40.0	28.9	21.1	
GROSS DOMESTIC PRODUCT at market prices	1977	US \$ billion ¹¹	95.7	47.8	79.4	197.2	43.2	29.9	380.7	513.9	25.8	1.9	9.2	196.0	690.6	2.6	106.4	14.3	35.6	17.0	115.6	78.4	61.1	44.8	244.5	1 883.6	32.6 ⁵	
	1972 to 1977	Average annual volume growth ⁶ %	3.3	3.3	3.2	4.0	1.8	2.2	3.2	2.2	3.8	3.1	2.6	3.0	4.4	1.9	3.2	2.3	4.6	3.7	3.7	1.4	-0.3	7.2	1.5	2.7	5.1	
	1977	Per capita US \$ ¹¹	6 800	6 356	8 077	8 458	8 489	6 308	7 172	8 370	2 784	8 597	2 879	3 472	6 065	7 283	7 681	4 604	8 805	1 739	3 152	9 497	9 657	1 171	4 372	8 688	1 510	
GROSS FIXED CAPITAL FORMATION	1976	% of GDP	23.3 ⁷	26.0	21.6	23.1	21.5	27.4	23.3	20.6	21.5 ⁸	29.5	24.5	20.0	30.8	26.9	19.7	23.9 ⁹	36.3	23.9	22.9	20.6	20.7	24.5	19.2	16.2	34.2	
	»	of which: Machinery and equipment	9.7 ¹⁰	10.5	6.7	7.6	9.2	11.1	9.0	8.0	8.4	6.0	9.6 ¹¹	8.6	14.8	8.6 ¹²	8.1	..	13.9	6.9 ¹³	8.9	8.7	6.7	..	8.6	6.8	14.1	
	»	Residential construction	5.3 ¹⁰	5.2	7.0	6.4	5.4	6.5	7.2	5.8	5.8	6.4	6.2 ¹¹	5.8	7.3	7.6 ¹²	5.0	..	5.1	3.8 ¹³	6.2 ¹⁴	4.0	..	3.9	3.8	3.9	7.4	
NATIONAL SAVINGS RATIO ¹⁵	1976	% of GNP	25.0 ⁷	25.6	22.1	21.7	16.7	27.7	23.3	24.5	19.5	27.9	17.6	21.6	32.2	27.4 ¹²	24.5	21.8	26.6	3.8 ¹³	20.1	20.6	26.3	17.6	18.9	17.4	35.6	
	GENERAL GOVERNMENT	1976	% of GDP	16.1 ⁷	16.5	16.9	20.1	24.2	19.8	14.6	20.2	15.3	9.9	19.5	13.7	9.8	14.5	18.3	17.4 ⁹	17.1	17.3	10.3	25.6	13.4	13.5 ²⁰	21.8	18.7	19.1
		»	Current expenditure on goods and services	10.3 ⁷	16.1 ²²	21.4	12.1	17.5	14.1	24.1	19.1	10.9	..	21.9 ²²	23.0	8.8	26.2 ²²	30.5	..	23.7	9.1 ²²	12.7	22.0	15.5	6.7 ²⁰	15.2	11.8	..
»		Current revenue	32.0 ⁷	39.1 ²²	40.7	36.8	46.5	44.1	42.4	42.1	29.4	..	34.2 ²²	36.3	23.5	50.6 ²²	53.5	..	50.1	24.7 ²²	25.7	57.4	34.0	24.0 ²⁰	40.6	31.5	42.2	
NET OFFICIAL DEVELOPMENT ASSISTANCE	1977	% of GNP	0.5	0.2	0.5	0.5	0.6	0.2	0.6	0.3	..	..	..	0.1	0.2	..	0.9	0.4	0.8	..	..	1.0	0.2	..	0.4	0.2	..
INDICATORS OF LIVING STANDARDS	1976	US \$ ¹¹	3 950	3 040	4 150	4 780	4 430	3 100	4 080	4 010	1 680	3 980	1 580	1 960	2 790	3 970	3 720	2 380 ⁹	4 280	1 230	2 010	4 830	5 590	709	2 350	5 110	821	
	»	Private consumption per capita	366	243	279	388 ²²	265	218	300	308	55	298	175	283	163	367	367	273	383	253	107	148	350	281 ²²	11	255	505	80
	»	Passenger cars, per 1 000 inhabitants	395	303	300	596	494	409	293	343	238	411	150	271	426	442	391	515	366	119	237	689	634	28	394	721	65	
	»	Telephones, per 1 000 inhabitants	274	247 ¹⁶	255	411	308	306	268	306	126	234	192	213 ¹⁶	235	257 ¹⁶	259 ¹⁶	259	255	65	184	352	273	12 ¹⁶	320	571 ¹⁶	132 ¹⁶	
	»	Television sets, per 1 000 inhabitants	1.4 ¹⁸	2.1	1.9	1.7	1.6	1.4	1.5	2.0	2.0	1.6 ¹⁰	1.2	2.1	1.2	1.1	1.6	1.3	1.7	1.3	1.8 ¹⁴	1.7	1.8	0.6	1.3	1.6	1.4	
	»	Doctors, per 1 000 inhabitants	39.7	15.9 ¹⁸	34.4 ¹⁶	49.8 ¹³	36.3 ¹⁶	24.5	31.4 ¹⁸	24.2 ¹⁸	..	..	..	31.0	34.3 ¹⁸	..	..	21.1 ¹⁸	..	40.3 ¹⁸	(9.8) ¹⁰	29.3 ¹⁰	(31.1) ¹³	..	21.8 ¹⁸	43.2	16.6
	»	Access to higher education ¹⁸	14.3	20.5	14.6	15.0 ¹⁶	10.6	10.2 ¹⁴	12.6	15.7	24.1	11.1	18.4	20.7	10.1	14.8	10.6	16.0	10.5 ¹⁶	37.9 ¹⁰	18.9	8.3	10.7	..	16.0	16.1	39.7	
WAGES AND PRICES	Average annual increase																											
	1972 to 1977	Hourly earnings in industry ¹⁵ %	16.9	11.9	15.4	12.5	16.4	16.7	15.7	8.7	23.2	33.6	20.0	24.4	16.4	..	12.0	13.2	15.0	17.5	23.2	11.7	5.8	27.5	16.5	8.1	..	
	»	Consumer prices %	13.1	7.7	9.7	8.9	10.8	14.5	10.3	5.7	16.1	34.7	16.1	16.5	12.9	8.6	8.7	13.0	9.4	21.1	16.6	9.6	5.6	30.0	16.3	7.7	18.7	
FOREIGN TRADE	1977	US \$ million ¹¹	13 260	9 792	37 488 ²¹	41 556	10 068	7 680	63 516	117 936	2 724	516	4 392	45 036	80 496	—	43 680	3 219	8 712	2 028	10 223	19 080	17 544	1 753	57 516	120 168	5 076	
	»	Exports of goods, fob %	13.9	20.5	47.2	21.1	23.3	25.7	16.7	22.9	10.6	27.2	47.7	23.0	11.7	—	41.1	22.4	24.5	11.9	8.8	24.3	28.7	3.9	23.5	6.4	..	
	»	As percentage of GDP %	2.7	6.0	4.8	3.7	3.5	2.8	6.3	6.7	11.3	..	9.0	6.1	10.5	—	5.4	2.9	4.9	1.8	8.6	1.6	5.9	1.8	6.7	6.4	..	
	1972 to 1977	Average annual volume increase	12 240	14 208	40 248 ²¹	39 540	13 260	7 620	70 488	100 704	6 780	612	5 388	47 556	70 809	—	45 600	3 379	12 876	4 956	17 835	20 112	17 904	5 796	63 696	147 852	9 288	
	»	Imports of goods, cif %	12.8	29.7	50.7	20.1	30.7	25.5	18.5	19.6	26.3	32.2	58.6	24.3	10.3	—	42.9	23.5	36.2	29.2	15.4	25.7	29.3	12.9	26.1	7.8	..	
»	As percentage of GDP %	5.9	7.3	5.8	5.4	4.3	1.5	5.5	5.5	5.1	..	6.3	1.4	3.8	—	3.8	1.8	8.1	3.4	3.8	3.6	1.5	8.7	3.1	4.5	..		
TOTAL OFFICIAL RESERVES	End-1977	US \$ million	2 384	4 244	5 761 ²¹	4 608	1 671	570	10 194	39 737	1 020	100	2 372	11 629	22 848	—	8 065	445	2 200	1 377	6 590	3 668	13 830	630	21 057	19 390	2 780	
	In 1977	As percentage of imports of goods %	19.5	29.9	14.3 ²¹	11.7	12.6	7.5	14.5	39.5	15.0	16.3	44.0	24.5	32.3	—	17.7	13.2	17.1	27.8	36.9	18.2	77.2	10.9	33.1	13.1	29.9	

1 Partly from national sources.
 2 Total resident population.
 3 Private and socialised sector.
 4 According to the definition used in OECD: Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
 5 Social product.
 6 At constant prices.

7 Fiscal year beginning July 1st.
 8 Excluding ships operating overseas.
 9 Fiscal year beginning April 1st.
 10 1973.
 11 At current prices and exchange rates.
 12 $\left[\frac{\text{GNP} - (\text{Priv. cons.} + \text{Pub. cons.})}{\text{GNP}} \right] \times 100$.

13 1972.
 14 1976.
 15 Figures are not strictly comparable due to differences in coverage. For more details see "Educational Statistics Yearbook - Volume 1 (1974) and volume 2 (1975) - OECD, Paris".
 16 1974.
 17 Deaths in first year per 1 000 live births.
 18 Figures are not strictly comparable due to differences in coverage.
 19 Private.

20 Fiscal year beginning March 1st.
 21 Including Luxembourg.
 22 1975.
 NOTE: Figures within brackets are estimates by the OECD Secretariat.
 Sources: Common to all subjects and countries: OECD: Labour Force Statistics, Main Economic Indicators, National Accounts, Observer, Statistics of Foreign Trade (Series A); Office Statistique des Communautés Européennes, Statistiques de base de la Communauté; IMF, International Financial Statistics; UN, Statistical Yearbook.

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FINLAND

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

DECEMBER 1979

BASIC STATISTICS OF FINLAND

THE LAND

Area (1 000 sq. km)	337	Population in major cities, 1978:	
<i>of which:</i>		Helsinki	484 879
Cultivated land	27	Tampere	165 519
Forests	187	Turku	164 586
Lakes	32	Urban population	
		(per cent of total)	60

THE PEOPLE

Total population (1978)	4 758 000	Manpower by industry in 1978	
Per sq. km of land area	15.6	(per cent of total):	
Average (1974-1978, per thousand):		Agriculture and forestry	12
Live births	13.7	Industry and construction	34
Deaths	9.4	Commerce	15
Net natural increase	4.4	Transport and communication	8
Net increase of population	3.1	Services	31

PARLIAMENT AND GOVERNMENT

Composition of Parliament, number of seats:		Government, number of ministers from:	
Social Democratic Party	52	Centre Party	6
Conservative Party	47	Social Democratic Party	5
Centre Party	36	Democratic League	3
Democratic League	35	Swedish People's Party	2
Swedish People's Party	10	Independent	1
Christian League	10	Total	17
Finnish Farmers Party	6		
Liberal Party	4	Previous general election: March 1979	
Constitutional Party	—	Next general election: March 1983	
Finnish People's Unification Party	—		
Total	200		

PRODUCTION

Gross Domestic Product 1978 (Mk. million)	139 467	Gross Domestic Product by industries in 1978 (per cent):	
GDP per head, US dollars, 1978	7 129	Agriculture and forestry	9
Gross fixed capital formation 1978 (Mk. million)	32 528	Industry and construction	38
		Commerce	11
		Transport and communication	8
		Services	34

THE PUBLIC SECTOR

Public consumption 1978, per cent of GDP	19.0	General government revenue and expenditure, 1978 (Mk. million):	
Gross fixed capital formation 1978, per cent of GDP:		Current revenue	66 111
General government	3.7	Current expenditure	60 138
		<i>of which:</i>	
		Consumption	26 444
		Transfers	27 042
		Subsidies	5 403

FOREIGN TRADE

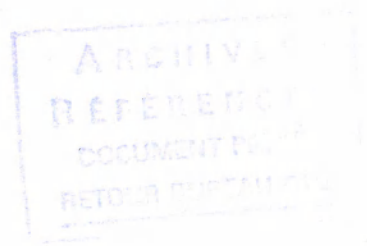
Exports of goods and services, per cent of GDP, 1978	30.7	Imports of goods and services, per cent of GDP, 1978	26.7
Main exports in 1978 (per cent of total merchandise exports):		Main imports in 1978 (per cent of total merchandise imports):	
Agricultural		Raw materials, etc.	63.2
and forestry products	2.4	Fuels and lubricants	6.9
Wood products	13.2	Investment goods	14.8
Pulp and paper	29.5	Consumer goods	15.1
Metal products	27.2		
Other goods	27.7		

THE CURRENCY

Monetary unit: Markkaa		Currency units per US \$, average of daily figures:	
		Year 1978	4.117
		September 1979	3.821

NOTE An international comparison of certain basic statistics is given in an annex table.

OECD ECONOMIC SURVEYS



FINLAND

DECEMBER 1979

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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*The annual review of Finland
by the OECD Economic and Development Review Committee
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INTRODUCTION

As discussed in previous OECD Surveys, overheating of the Finnish economy in 1973-1974 led to inflationary pressures, erosion of international competitiveness and growing external imbalance. Following a shift to a very tight policy stance, made necessary by the sizeable current external deficit in the wake of the 1975 world recession, the Finnish economy experienced very sluggish growth and rising unemployment in the three years to early 1978. There was however during this period a remarkable improvement in international competitiveness and the current external balance, largely owing to the fact that devaluation of the exchange rate was accompanied by moderate wage settlements and a gradual deceleration of inflation helped by special fiscal measures. Developments in 1979 have been particularly favourable, with real GDP probably expanding by about 7 per cent, much faster than expected a year ago, and a substantial decline in unemployment. The strong revival in activity, made possible by rapid export growth and more expansionary policies, has been achieved without any marked deterioration in the current external balance or in price performance until the autumn. More recently, however, the impact of higher oil prices has turned the current external account into deficit, while producer and wholesale price increases have accelerated.

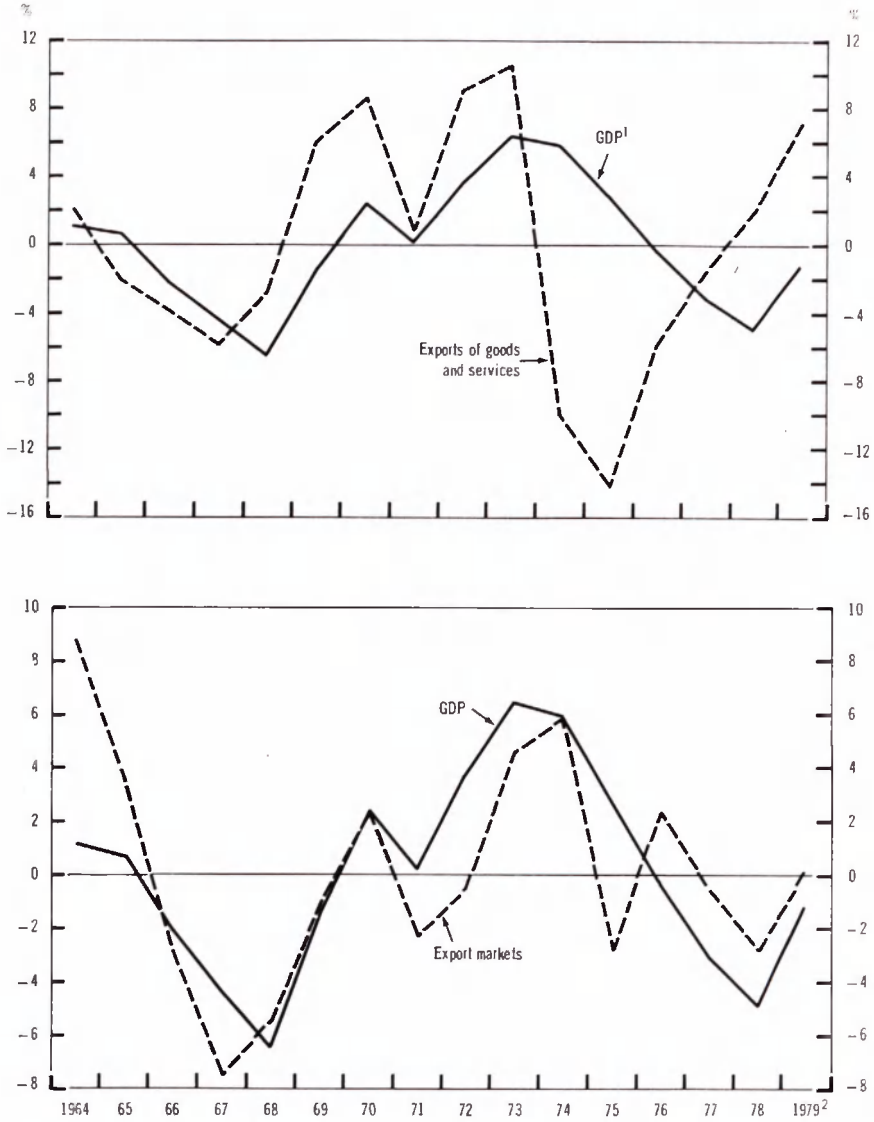
The prospects for economic growth in 1980 appear less favourable as export demand is expected to weaken markedly and the policy stance to be less expansionary. Real GDP may still increase on average by around 4½ per cent in 1980 — one of the fastest growth rates forecast among member countries — although a significant deceleration is expected in the course of the year. The labour market situation may thus improve further, at least up to mid-year. There is a clear risk, however, that stronger wagedrift and higher negotiated wage increases could lead to inflationary pressures, thus aggravating the deterioration of the current balance, which is expected to be in deficit due to a terms of trade deterioration and an unfavourable relative cyclical position.

Part I of the present Survey examines recent developments in demand, output, employment prices and incomes. The following section analyses trends in the balance of payments. Part III discusses recent demand management policies and describes some aspects of energy supply and demand in Finland in the light of the long-term energy programme adopted earlier in 1979 by the Government. Finally, Part IV looks at the economy's short-term prospects and offers some concluding remarks on policy issues.

I RECENT DEVELOPMENTS

The recovery of activity has been much stronger in 1979 than anticipated a year ago. Exports have been distinctly more buoyant reflecting faster than expected growth of markets and better export performance, which, coupled with an expansionary policy stance, boosted domestic demand, contributing to a marked acceleration in

Diagram 1 Gross domestic product and external demand
Percentage deviation from linear trend



1 Based on new national accounts using 1975 as base year. Years prior to 1970, for which official fixed-price estimates are not yet available, have been calculated by the Secretariat by linkage to the earlier 1964-base data.

2 Secretariat forecast.

Sources: Finnish National Accounts and Secretariat estimates.

private consumption and an upturn in gross investment. Although import volume rebounded much more than initially foreseen, due not only to the sharper turnaround in aggregate demand but also to changes in its composition, real GDP growth has been particularly rapid¹. While in relation to past cyclical developments, the 1975-1978 downturn was rather atypical given the fact the recession continued long after export demand has already picked up, the pattern of the current export-led upswing would seem more in line with past experience. Productivity has increased appreciably and labour market conditions have also responded rapidly to the revival of output, with the unemployment rate falling significantly from the record cyclical peak registered in 1978. Nevertheless, given the unusual deepness of the latest downturn, labour and probably also capital resource utilisation rates remain below normal. In spite of stronger inflationary impulses from abroad, consumer price and wage developments remained relatively moderate up to the end of the summer but more recently signs of growing pressure have appeared. The impact of the relative cyclical position of Finland on real trade flows has been cushioned by a favourable terms of trade development, at least in the first half of the year; the current account balance, despite a deterioration in the second half, will probably be in approximate equilibrium for 1979 as a whole.

Demand and output

The rapid increase in household real disposable income², again importantly influenced by discretionary policy measures, has been accompanied by an abrupt revival of private consumption since late 1978, after some three years of stagnation or decline. The pick-up has broadly matched that in real income. The extent of the pent-up demand for durables which had accumulated over a protracted period, associated with some strengthening earlier in households' financial assets, an improvement in labour market conditions and the easy availability of funds in financial markets, appear to have exercised an important influence on the outcome, all the more since hire purchase conditions were eased from the beginning of the year³. Finland's relatively good inflation performance may also have helped underpin consumer confidence. Nevertheless, and despite a 15 per cent increase in volume purchases of durables (notably of automobiles), the level of such outlays in 1979 may only slightly exceed the 1975 peak.

Following a sharp decline in the 3 years to 1978, business non-residential fixed investment turned up as from the beginning of 1979, stimulated by higher capacity utilisation rates and improved profits — a factor probably of decisive importance, as the earlier depressed profitability of the corporate sector appears to have led to the postponement of a number of capacity expansion projects⁴. But government policies have also provided some stimulus to new investment spending. Judging from survey material collected by the Bank of Finland, outlays by industry, which account for around 30 per cent of such investment, should increase by about one-quarter in

1 To a very minor extent (less than ¼ percentage point) revisions to the national accounts methodology have contributed to the difference between the 4 per cent real GDP growth initially forecast for 1979 and the present estimate of 7.2 per cent. Publication by the Central Statistical office this year of data consistent with the United Nations-OECD SNA system has led to a substantial upward adjustment in the level of gross national product; for example, the estimate for 1975 (the new base year for fixed-price estimates) is 4 per cent higher than the old figure and the wage and salary bill is 10 per cent larger. To large extent the differences follow from improved coverage of some service sector activities. In terms of growth rates, however, the differences are not very important (cf. Annex II).

2 Household real disposable income is estimated to rise by around 5½ per cent in 1979.

3 The minimum down-payment was reduced and the maximum repayment period lengthened.

4 See OECD Survey of Finland, 1977, pages 8-9, concerning the influence of profits on investment decisions in Finland.

Table 1 Output and expenditure

	1978 Mk. billion	Volume percentage change from previous period							
		1976	1977	1978	1979 ¹	Seasonally-adjusted annual rate			
						I	II	I ²	II ²
Private consumption	77.6	0.9	-1.4	1.2	5.0	1.2	4.0	6.2	3.6
Government consumption	26.4	5.6	4.1	5.0	3.7	5.3	3.9	3.6	3.9
Gross fixed investment*	32.5	-8.8	-5.4	-9.2	5.4	-11.0	-8.5	7.2	17.3
Final domestic demand	136.5	-1.2	-1.5	-0.9	4.9	-1.3	0.8	5.9	6.8
Stockbuilding ^{2,3}	-3.9	-2.4	-1.5	-0.9	3.3	-1.1	-0.2	5.2	3.1
Total domestic demand	132.6	-3.4	-3.0	-1.8	8.6	-2.5	0.6	11.9	10.3
Export of goods and services	42.9	14.7	9.4	8.0	10.0	7.2	2.8	20.1	-1.2
Import of goods and services	37.3	-3.5	-6.3	-3.5	15.8	-2.5	-2.1	29.2	9.8
Foreign balance ²	5.6	4.6	4.4	3.4	-0.9	2.9	1.4	-0.9	-3.1
Statistical error ³	1.2	-0.8	-1.0	-0.2	0.0				
GROSS DOMESTIC PRODUCT	139.5	0.3	0.4	1.4	7.2	0.5	2.0	10.2	6.6
*of which: Private	27.9	-9.3	-6.1	-11.1	6.5	-13.1	-9.6	8.5	20.3
General government	4.6	-4.6	-0.1	2.2	-0.6	3.7	-1.6	-0.3	0.0

1 Secretariat estimates and forecast.

2 Contribution to GDP growth rate.

3 The statistical error is now shown as a separate item in the Revised National Accounts for the annual estimates, but remains included in stockbuilding for the quarterly accounts.

Sources: Finnish Revised National Accounts and Secretariat forecasts.

Table 2 Household appropriation account

	1978 Mk. billion	Percentage change			
		1976	1977	1978	1979 ¹
Wages and salaries	64.5	14.3	6.6	7.4	12.5
Employers' social security contributions	14.2	22.1	14.9	1.5	13.0
Income from property, etc.	23.0	16.3	8.1	-2.5	15.0
Transfers from government	20.2	25.2	21.5	14.5	11.3
Other transfers received	1.1	18.7	4.6	12.1	11.2
Total income	123.1	17.0	9.9	5.8	13.0
Direct taxes	37.0	26.4	8.5	-3.0	12.0
Other transfers, paid	4.8	16.1	16.9	1.5	6.1
Disposable income	81.2	12.7	10.2	10.6	13.5
<i>Memorandum items:</i>					
Savings as per cent of disposable income		5.9	5.8	7.4	7.9
Real disposable income		-0.3	-1.4	2.8	5.5

¹ Secretariat forecast.

Sources: Finnish National Accounts and Secretariat estimates.

volume in 1979, largely reflecting projects undertaken by the export-oriented sectors⁵. Rationalisation rather than capacity expansion seems to have remained an important investment motive. The revival has concerned in particular machinery and equipment outlays, but there is some evidence of a rally in building activity also. Overall, the growth of business fixed investment in volume has probably been of the order of 10 per cent in 1979. Nevertheless, the present upturn appears rather restrained compared with earlier cyclical experience. The level of real expenditure is still estimated to be about 25 per cent below the 1975 peak; and the share of this investment in GNP only rose slightly in 1979 to around 13½ per cent, remaining well below its longer term trend, one reason probably being firms' desire to strengthen their balance sheet positions. However, compared with the situation in other OECD countries, the level of business fixed investment is still relatively high in Finland.

The number of unsold dwellings peaked in early 1978, and the volume of housing investment fell sharply during the last half of the year and into early 1979. Following a pick-up at the beginning of the year, starts are expected to rise on average by about 4 per cent in 1979 to around 52-53 thousand⁶. However, the average size of dwellings is increasing and official policy is now placing greater emphasis on subsidising energy-saving and other renovation projects⁷. On a national accounts basis, the volume of residential construction may thus remain approximately unchanged this year.

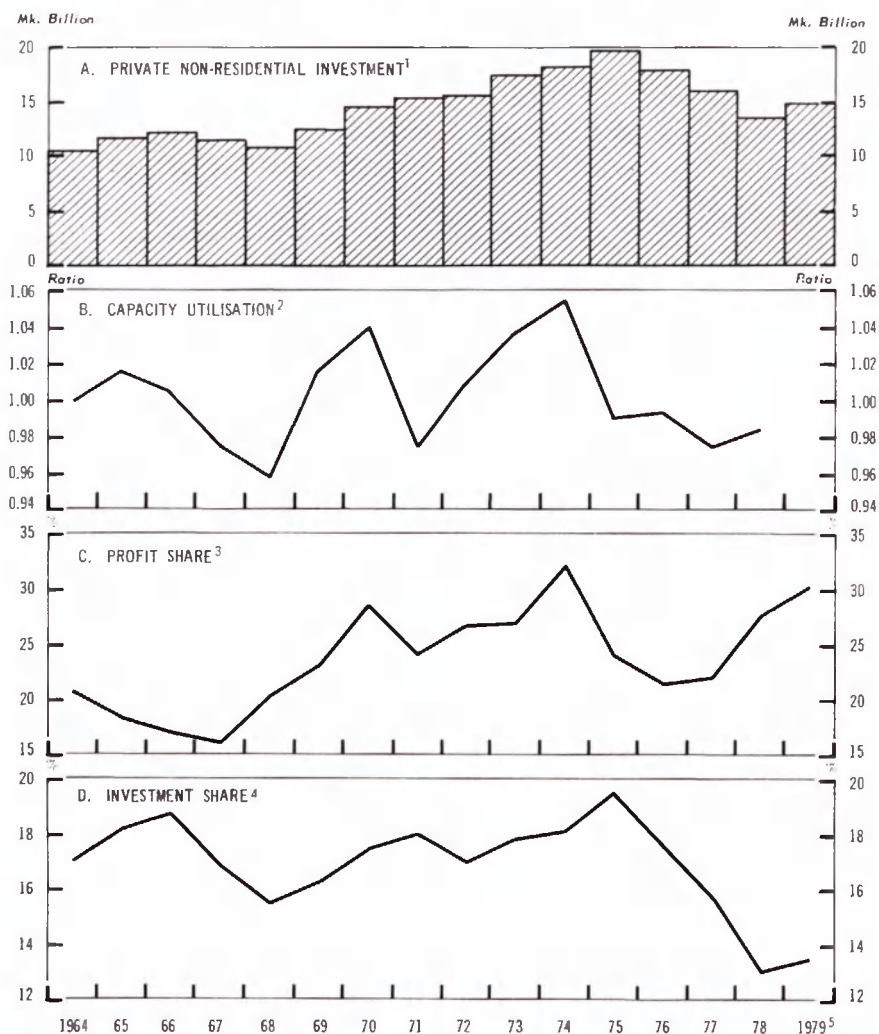
The volume of private sector final expenditure is expected to expand by around 5 per cent in 1979 following a fall of 2½ per cent in 1978. The growth of general government final outlays is likely to decelerate to around 3 per cent — a rate considerably lower than the average for the 1970s. Trend factors rather than a cyclical adjustment of outlays appear to have been the dominant influence. The volume of expenditure allocated to employment support schemes has been expanded, but local government

⁵ The volume increase in fixed investment is estimated at 54 per cent for the forest products industry and 20 per cent for the metal industry and the rest of the manufacturing sector.

⁶ Longer-term requirements would probably call for around 50 thousands starts a year. It should be noted that the number of completions covered by State budget allocations for housing loans is expected to fall from 32.7 thousand in 1978 to 30.5 thousand in 1979.

⁷ As part of the Government's energy policy 20 per cent of the cost of work undertaken to raise the heating efficiency of buildings is subsidised by the State. In 1978 (the first year of the scheme's operation) grants covering 38.6 thousand dwellings were accorded, and this figure should rise to around 62 thousand in 1979. In addition, State loans for renovations have increased sharply.

Diagram 2 Investment, capacity utilisation and profits



1 Constant 1975 prices. See footnote 1 to Diagram 1.

2 Ratio of industrial production index to trend.

3 Gross operating surplus in industry as percentage of value added (current prices).

4 Share of private non-residential investment in GDP in constant 1975 prices.

5 Secretariat forecast.

Sources: Finnish National Accounts; OECD *Main Economic Indicators* and Secretariat estimates.

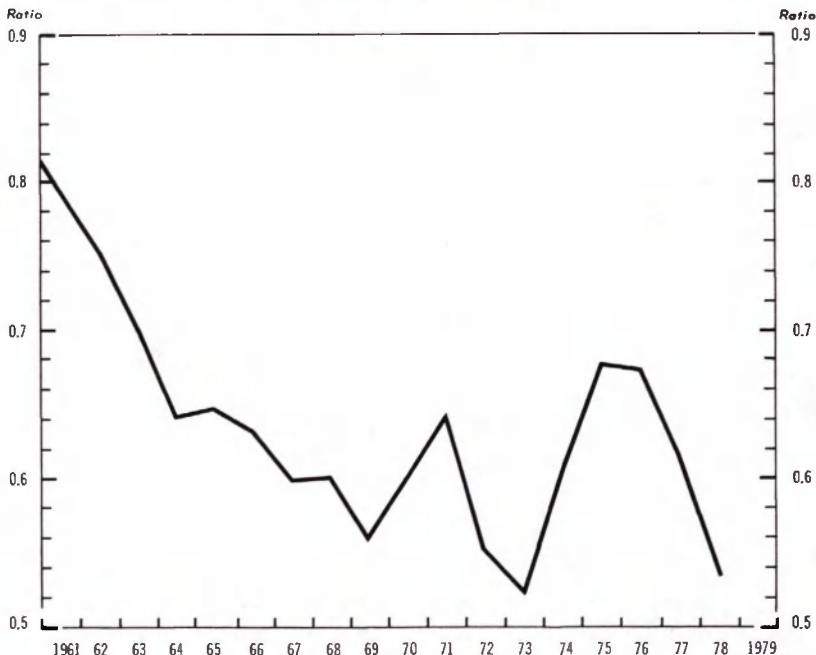
commitments under educational and health programmes initiated in the early 1970s have decelerated sharply. At the same time, the volume of fixed capital formation has remained at about the 1978 level, a decline in infrastructure projects being approximately counterbalanced by the implementation of the initial elements of the Government's energy policy programme (see Part III below).

The decline in industrial inventories apparent since around mid-1977 was halted at the beginning of 1979 when stocks of finished goods rose while holdings of raw

materials and semi-finished goods fell. However, in relation to turnover overall holdings continued to fall and even appear to have dropped below the very low ratio reached in the 1973 boom. At the retail level the stocks/sales ratio, which had increased in 1978, dropped back again early this year with the revival of consumer demand. The present ratio is rather low in historical perspective, but a strong trend decline has been evident for a number of years. For the overall economy, inventories in 1979 are estimated on balance to rise slightly, reflecting some reconstitution in response to the revival of demand. Given the sharp cut-back in 1978, this implies a very strong contribution to GDP growth — indeed, the change in stockbuilding is likely to represent about one-half of the 7 per cent increase. As the volume of imports of goods and services has risen much faster than that of exports, the real external balance on a national accounts basis has probably made a negative contribution of the order of 1 per cent to GNP growth in 1979 compared with a strong positive contribution in 1978. However, this concept conceals the dynamic impact on the economy of rapid export growth (around 10 per cent).

During the first nine months of 1979 industrial production was about 8 per cent higher than a year earlier. Business surveys indicate that manufacturing, which has benefitted from the strength of export and domestic demand, has seen its order inflows consistently exceed expectations since early 1978. Production of investment goods has accelerated within the year, and the trend in intermediate goods has been particularly strong⁸. Output of the wood and paper industry has pursued its rapid recovery,

Diagram 3 Inventory developments



1 Ratio of inventories as at end-year to production in industry.

Source: Bank of Finland.

8 This includes output of the wood and paper industries.

whereas the metal industry only began to experience a revival during the first half of the year. The rest of manufacturing as a whole has enjoyed buoyant conditions and, for the year as a whole, industrial production may expand by around 8½ per cent. Despite the strength of the revival, the capital capacity utilisation rate, up on average by about 6 percentage points in 1979 to an estimated 86 per cent, is still below the rates experienced during 1970-74 which were about 90 per cent on average⁹. However, recent estimates could well overstate the scope for viably expanding output to the extent that capital may have become uneconomic to operate following the sharp movements in relative prices in recent years. Some sectors, such as the forest products and clothing industries, may be operating at close to capacity and indeed instances have been reported of difficulties in meeting demand. These may be related not only to the rapid expansion of output but probably also to the marked slowdown in the growth of capacity resulting from the sluggishness of investment in recent years. Activity in the construction industry has remained weak with civil engineering rather particularly affected. On the other hand, the service industries, particularly the trading sector which has benefitted from the revival of consumer demand, has been experiencing buoyant conditions following several years of virtual stagnation.

Table 3 Output by Sector

	1978 Mk. billion	Volume percentage change				
		1975	1976	1977	1978 ¹	1979 ²
Primary industry (excluding forestry)	5.7	4.3	4.4	3.0	-7.2	4
Forestry	5.3	-13.0	-2.2	7.6	5.1	30
Industry ³	35.1	-4.1	1.6	-0.8	2.4	6½
Forest-based	9.5	-17.8	3.6	0.0	7.9	
Metals, engineering	7.3	1.6	0.8	6.7	-0.3	
Other manufacturing	18.2	1.5	1.1	-4.5	1.0	
Building	6.8	4.1	-11.0	3.0	-2.4	3½
Road and motorway construction	2.9	3.2	-3.5	-6.9	-2.4	-1
Transport and communications	10.4	-1.9	-2.0	0.8	2.6	7
Trade	13.6	2.7	-0.1	-6.7	-1.0	5
Banking and insurance	5.2	6.8	3.1	1.5	2.7	4½
Government services ⁴	19.4	5.2	5.9	4.5	4.4	3½
Other services	20.0	3.0	3.2	3.1	4.1	4½
Total	124.3	0.2	0.9	0.5	1.8	7

1 Preliminary.

2 Forecast.

3 Including mining and quarrying.

4 At producers' prices.

Sources: Finnish National Accounts and Secretariat Forecast.

Employment and productivity

After 3 years of decline, employment began firming toward the end of 1978. Although there is no clear evidence that the underlying relationship between output and employment growth has changed significantly in recent years, the severity of the latest downturn may have meant that labour has been "shed" to a greater degree than

9 The figures are based on the Bank of Finland's semi-annual survey of industry. The Confederation of Finnish Industry's latest survey indicates that in the third quarter of 1979 some 60 per cent of respondents had idle capacity compared with about 30 per cent at the height of the 1973/74 boom.

in the past¹⁰. The relatively rapid response of employment to the recovery evidenced so far is therefore not surprising, all the more since non-wage labour costs have been reduced by policy measures. Overall, the employed labour force is estimated to grow by approximately 2¼ per cent in 1979 with employment in industry and services rising by more than 3 per cent. However, demand for labour may not be as strong as suggested by the movement of numbers in employment. According to the latest Labour Force Survey carried out by the Central Statistical Office, total employment rose by 1.9 per cent between the first halves of 1978 and 1979, with industry and community, social and personal services¹¹ accounting for the increase. However, total hours worked remained unchanged, implying a decline in average hours worked per person of 1.9 per cent¹². The fall has been broadly based sectorwise, applying even to sectors of manufacturing where output and employment have increased fastest. However, the main effect has come through a 4.4 per cent decline in average hours worked within the service sector which essentially reflected increased part-time employment under the Labour Ministry's special appropriations for labour market support (see Table 4).

Table 4 Cyclical labour market policy expenditure

	Expenditure				Number of persons affected ¹			
	Mk. million				Thousands			
	1976	1977	1978	1979 ^a	1976	1977	1978	1979 ^b
Mobility allowances	3	2	1	3	8.3	4.1	3.0	4.0
Cyclical grants to enterprises	12	6	4	—	1.0	0.4	0.3	—
State public works ²	683	568	615	587	7.4	5.7	5.6	5.5
Special procurement orders to industry	34	25	43	8	0.2	0.1	0.7	0.1
Employment training	352	390	461	557	10.6	12.7	15.5	15.8
Labour Ministry special appropriation ³	59	122	282	643	2.3	4.4	22.1	46.0
Other ⁴	56	69	91	145	4.8	4.2	5.6	8.0
Total	1 199	1 182	1 497	1 943	34.6	31.6	52.8	79.4
Memorandum items:								
Cyclical loans to enterprises	1	33	15	3	0.5	1.3	0.6	0.1
Unemployment benefits ⁵	439	852	1 183	1 217	57.9	96.4	132.7	110.0

1 Average per month directly affected by the programmes.

2 That element of public works projects financed by specific unemployment appropriations.

3 Includes State support to local governments for employment purposes and special appropriations for youth employment, etc.

4 Public works for unemployed white collar workers and measures for disabled persons.

5 Benefits paid from unemployment insurance funds and State unemployment assistance.

6 According to 1979 Budget proposal.

NOTE A considerable degree of arbitrariness must necessarily attach to defining which measures should be included in the table. For example, expenditure on regional development policies, which have obvious implications for employment but which are considered of a more structural than cyclical nature, have been excluded.

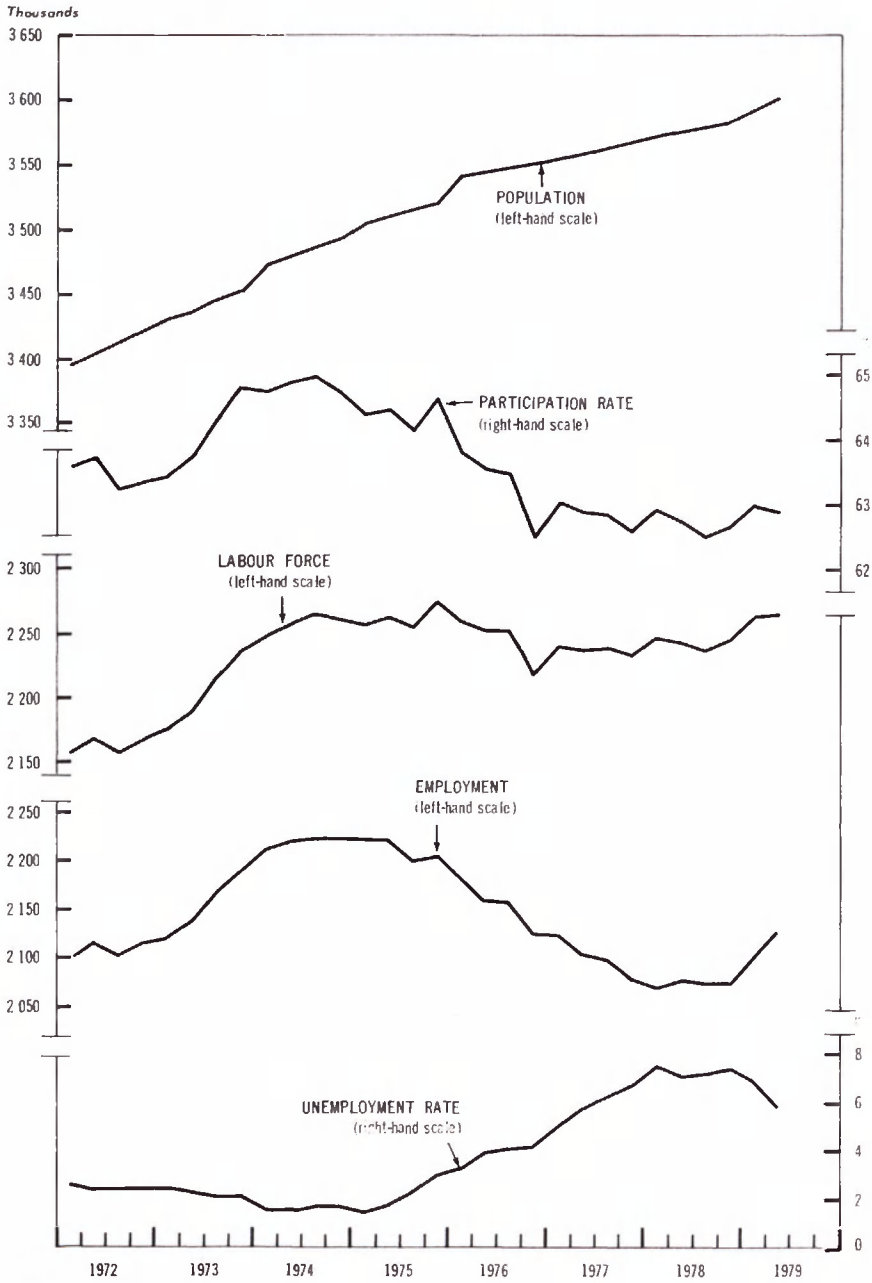
Source: Finnish submission to OECD.

10 Early in the downturn subsidies had been accorded to maintain employment within industry, but this policy was discontinued when the prospects for an early upturn deteriorated. Furthermore, the amount of "voluntary" labour hoarding appears to have been considerable initially after demand weakened, but the deterioration in corporate positions led to a reconsideration of this attitude (see OECD Survey of Finland, January 1978, page 10 on this latter point).

11 Numbers employed in this category of services rose by 44 thousand, while on average compared to 1978 24 thousand more people are expected to be engaged this year on public works financed by the Labour Ministry's special appropriation.

12 However, the data on hours worked are reportedly not very reliable.

Diagram 4 Labour market developments
Seasonally adjusted



Source: OECD, Labour Force Statistics.

Movements in the participation rate over the past 2½ years have varied between 62½ and 63 per cent after having declined from a seasonally-adjusted peak of 65 per cent around mid-1974. A definite recovery appeared to have got underway during the second half of 1978, but seems to have been at least temporarily interrupted around the middle of 1979. Beginning from the second half of 1978 emigration has increased slightly, but the adjustment of labour supply through this source has not been important due to the relatively slack conditions in the Swedish labour market. Given the above mentioned trends in employment and the labour force, the peak of unemployment would seem to have been passed towards the end of 1978, with the seasonally-adjusted rate falling from 7.5 per cent in the fourth quarter of that year to 5.9 per cent by the second quarter of 1979. Although this figure remains relatively high by past standards the "full employment" unemployment rate is now officially thought to be clearly higher than in the early 1970s¹³. The decline has been greatest among young people, reflecting the impact of the public support programmes.

The recovery of employment has gone hand in hand with rapid productivity growth. Output per employed person is estimated to have risen by around 4 per cent in the first half of 1979 (over the corresponding period of the previous year). For the year as a whole it may reach about 5 per cent, thus posting an appreciable acceleration from the 2¼ per cent registered in the two preceding years. In industry the corresponding figure for the first half was also around 4 per cent. When labour input is measured in numbers of hours worked the productivity picture changes somewhat. During the same period total output per manhour rose by around 6 per cent while in industry the increase remained at about 4 per cent¹⁴.

Prices, costs and incomes

Over the 12 months to October 1979 the year-to-year increase in consumer prices has varied between 6 and 7¼ per cent without clear signs of acceleration. Furthermore, the rate of inflation has remained significantly below its longer-term (1968-1978) average of 9.7 per cent. This stands in marked contrast to the average development in the rest of the OECD area, where not only recent price increases have exceeded the long-term average (7.8 per cent) but where a distinct acceleration has occurred to an annual rate of close to 13 per cent in the six months to October. Some quickening of price advances is expected in Finland in the fourth quarter of the year, reflecting the pass-through of higher energy prices. For the year as a whole, compared with 1978, the consumer price index is thus estimated to rise by some 7½ per cent; from December to December the increase may be 8½ per cent. Of this last-mentioned figure 40 per cent can be attributed to the direct impact of oil prices, economic policy decisions and agricultural income settlements¹⁵. The rise in productivity would seem to

13 The previous postwar peak unemployment rate was 4.3 per cent in the first quarter of 1968.

14 The total productivity figure is considerably influenced by the forest industry; excluding this sector the increase in output per employed person amounted to 2½ per cent and in output per manhour to 4½ per cent.

15 According to estimates by the Ministry of Finance the respective percentage point contributions would be approximately as follows:

Indirect taxes and central government charges	1.1
Agricultural price settlements	0.8
Dwellings rents	1.1
Other domestic	1.5
<i>of which:</i> labour costs, etc.	4.0
productivity, etc.	-2.5
Import prices	4.0
<i>of which:</i> oil	1.4
Total	8.5

have exerted a significant dampening influence on price movements. Price performance has been better than forecast a year ago, particularly if allowance is made for the unexpected run-up in energy prices.

Admittedly, if food is excluded, the picture is somewhat less favourable, with the year-to-year increase reaching 8.4 per cent in October. At the producer level there has been a clear acceleration, the rise in prices of manufactures speeding up from 6.4 per cent in January to 10.2 per cent in September¹⁶. But Finnish performance — as indeed any other country's performance — has to be viewed in the light of the strong inflationary pressures received from abroad, which have been reinforced by the devaluations undertaken in 1977 and 1978. Domestic inflationary impulses have been relatively moderate, helped by the pick up in productivity as well as the continuing slack labour market conditions despite the recent recovery. Moreover, recent stabilisation packages, whereby moderate incomes settlements have been achieved through the granting of fiscal incentives at the same time as non-wage labour costs have been lowered by reductions in social security contributions, have played an important role. Within the framework of these settlements, a system of voluntary price restraint has been agreed to by the representative industrial organisations.

As outlined in last year's Survey, the centralised incomes settlement reached in early January 1979 implied an estimated 3 per cent increase in the negotiated wage rate index during 1979 — with, however, a threshold indexation clause linked to consumer price movements¹⁷. Taking account of the carry-over effect of increases accorded under the preceding settlements, the index is estimated to rise by some 8 per cent in 1979¹⁸ which, while below the 10 per cent average during the earlier years of the

Table 5 Wages, costs and prices
Percentage change

	1975	1976	1977	1978	1979 ¹
Wage and salary earnings					
Negotiated wage rates	13.0	10.4	5.3	4.3	8.0
Wage drift, etc.	8.9	4.5	3.2	2.3	2.0
Labour costs per units of output					
Whole economy	24.2	15.3	7.6	4.8	4.9
Manufacturing	27.8	15.9	7.4	2.4	4.5
Consumer price index	17.4	14.3	12.7	7.6	7.5
Non-food	16.3	13.7	10.9	8.7	8.7
Food	20.8	16.3	18.5	4.2	3.7
Production prices	14.8	8.2	8.5	3.6	7.4 ²
Manufacturing	11.5	7.4	10.9	4.3	7.9 ²
Domestic market goods	15.9	10.7	9.0	4.3	2.1 ³
GDP deflator	15.4	12.6	10.1	8.0	8.6

1 Secretariat forecast except for production prices.

2 First eight months.

Source: Central Statistical Office, *Bulletin of Statistics*.

16 The recently introduced basic price index for domestic supply, which can be taken as a measure of wholesale movements (the actual wholesale price index has 1949 as base year) shows a slightly greater acceleration during the period.

17 Should the consumer price index have exceeded 233 (1972=100) by October 1979 (that is, risen by 7.0 per cent from its January level) a flat 17 pennies per hour wage increase would have been paid from December 1, or if the index would have exceeded the ceiling by more than 1 per cent full compensation would have been paid. In fact, by October the index was 231.8 or about 0.5 per cent below the ceiling.

18 The schedule of wage increases provided for under the agreements negotiated in the spring of 1977 was modified by two subsequent policy packages, the net effect of which was to reduce (by postponing into 1979) the average increase in negotiated rates in 1978 by about 2 percentage points.

decade, still represents a significant acceleration compared with the two preceding years. The relative slack in the labour market appears to have restrained the degree of wagedrift, although recent reports refer to pressures building up within certain industries. Hourly earnings in industry are at present rising by around 10 per cent, somewhat faster than the average for other OECD countries, but it is not feasible to distinguish the pure drift element from the effect of structural changes in employment.

With average earnings in the economy as a whole rising by at least 10 per cent, the forecast $7\frac{1}{2}$ average increase in consumer prices would suggest a 3 per cent gain in real wages. Taking into account other income, which last year actually fell owing to the unfavourable development of farm receipts but which was boosted in 1979 by an estimated 50 per cent rise in forest owners' revenue, gross factor income may increase by a good 13 per cent. While discretionary tax measures are estimated to boost incomes by about 2 per cent¹⁹, net transfers by households to the public sector — due to the automatic response of the budget to the revival of activity — are expected to rise by around 13 per cent in 1979, following a decline of 17 per cent in 1978. Overall, disposable income may grow by around 13 per cent in nominal and $5\frac{1}{2}$ per cent in real terms.

In spite of the acceleration of wage increases in 1979, the recovery in output has meant that for the second year running unit labour cost increases have remained rather modest, amounting to about 5 per cent for the economy as a whole and slightly less in manufacturing. This is below both the OECD average and the increase in prices and has probably implied a widening of profit margins. Following very weak developments in the two years to 1977, profitability in manufacturing had already improved substantially in 1978. Although there is still little data available for 1979, higher rates of capacity utilisation and rapidly rising export prices suggest that the recovery has continued in the present year, roughly reaching the level of the early 1970's but remaining well below the 1974 peak²⁰. Furthermore, as usual, the picture

19 According to a Ministry of Finance estimate, discretionary policy measures have had the following impact on households' disposable income (in per cent):

	Change in :		
	1977	1978	1979
Income tax scales	1.5	1.4	0.9
Tax reimbursements	—	0.9	0.3
With holding tax scales	—	—	0.8
Social security premiums paid by insured	—	0.7	-0.1
Total	1.5	3.0	1.9

However, if changes in income tax scales only over and above those needed to correct for inflation are considered as discretionary, the overall impact would be 0.3, 2.2 and 1.1 per cent for the years 1977 to 1979 respectively.

20 According to surveys carried out by the Confederation of Finnish Industries, profitability in manufacturing industry has developed as follows (in per cent of turnover):

	Operating margin	Net profit before change in value of stocks	Net profit after change in value of stocks
1974	16.5	4.3	1.0
1975	11.2	0.9	0.4
1976	8.3	-1.6	-0.3
1977	9.9	-0.8	-0.5
1978	12.9	1.4	0.3

However, it should be noted that the data may be considerably influenced by the results for a small number of large firms.

remains very different between sectors. It should also be noted that after a significant increase in the 4 years to 1977, firms' indebtedness was reduced somewhat in 1978²¹ and it is probable that, in spite of a recovery in investment activity, a further consolidation of their balance sheet position has taken place in 1979.

According to official estimates, national income is estimated to increase by about 15 per cent in nominal terms during 1979, compared with 9¼ per cent in 1978. The shift in distribution away from the public sector (mainly the State) toward the non-financial corporate sector has continued, though the movement has not been as pronounced as in 1978. The shift is also reflected in the pattern of gross domestic savings which have risen to an estimated 25 per cent of GDP compared with 23-23½ per cent during the three preceding years. Although the non-financial corporate sector's share has increased by some 1½ percentage points, the revival of gross investment outlays has led to its slipping back into its traditional financial deficit (net borrowing) after the highly unusual experience of being in approximate balance last year. The general government financial surplus is estimated to remain at about the same level (1-1½ per cent of GDP) as in 1978, which is considerably below its historical average.

Table 6 **Disposable Income**

	1978 Mk Billion	Percentage change from previous year			
		1976	1977	1978	1979 ¹
Private sector	86.5	8.4	12.1	13.3	16
Households	82.5	12.7	10.2	10.6	13
Corporations	4.0	-61.6	105.4	85.0	67
General government	32.4	25.2	4.6	-0.4	11
Central Government	12.0	37.2	-5.1	-5.5	2
Local Government	19.7	19.8	14.1	6.8	13
Social Security Funds	0.7	-2.5	-12.1	-50.0	132
Total	118.9	13.2	9.8	9.2	15

¹ Official estimates slightly different from Secretariat's assumptions.
Source: Ministry of Finance, *Economic Survey of Finland, 1979*.

II BALANCE OF PAYMENTS

In 1978 for the first time in the seventies, and despite a 5 per cent deterioration in the terms of trade, the current external balance shifted to a surplus of \$ 600 million (Mk. 2.5 billion or 1.8 per cent of GDP) due to improved competitiveness and a continuing low level of domestic activity in relation to Finland's main trading partners. In

21 Ratio of liabilities to equity capital :

	Manufacturing industry	Forest industry
1973	2.43	2.26
1974	2.73	2.54
1975	3.19	3.06
1976	3.51	3.75
1977	3.68	4.37
1978	3.29	3.71

Table 7 Balance of payments

a) MEDIUM-TERM TRENDS

US \$ million

	1968-1970	1971-1973	1974-1976	1975	1976	1977	1978 ¹	1979 ²
Exports, fob	1 965	3 025	5 765	5 500	6 321	7 652	8 525	11 500
Imports, fob	1 966	3 236	6 830	7 157	6 941	7 121	7 337	10 600
Trade balance	-1	-211	-1 065	-1 657	-620	531	1 188	900
Current invisibles, net	-50	-70	-453	-516	-549	-691	-574	
Travel	(11)	(76)	(41)	(29)	(6)	(-1)	41	
Transportation	(8)	(-20)	(-169)	(-210)	(-154)	(-132)	-86	
Investment income	(-79)	(-151)	(-369)	(-385)	(-454)	(-606)	-674	-800
Other services	(6)	(26)	(71)	(81)	(84)	(84)	216	
Transfers	(4)	(-2)	(-26)	(-30)	(-31)	(-37)	-51	
CURRENT BALANCE	-51	-281	-1 518	-2 173	-1 169	-159	614	100
Long-term capital, net	69	267	-842	1 308	965	497	899	
Private	(58)	(292)	(762)	(1 190)	(790)	(298)	(201)	
Official	(11)	(-26)	(79)	(118)	(175)	(198)	(698)	
Basic balance	17	-14	-676	-865	-204	338	1 513	
Short-term non-monetary capital ³	99	81	404	410	193	-575	-309	
Balance on non-monetary transactions	116	67	-272	-454	-11	-236	1 204	
Banking short-term	-8	-28	205	456	-41	-25	-170	
Balance on official settlements	108	38	67	2	-52	-261	1 034	
Use of IMF credit	-21	—	98	163	132	—	-43	
Miscellaneous official	3	-24	22	-42	-58	312	-321	
SDR allocations	7	14	—	—	—	—	—	
CHANGE IN RESERVES	97	28	53	123	21	51	670	
<i>Memorandum item:</i>								
Exchange rate Finnish Markka per US \$	4.20	4.04	3.76	3.67	3.86	4.02	4.11	3.88

1 Preliminary.

2 Secretariat forecast.

3 Including errors and omissions.

Source: Finnish submission to OECD.

Table 7 Balance of payments

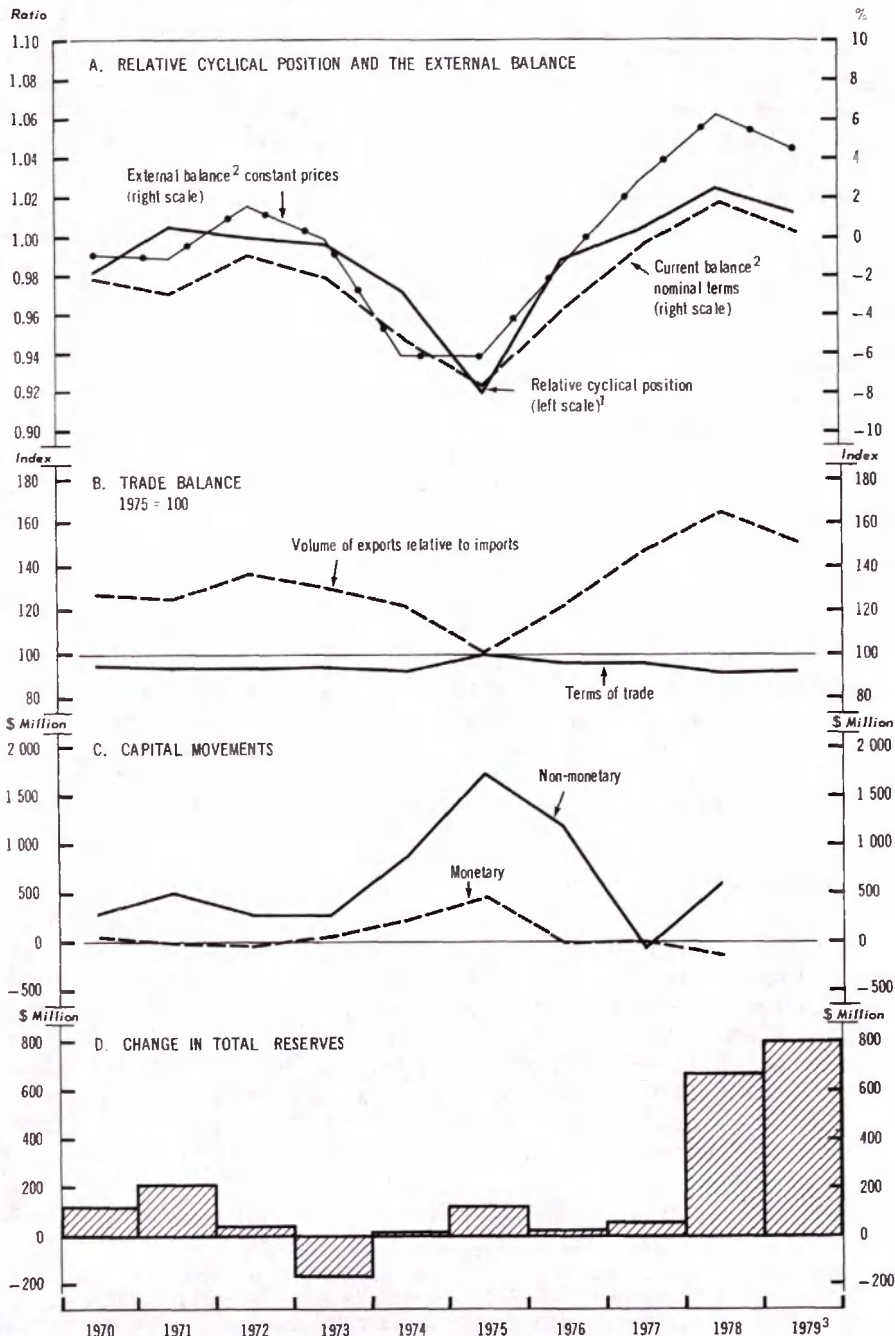
b) RECENT TRENDS

	1977	1978	1978				1979		
			Q1	Q2	Q3	Q4	Q1	Q2	Q3 ¹
	Mk. million, not seasonally adjusted								
Exports, fob	30 766	35 024	7 745	8 614	8 271	10 394	9 674	10 817	10 247
Imports, cif	30 625	32 243	7 357	8 004	7 816	9 066	9 069	10 088	11 472
Trade balance	141	2 781	388	610	455	1 328	605	729	-1 225
Services and transfers, net	-781	-257	-171	-194	126	-18	-167	-448	406
CURRENT BALANCE	-640	2 524	217	416	581	1 310	438	281	-819
	\$ million, seasonally adjusted								
Export, fob	7 652	8 523	1 986	2 119	2 132	2 286	2 545	2 834	2 800
Imports, fob	7 121	7 330	1 833	1 783	1 813	1 901	2 308	2 390	2 900
Trade balance	531	1 193	153	336	319	385	237	444	-100
Services and transfers, net	-691	-585	-153	-148	-149	-134	-212	-218	-80
CURRENT BALANCE	-159	609	—	188	170	251	25	226	-180

1 Preliminary.

Source: Finnish submission to OECD.

Diagram 5 Balance of payments trends



1 Ratio of deviations from exponential trend of total demand (GDP + imports) for Finland's most important OECD trading partners to deviation from trend for Finland. Deviations have been calculated from their trend values for 1964-1978. For weighting see note to Table 10.

2 Per cent of GDP in constant and current prices respectively.

3 Secretariat estimates except for Part D where the change in reserves during the first six months is shown.

Sources: Finnish National Accounts, Bank of Finland and Secretariat estimates.

1979, in the wake of the sharp pick up in domestic demand and although terms of trade developments were more favourable, the current account position has weakened somewhat. The current balance remained in comfortable surplus in the first half of the year (at the seasonally adjusted annual rate of \$ 500 million) but is estimated to have swung into a deficit of the order of \$ 400 million in the second half partly due to higher oil prices. Net capital imports rose substantially until the summer, reflecting public borrowing abroad and short-term capital inflows associated with speculation concerning the exchange rate of the Markka. The upward pressures on the exchange rate were largely absorbed by an accumulation of foreign exchange reserves, although on an effective trade-weighted basis the currency has appreciated slightly since the beginning of the year, following notably the revaluation in late September.

Foreign trade

Export volume growth, after some slowdown in 1978 mainly due to the stagnation of deliveries to Eastern countries, has accelerated again in 1979. In the first half of the year shipments were 13 per cent higher than a year earlier and although a deceleration is expected in the second half, the year as a whole may show an increase of the order of 10 per cent. Shipments of agricultural and forestry products recovered markedly in the first half of 1979, thanks largely to a sharp rise in fur exports. Wood industry exports have remained very buoyant, while sales of paper industry products have also continued to expand at a sustained pace, stimulated by restocking abroad. Base metal shipments only increased by 6½ percent in the first half and in contrast with the overall trend, export of petroleum products were substantially reduced in volume in line with the pick-up in domestic needs. Exports of engineering and other metal industry products, which had declined by 5 per cent in 1978, rebounded sharply in 1979 influenced by the recovery of investment in certain of Finland's important foreign markets. After two years of moderate expansion, there was a sharp acceleration in exports of textile, clothing and leather goods in response notably to increased demand from Sweden.

Given the sluggish growth of Finland's export markets in 1977 and 1978²², the sustained expansion of export volume owed much to large gains of shares on Western markets, while shipments to Eastern countries were depressed. The rapid rise of exports in 1979 suggests that stronger growth of markets was accompanied by further small gains in market shares. Finland's improved competitive position was no doubt a major factor behind favourable export performance. According to Secretariat estimates the rapid rise in relative unit labour costs over the four years to 1976 had been virtually corrected by 1979, bringing them back to around the level prevailing at the end of the sixties — a relatively favourable situation in historical perspective. Besides several currency adjustments during the period²³, moderate wage increases resulting from incomes agreements as well as the various reductions in the employers' social security contributions played an important role in enhancing competitiveness. Overall,

22 Export performance calculations must be viewed only as a broad indicator of actual market growth. Problems involved in the use of unit value indices for calculating volume movements are well known, notably when marked shifts take place in the composition of exports. Furthermore, lack of homogenous statistics on the volume of world trade by major commodity groups and geographical markets does not allow calculation of market shares on a commodity-by-country basis. The present method used by the OECD Secretariat takes essentially geographical markets into account, which in the case of a country like Finland where exports of forest products represent a large share of total shipments, may not be as satisfactory as for countries with a broader export base.

23 Two devaluations of the Markka in 1977 and a third one in early 1978 resulted in an effective depreciation of the currency of 16 per cent between March 1977 and the spring of 1978.

Table 8 Export trends

	1976 Mk. million	Percentage Share	Volume percentage change						
			Average 1973/1969	1974	1975	1976	1977	1978	1979 ³
Agriculture and forestry	721	2.9	10.1	-12.8	-2.0	42.0	12.7	-21.2	21.7
Industry	23 656	96.5	6.2	—	-13.8	16.0	10.3	7.8	12.4
Paper and graphic	7 860	32.1	3.8	-0.7	-30.6	14.0	6.1	14.0	10.5
Metal products and machines	6 892	28.1	7.2	20.7	1.0	16.0	3.4	-5.0	15.7
Wood products	3 854	25.7	4.0	-21.1	-23.7	26.0	10.3	21.6	19.6
Textile, clothing and leather	2 288	9.3	16.3	-2.3	-21.9	15.0	4.1	4.0	14.2
Total	24 505	100.0	6.2	—	-13.8	17.0	10.2	7.0	13.1
To Western countries ¹	18 582	75.8	6.7	-2.3	-21.9	15.0	13.0	10.8	
Industry	17 846	72.8	6.9	-3.0	21.9	14.0	13.2	11.6	
of which:									
Paper and graphic	6 193	-25.3	3.6	-3.1	-35.9	21.0	5.8	18.8	
Metal products and machines	3 873	15.8	14.6	25.9	-2.0	-7.0	10.8	3.9	
Wood products	2 777	11.3	4.0	-22.8	-24.2	27.0	10.2	21.4	
Textile, clothing and leather	1 493	6.1	16.1	6.0	-5.7	1.0	6.9	2.8	
Chemical	1 394	5.7	11.7	16.5	-21.3	66.0	29.5	15.8	
Basic metals	1 264	5.2	11.8	-12.0	-9.1	16.0	42.2	4.8	
To Eastern countries ²	5 923	24.2	-2.0	32.4	6.4	16.0	-5.2	—	
Industry	5 810	23.7	-2.4	34.3	6.4	15.0	-5.2	0.9	
of which:									
Metal product and machines	3 018	12.3	-13.7	43.9	5.3	48.0	-10.8	-3.0	
Paper and graphic	1 667	6.8	4.5	9.9	12.4	-11.0	4.5	-2.2	
Textile, clothing and leather	443	1.8	18.9	85.7	28.2	-22.0	-2.6	-5.3	

1 OECD, OPEC and non-oil developing countries.

2 COMECON Europe, Albania, People's Republic of China, Mongolia, People's Democratic Republic of Korea and Vietnam.

3 First half of 1979 over corresponding period of 1978.

Sources: Central Statistical Office and Bank of Finland.

the improvement has also been reflected in the favourable movement of relative export prices.

It has sometimes been claimed that for a country like Finland, where, in spite of increasing diversification, the export base is still somewhat narrow and where export prices are largely determined on world markets, unit labour cost developments and relative export prices may not be the best measure of competitiveness and that profitability may be a better indicator²⁴. Whatever the exact relationship between profitability and export performance may be, after two years of deterioration, profitability in the export industries has improved again significantly as from 1977. Up to 1978, penetration of foreign markets may also have been helped by low domestic demand pressures relative to the situation in Finland's main trading partners. Special factors such as the withdrawal of North American suppliers of wood-based products from European markets as a result of the high level of demand in the United States, or the bringing into operation of new capacity, notably in the steel sector, would also seem to have played a role. In summary, given the various elasticities to market growth and relative prices suggested by Secretariat calculations, most of the increase in exports to Western markets in 1978 can be "explained" by improved competitiveness, whereas in 1979 the recovery in foreign markets was probably the major factor.

Table 9 Competitive position of Finnish manufacturing¹
1970 = 100

Year	Relative unit labour costs	Relative output prices	Relative export unit values ²	Profitability index ²	Memorandum item: Relative consumer prices
1971	103.6	97.8	101.0	92.6	97.8
1972	100.1	96.6	98.4	92.8	94.1
1973	107.2	109.2	102.5	91.0	96.2
1974	114.9	119.4	123.9	107.1	103.1
1975	123.3	123.3	125.6	99.8	107.6
1976	135.9	125.9	123.2	88.6	114.8
1977	127.9	118.6	122.4	94.6	111.4
1978	111.8	103.8	110.4	97.7	100.6
1977 Q1	132.7	126.7	125.3	93.3	117.1
Q2	129.5	119.2	122.7	93.5	110.2
Q3	126.5	118.3	125.0	97.9	111.0
Q4	120.7	113.5	120.3	97.9	107.5
1978 Q1	117.4	108.4	115.3	97.0	103.7
Q2	111.1	103.9	111.4	98.9	100.4
Q3	111.6	103.3	112.5	99.2	99.2
Q4	108.8	103.8	110.8	98.8	99.3

1 The various indicators of Finnish relative competitive position are expressed in a common currency (dollars). For further details of the methodology, and particularly the weighting patterns used, see "The International Competitiveness of Selected OECD Countries", OECD Economic Outlook, Occasional Studies, July 1978.

2 Covers exports to Western countries only.

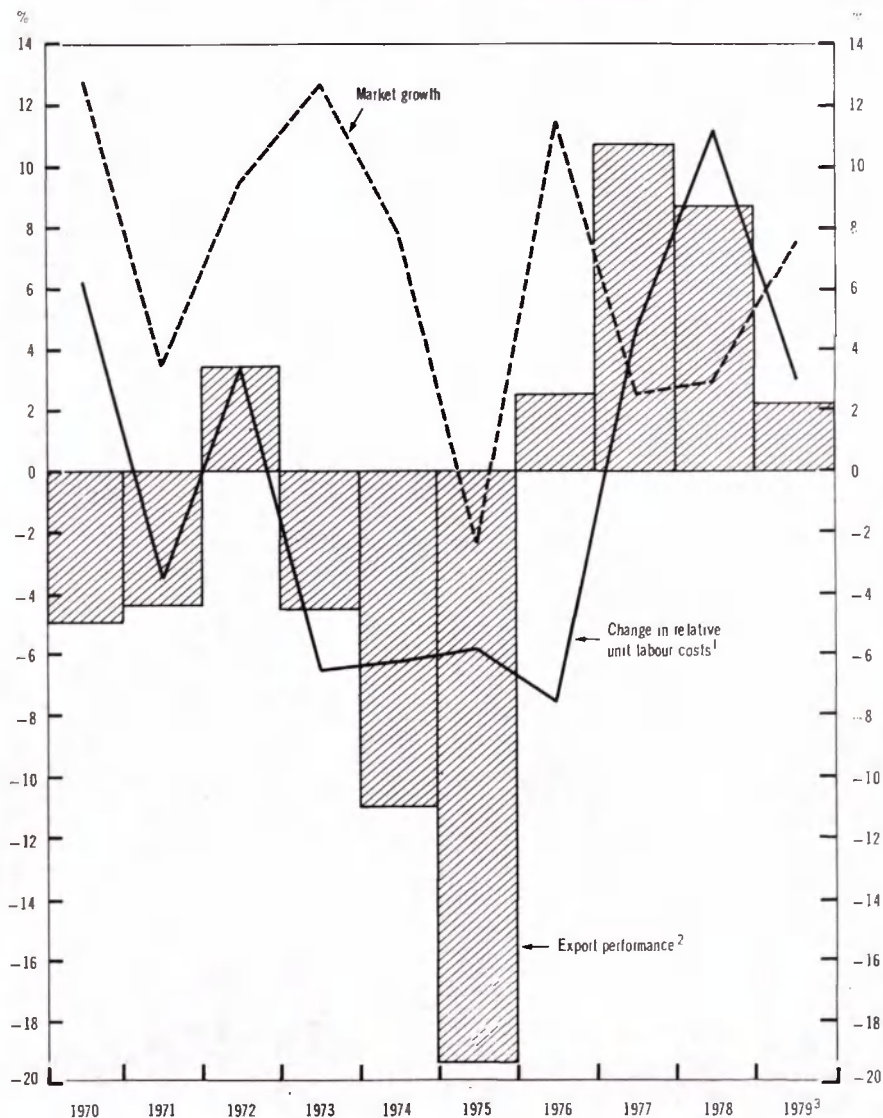
3 For explanation see Table 10.

Source: OECD Secretariat.

24 The rate of profitability would give an indication of the appropriateness of cost levels and the scope to invest in order to maintain competitiveness in the longer run. For a more detailed discussion see the OECD Survey of Finland of January 1978 pp. 33 to 35. However, it should be noted that, when taken as an explanatory variable in a standard-type equation for exports to Western markets, the profit indicator retained (export prices over unit labour costs) was not significant although having the correct sign, whereas relative export prices or relative unit labour costs were significant.

Considerable progress has been made over the last fifteen years or so in the diversification of Finnish exports, with a significant decline in the share of forest products and a corresponding increase in the share of metal and engineering, chemical, textile and other industrial goods. Within the forest-based industries, the trend has been towards products with a greater value added, such as paper and paperboard and away from less processed goods, i.e. roundwood and sawn goods. In the basic metals industries capacity has been substantially increased, a modern steel industry has been

Diagram 6 Competitiveness and export performance



1 See footnote 1 to Table 9. Positive figures indicate an improvement in competitiveness.

2 Percentage points difference between market growth and change in volume exports (Western markets only).

3 Forecast.

Source: Secretariat estimates.

Table 10 Export equations

Equation	REPW	RULC	PROF	PROF (-1)	MKTM	MKTI	R ²	DW	SE
1	-1.03 (-5.13)				0.84 (16.47)		0.96	2.13	0.055
2		-0.78 (-5.20)			0.65 (16.55)		0.96	2.02	0.055
3			0.56 (1.29)		0.62 (7.72)		0.90	1.01	0.093
4	-0.75 (-5.47)					1.86 (22.88)	0.98	2.29	0.040
5		-0.59 (-4.90)				1.54 (21.06)	0.98	1.82	0.043
6			0.35 (1.00)			1.52 (10.28)	0.94	0.94	0.072
7				-0.42 (-0.93)	0.72 (7.57)		0.87	0.66	0.099
8				-0.39 (-1.19)		1.73 (10.66)	0.93	0.58	0.074

Numbers in brackets are *t*-statistics.

All above equations have export volumes of manufactures to Western markets as the dependent variable. Generally a logarithmic form was used in order to estimate elasticities with respect to relative price term and an indicator of market growth. Three relative price terms were tested together with two indicators of market growth:

REPW: Finnish export prices of manufactures sold to Western markets in U.S. \$ relative to competitors.

RULC: Finnish unit labour costs in U.S. \$ relative to competitors.

PROF: Profitability index for Finnish exports defined as export prices relative to unit labour costs, (-1) indicates that the variable has been lagged one period.

MKTM: Index of weighted average of manufactured goods imports (volume) in Finnish foreign markets.

MKTI: Weighted average of industrial production in Finnish foreign markets.

NOTE The weights used in the measures of relative competitiveness (i.e. REPW and RULC) are (in per cent): Canada (2.18), U.S.A. (9.36), Japan (3.55), France (6.60), Germany (15.14), Italy (3.63), U.K. (19.81), Belgium (3.70), Netherlands (5.40), Sweden (17.17), Switzerland (2.65), Austria (1.41), Denmark (4.65), Norway (4.75). For methodology of market growth estimates see, for example, footnote a) to Table 55 of *Economic Outlook*, No. 25 July 1979.

Source: Secretariat estimates.

developed and all the metallic minerals mined in Finland are now processed in the country. Large additions to capacity particularly in oil refining and the petro-chemical industry have led to a strong rise in exports of these products. Thus, the share of chemicals and related products in total exports has increased from 5 per cent in 1965 to 8 per cent in 1978, partly due however to the relatively rapid rise of petroleum products prices. In the metal products and engineering industry, exports of sophisticated machinery for the forest industries have developed rapidly, particularly to North America. Owing to specialisation and orders from the Soviet Union, Finnish shipyards have been less affected by the world crisis than those of other countries; production has been mainly concentrated on ice-breakers, passenger ships, oil drilling platforms, and gas tankers. The integration of markets in Western Europe following the establishment of free trade in industrial products within EFTA and the European Community has been accompanied by a marked expansion in exports of high-quality textiles, clothing and shoes, as well as in a number of other consumer goods. The regional structure has also undergone significant changes. Within exports to the OECD area, the share of deliveries to other Nordic countries has risen considerably. The share of exports to Eastern countries has fluctuated somewhat, hovering around 20 per cent. But exports to OPEC in 1978, despite a steady increase, only accounted for around 4 per cent of total shipments or significantly less than the average for OECD countries (9.3 per cent).

The volume of imports, following three successive years of decline, rebounded sharply in 1979, spurred by the strong revival of demand and easy monetary conditions. During the first half of the year, imports rose at a seasonally adjusted annual rate of around 37 per cent to a level 14 per cent higher than a year earlier. Even allowing for a deceleration in the second half, the rate of increase for the year as a whole may be close to 20 per cent. All major categories of imports except fuels and lubricants have displayed considerable strength. Imports of raw materials excluding crude oil²⁵ were particularly buoyant in the first half of the year, influenced by inventory accumulation and the sharp acceleration in the growth of industrial production. Purchases of equipment (excluding ships and aircraft) which had fallen considerably in 1978, rallied strongly in 1979 in line with the recovery of private investment. There was also a sharp upturn in imports of consumer goods, notably textiles, clothing and passenger cars.

Import volume developments in the three years to 1978 are fairly well explained by variations in the level of total demand and relative prices (see Diagram 8). Econometric work carried out by the Secretariat also suggests that changes in the composition of demand, reflecting the sharp fall in private gross fixed capital formation and the downward adjustment of inventories, also played a part²⁶. Conversely, it may be inferred that the reversal of the stock cycle and the recovery of private non-residential investment contributed to the sharp rebound in imports in 1979. On the other hand, relative price movements would seem to have had a dampening impact on imports both in 1978 and 1979.

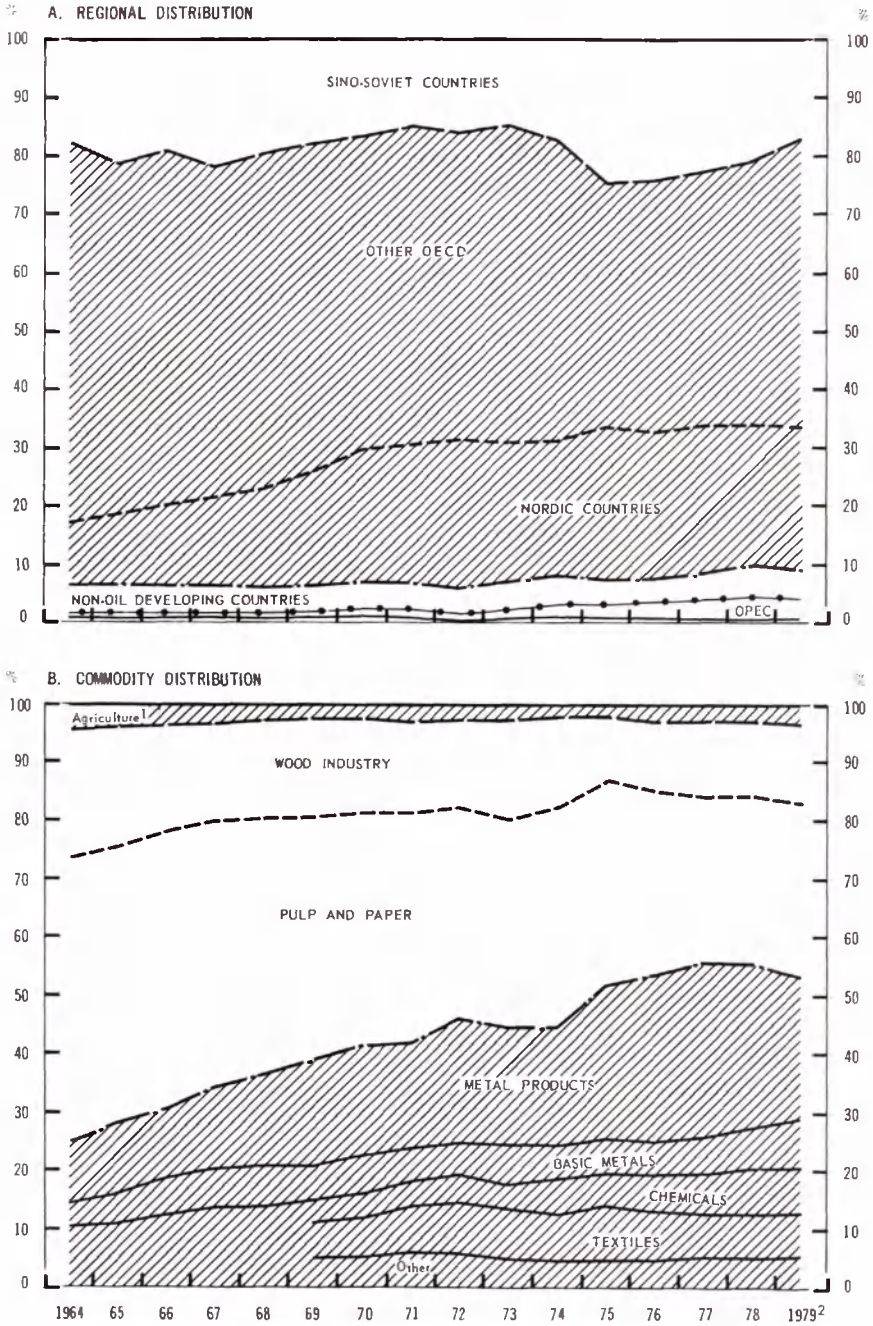
Overall, the trade balance on a fob basis, which improved steadily after 1976 reaching a surplus of \$ 1.2 billion (or Mk. 4.9 billion) in 1978, is expected to deteriorate slightly in 1979²⁷. In the first half of the year the surplus was still running at a

25 Volume imports of crude oil are officially forecast to increase by 5 per cent in 1979 but a decline of roughly the same magnitude is expected in purchases of fuels and lubricants mainly due to a decrease in coal imports.

26 The error of estimate of the equation was smaller when using a total demand indicator weighted by the import content of each demand component, than by taking as an explanatory variable a non-weighted global indicator (GNP plus imports).

27 In the absence of official estimates, the trade balance figure on a fob basis is a Secretariat calculation.

Diagram 7 Structure of merchandise exports



1 Including forestry.
2 First six months.

Source: OECD, *Foreign Trade Statistics* and Central Statistical Office of Finland, *Statistical Yearbook*.

Table 11 Import trends

	1978 Mk. million	Percentage share	Volume percentage change						
			Average 1973/1969	1974	1975	1976	1977	1978	1979 ¹
Raw materials ²	20 431	63.2	8.8	7.1	-4.8	—	-8.0	-1.1	18.7
Fuels and lubricants	2 224	6.9	5.9	18.8	-12.3	-12.0	15.9	2.0	-9.3
Solid fuels	729	2.3	4.2	35.5	-2.9	-27.0	52.0	11.7	-33.0
Liquid fuels	1 224	3.8	6.6	5.6	-23.7	-10.0	7.8	-6.2	6.0
Investment goods	4 801	14.8	8.4	19.2	14.9	-16.0	-16.7	-18.6	4.2
For agriculture	480	1.5	0.7	19.7	9.9	-23.0	16.9	-15.6	1.1
Transports equipment	1 308	4.0	1.0	23.3	35.1	-23.0	-2.6	-33.3	1.9
Other	3 013	9.3	13.3	16.3	7.5	-12.0	-27.3	-10.9	5.9
Consumer goods	4 830	14.9	10.9	—	8.7	-5.0	-2.1	-8.6	19.0
Other	52	0.2	..	..	..	..	..	..	..
Total imports	32 338	100.0	9.0	7.5	—	-4.0	-8.3	-4.5	14.3
Real GNP	..	..	6.1	3.3	0.6	0.3	0.4	1.4	5.8
Total demand, unweighted	..	..	6.7	4.1	0.6	-0.6	-1.2	0.3	7.6
Final demand, weighted ³	..	..	7.0	4.8	-0.6	-2.1	-2.1	-0.8	11.0
Change in stocks (Mk. million) ⁴	..	..	1 209	4 926	1 717	-714	-2 219	-3 145	

1 First half of 1979 over corresponding period of 1978.

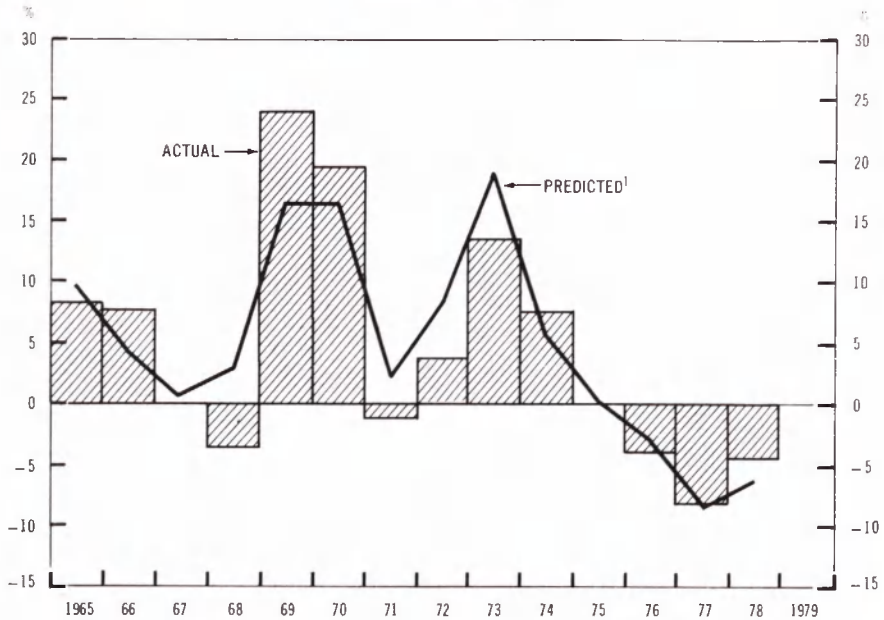
2 Including crude oil.

3 By import content of the various components according to input/output tables.

4 1975 prices.

Sources: Central Statistical Office and Secretariat estimates.

Diagram 8 Import volume developments — actual and predicted
Percentage change



I Estimated from equation 1 below.

IMPORT EQUATIONS						
Numbers in brackets are t-values						
Equation	\dot{WEX}	\dot{YM}	\dot{RP}	R^2	DW	SE
1	1.58 (8.0)		-0.60 (2.80)	0.86	2.1	0.041
2		1.64 (7.5)	-0.65 (2.80)	0.85	1.8	0.043

The dependent variable in both equations is the percentage change in the volume of merchandise imports in which:

- \dot{WEX} = Weighted demand, where each expenditure item was weighted according to its import content from the latest input-output table (percentage change)
- \dot{YM} = Total demand in Finland (GNP + imports of goods and services) (percentage change)
- \dot{RP} = Ratio of import prices to domestic prices of manufactures (percentage change)

Source: Secretariat estimates.

seasonally-adjusted annual rate of around \$ 1.4 billion, but the deterioration witnessed in the third quarter is estimated to have continued in the fourth quarter, thus reducing the surplus for the year as a whole to about \$ 900 million (Mk. 3.6 billion). Given the export and import trends described above, the improvement in the three years to 1978 was essentially due to the development of trade volumes, with the terms of trade exerting a negative impact, probably influenced by the depreciation of the exchange rate

Table 12 Trade balance - price/volume composition¹
Changes in Mk. million

	1973	1974	1975	1976	1977	1978	1979 ²
Terms of trade	-68	-1 734	816	-858	-620	-909	428
Volume	-903	-1 250	-3 590	4 562	4 893	3 554	109
Total change	-971	-2 984	-2 774	3 704	4 273	2 645	537

1 Customs basis; exports fob and imports cif.

2 Secretariat forecast.

NOTE Volume contributions are estimated by applying volume changes in year *t* to current price exports and imports in year *t*-1. The terms-of-trade contribution is obtained as a residual.

Source: Secretariat estimates.

during the period. Real trade flows would seem to be responsible for the moderate deterioration of the trade balance in 1979 since the terms of trade, in spite of the run-up in oil prices, may change little as a result of the strong increase in export prices (between 14 and 15 percent year-on-year). With brisk foreign demand and high rates of capacity utilisation, prices of forest products have risen rapidly; there was also a sharp increase in export prices of metals and chemicals, notably oil products.

Invisibles and current balance

The deficit on net services and transfers, which had been widening since 1973, was slightly reduced in 1978 to around \$ 580 (Mk. 2.4 billion). The higher servicing cost of foreign debt, one of the main factors behind the deterioration on invisibles account in recent years, was more than offset by rising net receipts from construction work abroad and successful marketing of Finnish know-how. The travel account also improved somewhat as a result of the depreciation of the Markka since 1977. The balance on net invisibles again deteriorated significantly in the first half of 1979, largely reflecting higher net interest payments and transfers; for the year as a whole the deficit may reach around \$ 800 million (Mk. 3.2 billion). Overall, the current balance may be close to equilibrium in 1979. As can be seen from Diagram 5, trends in the external balance in recent years have largely followed developments in the domestic cyclical position in relation to that of Finland's main trading partners, although changes in the terms of trade and the competitive position have also played a role.

Capital movements and exchange rate

Net long-term capital inflows, after a decline in 1977, rose substantially in 1978 to \$900 million (Mk. 3.7 billion) reflecting essentially higher net proceeds of bond issues, largely on account of public borrowing abroad²⁸. Partly for the sake of replenishing foreign exchange reserves and partly due to institutional rigidities, the Central Government covered an unusually high proportion of its borrowing requirement by raising funds on international financial markets. Public sector industrial and financial corporations also increased their bond flotations abroad. Direct investment has continued to yield a small net outflow, and there was a fall in net inflows from other elements of long-term capital (direct borrowing and trade credits) reflecting lower financing needs by the corporate sector. The year 1978 also saw a large outflow

28 Excluding Bank of Finland repayment of stand-by credit amounting to Mk. 1.4 billion.

of short-term capital largely related to the movement of trade credits in the second half. In the first half of 1979, despite sustained Central Government borrowing abroad, net long-term capital inflows fell substantially but short-term capital movements resulted in large net inflows mainly as a result of speculative pressure in favour of the Markka.

The rising trend in Finland's net foreign debt has been reversed during the last two years, and the ratio of foreign debt to GDP fell from a record high of 21.3 per cent in 1977 to an estimated 15 per cent in 1979. Nevertheless, the debt servicing burden has continued to rise, reaching 18.2 per cent of current account receipts in 1978. However, this figure was affected by a marked increase in amortization payments due to repayments of credit facilities by the Bank of Finland²⁹ and by substantial advance repayments by corporations. Since the structure of the external debt has improved through a lengthening of maturities, servicing costs should normally decline in coming years.

In spite of two devaluations in the course of 1977, confidence in the Markka was not really restored until the third adjustment in the exchange rate in February 1978³⁰. The ensuing reversal in the leads and lags in the spring and summer, coupled with a widening trade surplus and large Central Government borrowing abroad, allowed a rapid build-up of gross official convertible reserves, while following an effective depreciation of around 16 per cent over the year to March 1978, the exchange rate of the Markka remained very stable. Official reserves declined temporarily in the autumn due to substantial capital outflows partly associated with interest rates differentials but rose again substantially towards the end of the year reaching \$ 1.3 billion³¹ at the end of December. This more favourable reserve position enabled the Bank of Finland to

Table 13 Net foreign debt outstanding
Mk. billion

	1974	1975	1976	1977	1978	1979 ¹
Medium and long-term	9.6	15.4	19.9	25.7	29.6	28.1
Assets	2.3	3.5	3.8	4.6	5.8	6.7
Liabilities	11.8	18.9	23.7	30.4	35.4	34.8
Short-term	1.7	4.5	3.1	1.4	-4.1	-4.1
Assets	10.5	10.8	12.4	14.6	19.3	21.4
Liabilities	12.2	15.3	15.5	16.0	15.1	17.3
Total net foreign debt ²	11.3	19.9	23.0	27.1	25.5	24.0
External debt servicing cost ³	2.1	2.4	3.1	4.5	6.6	5.4
<i>Memorandum items:</i>						
Total net external debt as per cent of GDP	12.9	19.5	20.0	21.3	18.3	15
External debt servicing as per cent of current receipts	8.2	9.4	10.2	11.9	14.9	14

¹ Official forecast.

² Including the positions of the Bank of Finland and the commercial banks but excluding the equity proportion of direct investments and subscriptions to international financial institutions.

³ Net investment income and amortization payments with respect to short and long-term assets and liabilities.

Sources: Bank of Finland, *Monthly Bulletin* and Ministry of Finance, *Economic Survey of Finland*, 1979.

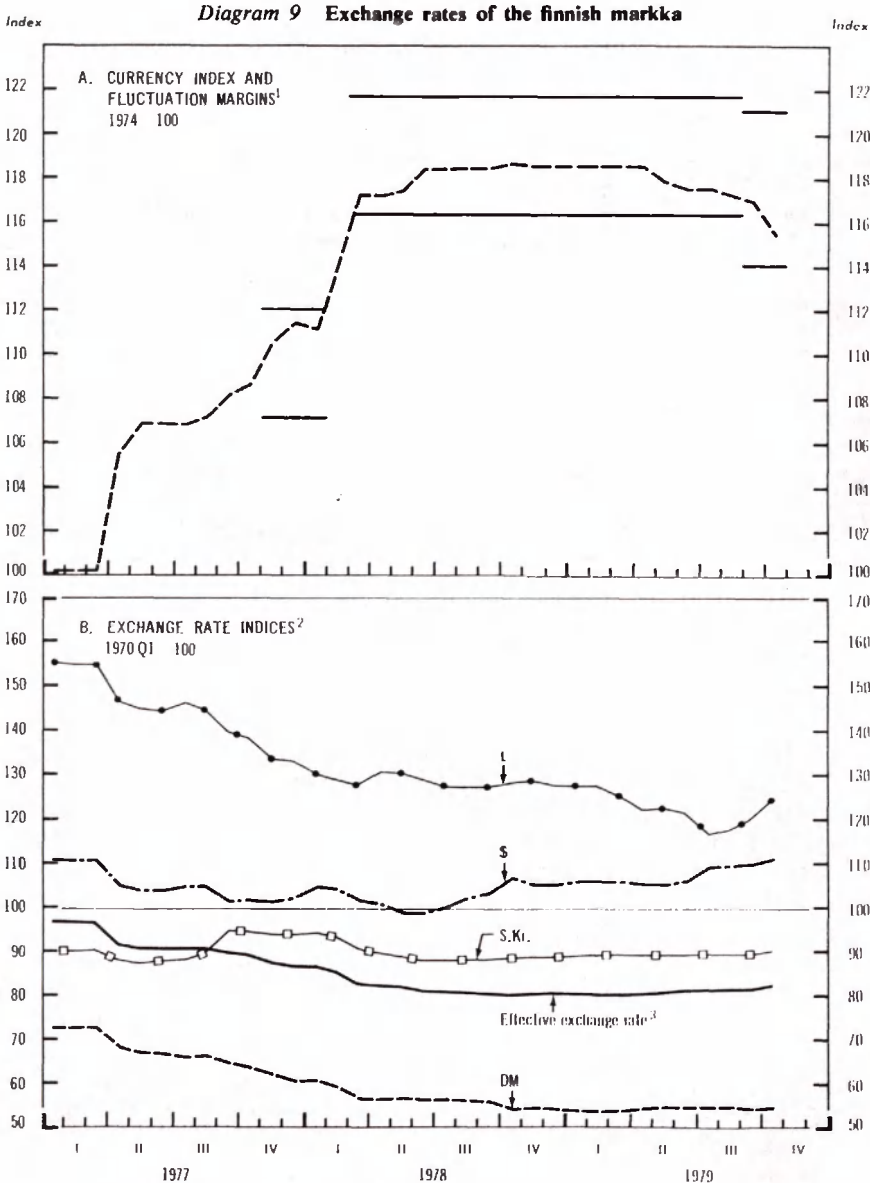
²⁹ Excluding amortization by the Bank of Finland, the debt servicing ratio amounted to 15 per cent.

³⁰ The Finnish Markka was devalued on April 5, 1977 on September 1 of the same year and on February 16, 1978.

³¹ Corresponding to nearly eight weeks' imports compared with only three weeks at the beginning of the year.

repay \$300 million drawn in 1977 on credit line facilities with foreign commercial banks. Moreover, SDR 34 million of the SDR 186 million drawn from the IMF oil facility in 1975 and 1976 was reimbursed in 1978.

The persistent, albeit reduced, current account surplus in the first half of 1979, together with large capital inflows partly associated with expectations of a revaluation of the Markka, led to upward pressure on the exchange rate until the summer. This



1 For details see footnote 32, page 34.

2 Units of foreign currency per markka.

3 For method of calculation see Table 51 of *OECD Economic Outlook* No. 25, July 1979.

Source: Finnish submission to OECD and Secretariat estimates.

was largely met by a further accumulation of foreign exchange reserves, although two minor adjustments were made to the currency index³² in May and August pushing it near the lower limit of the permissible range of variation. In September it was decided to revalue the Markka by about 2 per cent. Overall, Secretariat estimates suggest that by mid-October 1979 the effective appreciation of the Markka since the beginning of the year amounted to approximately 4 per cent.

III ECONOMIC POLICY

As indicated in last year's Survey, the significant and rather unexpectedly rapid progress made in correcting Finland's serious current external imbalance allowed policy to shift to a more expansionary stance during 1977 with a view to shoring up the depressed level of domestic activity and employment. Although the change was mainly directed toward favouring exports and industrial investment, supplementary action to stimulate local government investment was recognised as necessary. In addition, the fiscal concessions granted to wage and salary earners to ensure moderate wage settlements have helped to sustain private domestic demand and to keep a rein on cost developments. This strategy, together with reductions in employers' social security contributions and various exchange rate adjustments, has thereby played an important part in enhancing Finnish international competitiveness in the past two years. The ensuing weakening of the public sector financial position contributed to a rapid increase in domestic liquidity, particularly in 1979. While still expansionary, the discretionary impact of general government budgets has been tightened somewhat in 1979. Monetary policy has remained by and large accommodating despite some tightening of stance and, as already noted, the Markka was slightly revalued in September with a view to easing external inflationary pressures. In March the Government adopted a long-term energy programme, the basic aims of which are to reduce overall energy consumption and increase the utilisation of domestic sources.

Fiscal policy

The initial 1979 State budget approved in January was based on assumed increases of 3½ and 7 per cent in GDP volume and price deflator respectively³³. The unemployment rate, averaging 7.6 per cent in 1978, was not expected to decrease. The main discretionary measures announced were adjustment of personal tax scales (both for wealth and income) by the then-estimated 8 per cent average increase in consumer

32 According to the amended Currency Act that came into force on November 1, 1977 the value of the Markka is no longer expressed in terms of a par value linked to gold but in terms of a new concept "the external value of the Markka". This is expressed in terms of a currency index number reflecting the average change in the exchange rates of the currencies of 16 countries which account for most of Finland's foreign trade (Austria, Belgium, Denmark, France, the Federal Republic of Germany, Great Britain, Iran, Italy, Japan, the Netherlands, Norway, Poland, the Soviet Union, Sweden, Switzerland and the United States). The ratio between the current exchange rate and the base period (1974) rate is determined for each currency included in the index and then weighted by the respective countries' shares in Finland's foreign trade, a moving weights system being applied. The permissible range of fluctuations for the index is determined by the Government; initially the upper limit was set at 112.0 and the lower limit at 107.1, being 2¼ per cent on each side of the theoretical mean of 109.55. When the Markka was devalued on February 17, 1978 the limits were changed to 121.7 and 116.4. Following the revaluation in September 1979 they were subsequently changed to 121 and 114, implying a maximum variation of about 3 per cent around the mean.

33 Average earnings were assumed to rise by 7½ per cent and the total wage and salary bill as well as consumer prices by 8½ per cent on average during 1979.

prices during 1978³⁴, and maintenance of earlier reductions in most social security charges for both employers and insured persons. Increases in indirect tax rates were limited to avoid pressures on prices³⁵. In all, budget revenue (excluding financial transactions) was expected to rise by some 10.7 per cent from the estimated 1978 outcome. Expenditure (excluding financial transactions) was budgeted to increase somewhat faster (14.7 per cent), with the acceleration due partly to expected increases in prices and wages. More importantly, transfers were budgeted to rise even faster, largely reflecting increased unemployment and child endowment benefits as well as subsidies³⁶ and transfers to local governments to finance employment-supporting public works. A budget deficit of Mk. 1.6 billion (excluding financial transactions), equivalent to 1.2 per cent of 1978 GDP, was projected.

In the event and despite the much stronger than expected rise in private demand, output and employment, revenue seems likely to have grown in line with the budget forecasts. Discretionary action taken since the budget was passed, such as bringing forward about half of tax reimbursements from March 1980 to December 1979 and reducing employer's child endowment contribution rates, has broadly counterbalanced the effect of automatic stabilisers on budget revenue. On the other hand, expenditure has expanded faster than expected in the budget. This was essentially due to a considerable increase in fuel price equalisation subsidies³⁷ and to higher transfers to local

Table 14 Central government revenue and expenditure¹
Mk. billion

	Outcome			Main budget		
	1977	1978	1979 ²	1978 ³	1979 ³	1980 ³
(Cash basis)						
Taxes on income and property	10 477	9 262	10 200	11 450	11 020	12 790
Taxes on goods	14 968	17 260	20 110	16 890	19 037	22 317
Other revenue	7 183	7 835	8 100	7 034	7 977	7 438
Total revenue ⁴	32 628	34 357	38 410	35 374	38 034	42 545
Percentage change	7.4	5.3	11.8	7.8	7.5	11.9
Consumption	9 363	10 395	11 890	10 653	11 766	13 318
Real investment	3 209	3 359	3 650	3 056	3 306	3 540
Transfers	18 465	20 307	24 160	19 857	23 612	26 446
Other expenditure	375	525	840	500	972	1 213
Total expenditure ⁴	31 412	34 586	40 540	34 066	39 656	44 517
Percentage change	13.6	10.1	17.2	14.0	16.4	12.3
Net lending	1 216	-229	-2 130	1 308	-1 622	-1 972
Net acquisition of financial assets	2 649	2 414	2 750	2 424	2 409	2 431
Overall deficit	-1 433	-2 643	-4 880	-1 116	-4 031	-4 403
Borrowing	1 412	4 338	3 760	1 141	4 036	4 405
Gross	1 893	5 112	4 850	1 880	5 155	5 890
Redemptions	481	774	1 090	739	1 119	1 485

1 Excluding extra budgetary funds.

2 Estimate.

3 Budget proposal.

4 Excluding financial transactions.

Source: Finnish submission to OECD.

34 In fact, the price rise turned out to be 7.6 per cent. The adjustment to tax scales which was made somewhat greater for the lower- and medium-income brackets, was estimated to reduce taxes by about Mk. 1 billion (or by Mk. 750 million in cash out-turn). Furthermore, it was decided to reduce personal direct withholding tax scales by 1 per cent.

35 Nevertheless such increases, essentially on alcohol and tobacco products, are estimated to contribute about 1 percentage point to the increase in the consumer price index in 1979.

36 The increase in subsidies was of a technical nature to compensate for increases in excise duties.

37 See footnote 51 below.

governments for employment support purposes. Also State public works have been increased in supplementary budgets. In consequence, the budget deficit at Mk. 2.1 billion (1.5 per cent of GNP, excluding financial transactions) is estimated to be slightly higher than originally forecast, and compares with a deficit of Mk. 0.2 billion in 1978.

Over the last two years, the growth in local government expenditure has slowed down from the very high rates registered during 1976 and 1977. Demographic factors, such as declining numbers of children of school age and the near completion of health and education programmes, have contributed to this. In addition, the implementation of certain works projects appears to have been delayed by administrative difficulties³⁸. Uncertainty about the rise of revenue inflows may have induced greater constraint in outlay decisions³⁹. Real investment by local authorities have hardly risen during the last two years, although consumption outlays have grown faster than envisaged in the agreement reached between the central and local government representative organisations in February 1977. Part of this overrun can be attributed to employment programmes made necessary by cyclical developments and largely financed by transfers from the State which were not foreseen at the time the agreement was made. In all, local government expenditure appears to have risen slightly faster than anticipated at the beginning of the year ($\frac{1}{2}$ per cent) at the same time as the unexpectedly vigorous pick up in economic activity has boosted revenue by some 2 percentage points faster than forecast.

The gross tax burden continued to fall in 1978 and 1979 as a result of rate reductions for both households and corporations⁴⁰. This development has been

Table 15 General government revenue and expenditure

	Mk. billion			Percentage change		
	1978 ¹	1979 ²	1980 ³	1978	1979	1980
(National accounts basis)						
Taxes	42.3	48.2	55.9	4.3	14.0	15.9
Direct	21.9	24.4	29.3	-3.8	11.5	19.9
Indirect	20.4	23.8	26.6	14.7	16.7	11.7
Social security contributions	8.4	9.1	9.4	-1.8	8.4	4.1
Other transfers ⁴	1.1	1.1	1.2	6.0	0.2	5.0
Other ⁵	5.7	6.3	6.2	13.8	9.7	7.7
Total revenue	57.5	64.7	73.3	4.2	12.5	13.3
Consumption	26.4	29.9	33.2	10.3	13.0	11.2
Investment	5.1	5.6	6.1	6.2	8.6	8.3
Transfers to households	16.8	18.4	20.4	12.7	9.1	10.9
Subsidies	5.4	6.8	7.0	3.3	26.6	2.9
Other ⁶	1.9	2.3	2.6	9.2	21.4	13.4
Total expenditure	55.7	63.0	69.3	9.8	13.0	10.0
Net lending	1.8	1.7	3.9			

1 Preliminary.

2 Estimated outcome.

3 According to 1980 budget proposal.

4 Including compulsory fees, fines and penalties.

5 Property and entrepreneurial income, unfunded employee welfare contributions, fixed capital consumption.

6 Interest, net transfers abroad, net capital transfers, increase in stocks, net purchases of land.

Source: Finnish submission to OECD.

38 For example, State transfers to the local authorities for employment support were designed to engage 40 thousand persons in 1979. In fact, probably only 20 thousand will be so employed.

39 This uncertainty arose from the changes in withholding tax scales which were estimated to reduce local government cash flow.

40 Tax concessions have been granted to corporations both in the form of lower social security contributions and exemption from sales tax for certain categories of investment.

Table 16 Fiscal indicators

	1976	1977	1978 ¹	1979 ²	1980 ²
Taxes (per cent of GNP) ³	41.4	40.8	38.4	38.0	39.0
Net government transfers (contribution to household disposable income) ⁴	-7.7	0.2	5.0	-2.7	-3.5
Government expenditure (volume change)	3.6	3.5	4.4	3.0	3.1
Central Government ⁵	-0.2	-0.8	4.9	2.9	
Local governments	6.1	6.2	4.2	3.0	
Social Security Funds	-3.7	-5.8	2.9	4.0	
General Government net lending (per cent of GDP)	5.3	3.5	1.3	1.0	2.0
Cyclically-adjusted General Government net lending (per cent of full employment output)	7.4	6.5	4.8	3.9	4.4
Fiscal impact ⁶ (per cent of GDP)	..	..	2.6	0.6	-0.9

1 Preliminary.

2 Secretariat forecast.

3 Including all compulsory social security contributions according to the Revised National Accounts.

4 Change in direct taxes on households *minus* transfers to households, as percent of disposable income in the previous period.

5 Excluding transfers to local governments.

6 Official estimates based on econometric methods.

Source: Finnish National Accounts and Ministry of Finance, *Economic Survey of Finland, 1979*.

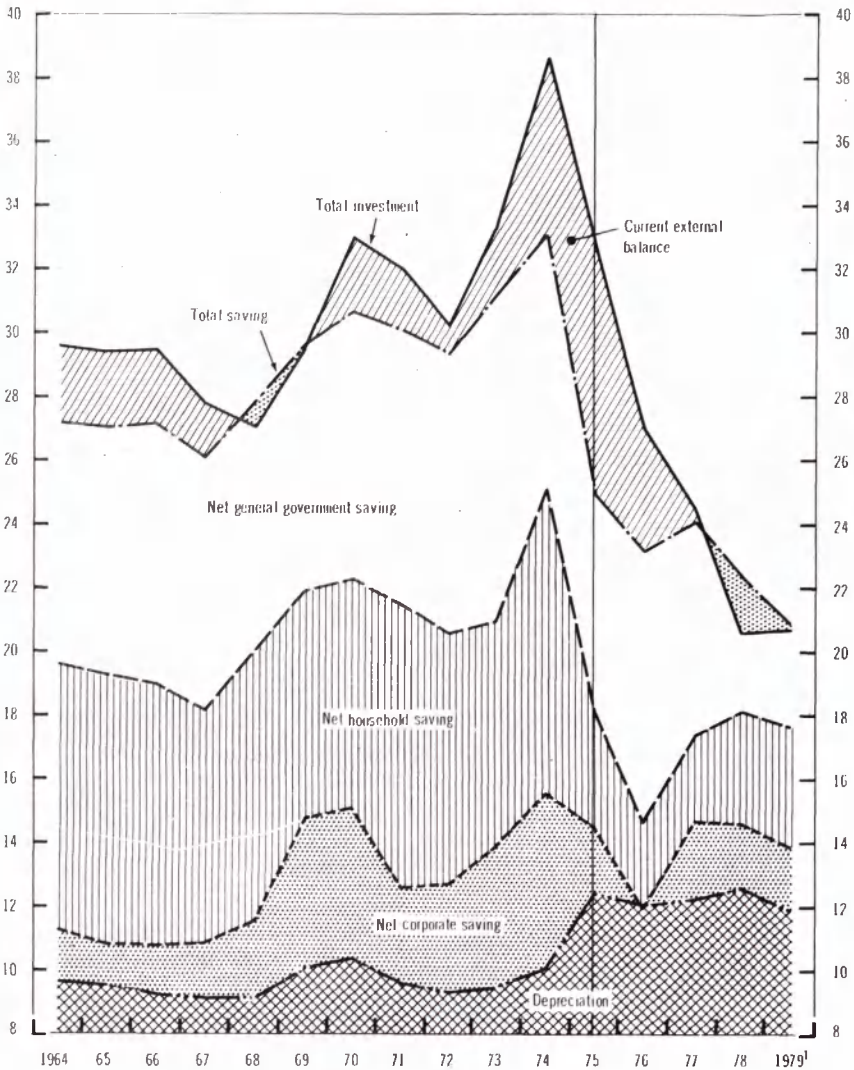
accompanied by a shift from direct to indirect taxation. In 1979 the decline was mostly attributable to concessions to the business sector. Econometric estimates carried out by the Ministry of Finance suggest that the overall impact of general government operations has been much less expansionary in 1979 than in 1978. The direct and indirect effects of Central Government operations have been less stimulative, but the main contractionary impulse has operated through increased tax receipts of local authorities, and higher social security payments. These estimates do not take account of the lagged effects of measures taken in earlier years, and it is possible that they understate the stimulative impact of government operations in 1979. Nevertheless, full-employment budget balance calculations tend to confirm that the stimulus in 1979 was less pronounced than in 1978.

Monetary policy

In 1978 the sectorwise shifts in the pattern of domestic savings in favour of corporations and away from the public sector, together with the rapid increase in the overall liquidity of the economy, changed the bases for the conduct of monetary policy. The increase in corporate gross savings combined with the slackness of investment activity reduced business demand for external financing and led to this sector's traditional financial deficit's disappearing. In consequence, the commercial banks' debt to the Bank of Finland — control over the cost and availability of which has been a cornerstone of monetary policy implementation — decreased. The sharp reduction in the Central Government's revenue surplus resulting from the expansionary fiscal stance led to a substantial increase in this sector's gross borrowing even though net financial investments were cut back. Because of rigidities in the operation of domestic financial markets coupled with a wish to avoid possible "crowding-out" of private investment, almost two-thirds of the State's borrowing requirement was financed abroad. This aspect of debt management added, however, little to the overall liquidity of the economy as the major part of the proceeds was sterilised in the Central Bank.

During the first eight months of 1979 there was a strong build-up in the economy's liquidity base, reflecting essentially the same factors as in the previous

Diagram 10 Sectoral financial balances
Per cent of GDP in current prices



Note: Data prior to 1975 are from the old National Accounts. Concerning definitional changes see Annex II.

¹ Secretariat forecast.

Source: Finnish National Accounts.

year. Net claims of the Bank of Finland on the foreign sector doubled from Mk. 4 billion at end-1978 to some Mk. 8 billion and a marked easing of the commercial banks' position occurred from February, such that for the first time in twenty years they became net creditors vis-à-vis the Central Bank by end-August. Subsequently,

reflecting the unwinding of speculative positions⁴¹, foreign interest rate developments and a deterioration in the foreign trade account, the Bank's net foreign claims dropped to some Mk. 4½ billion by mid-November, while the commercial banks again become net debtors to the Central Bank to the tune of Mk. 3¼ billion. During the first ten months of the year the improvement in the liquidity positions of the Central Government and Postipankki (Post Office Bank) resulted in an increase of Mk. ½ billion in the Central Bank's net liabilities toward the public sector.

Given the reduced dependence of banks on Central Bank credit on the one hand and the increased relative importance of the call money market on the other as a result of the gradual reduction of their quotas, the general rules governing finance from the Central Bank were modified as from mid-year. Access to such finance was restricted⁴² at the same time as banks' entitlement to use the call money market was raised. With a view to controlling the impact of the growing liquidity, the authorities also established a cash reserve system in March 1979, applicable to all deposit-taking institutions⁴³ and certificates of deposit were issued by the Central Bank to absorb that part of the proceeds of State foreign borrowing not immediately required to meet outlays. During the first ten months of the year these two measures, together with capital import deposits made by the Government, neutralised Mk. 2¼ billion. In addition, agreement was reached earlier between the State and the commercial banks for the latter to take responsibility for placing Mk. 1.6 billion of State bonds (or an estimated one-third of the forecast borrowing requirement)⁴⁴ on the domestic market this year. In late September, in conjunction with the revaluation of the Markka, the discount rate was raised from 7¼ to 8½ per cent (effective November 1) and bank deposit and lending rates followed suit.

In spite of these measures and the reacceleration of credit expansion, bank liquidity remained easy up to late summer. The commercial banks' total Central Bank debt continued to fall (by about Mk. 2.4 billion in the eight months to August) and the interest rate paid in the call money market — probably the most sensitive indicator of the banking sector's degree of liquidity — drifted down to a level only about 1-1½ percentage point above the discount rate⁴⁵. Thus, domestic interest rate movements, at least prior to the September revaluation, differed from the pattern of development

41 As already noted, speculation in favour of the Finnish Markka led to heavy short-term capital inflows in the summer, but some unwinding of positions was already evident in August when expectations about a revaluation subsided. After September 21, when a small revaluation actually took place, some further unwinding of residual positions occurred.

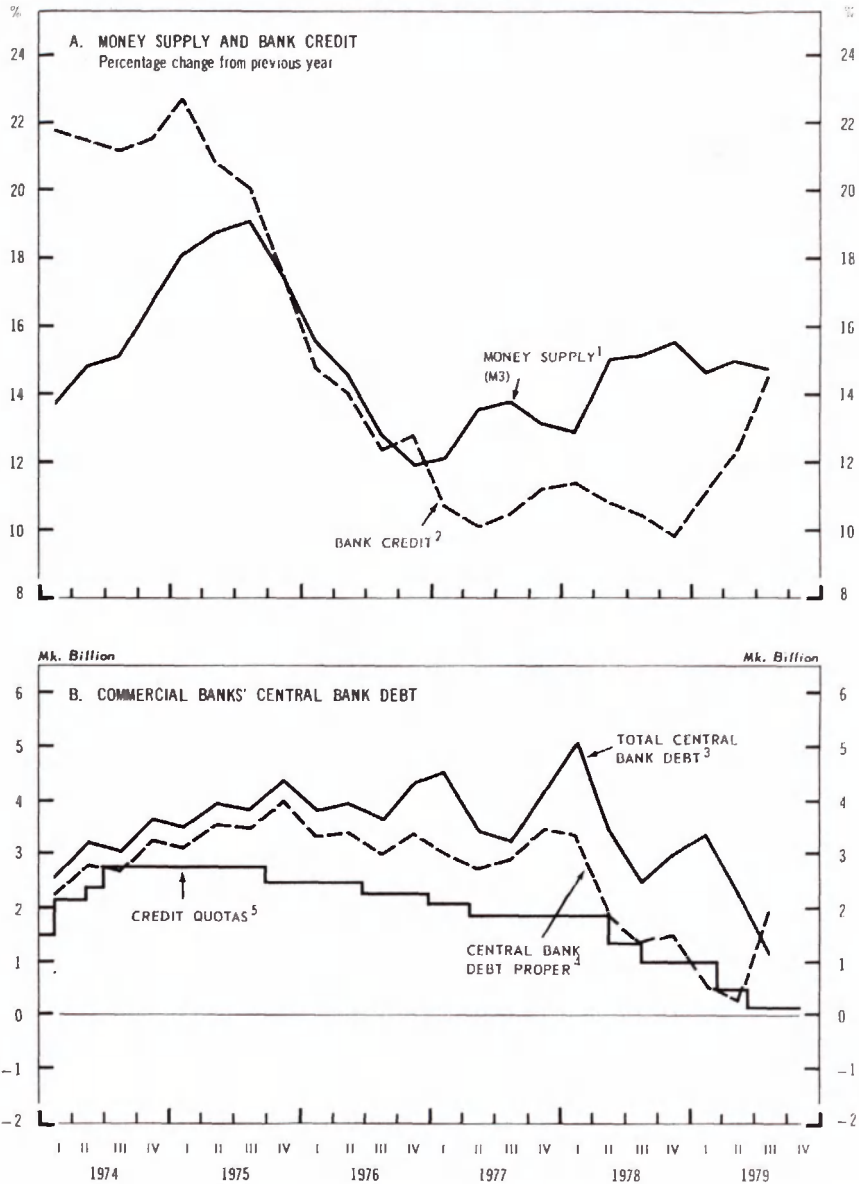
42 Not only were quotas lowered further on 1st July, but banks were no longer permitted to exceed their quotas on average over the month, although daily liquidity needs could be met from this source as long as their borrowing did not exceed 2½ times their individual quotas on any one day. The bond buy-back financing arrangement with the Bank of Finland was, however, retained in case both quota and call money facilities are exhausted and the interest rate on such transactions lowered from 26 to 17.3 per cent.

43 The scheme agreed to between the deposit banks (that is, the commercial and savings banks, the cooperative banks and Postipankki) and the Bank of Finland provided for an initial reserve not exceeding 0.4 per cent of virtually all private sector deposits in Finnish Markka and one-half of deposits denominated in foreign currency in the first month and for subsequent increases in the coefficient not exceeding 0.4 percentage point per month, subject to a ceiling of 5 per cent (the latter implying reserves of about Mk. 2½-3 billion). The actual rate was set at 0.2 per cent in May and has been subsequently raised each month to reach 2.8 per cent by end-November. Interest at a rate ¾ percentage point below the discount rate is paid on the deposits. Cash reserve agreements have been reached on three previous occasions.

44 A similar agreement applied in 1978. The banks are obliged to absorb any shortfall not taken up by the non-bank public by year-end. By mid-August Mk. 1.2 billion had been raised and it is not expected that the banks will have to take up any shortfall in 1979.

45 Indeed, at this time the banks' average lending interest rate exceeded their average cost of total Central Bank credit.

Diagram 11 Monetary Indicators



1 Finnish notes and coin, demand and time deposits held by the public at deposit banks and Bank of Finland.

2 Credit granted to the public by all deposit banks.

3 Equals discounted and rediscounted bills + net cheque account receivables from the commercial banks + call money debt + bond transactions - call money deposits by the commercial banks.

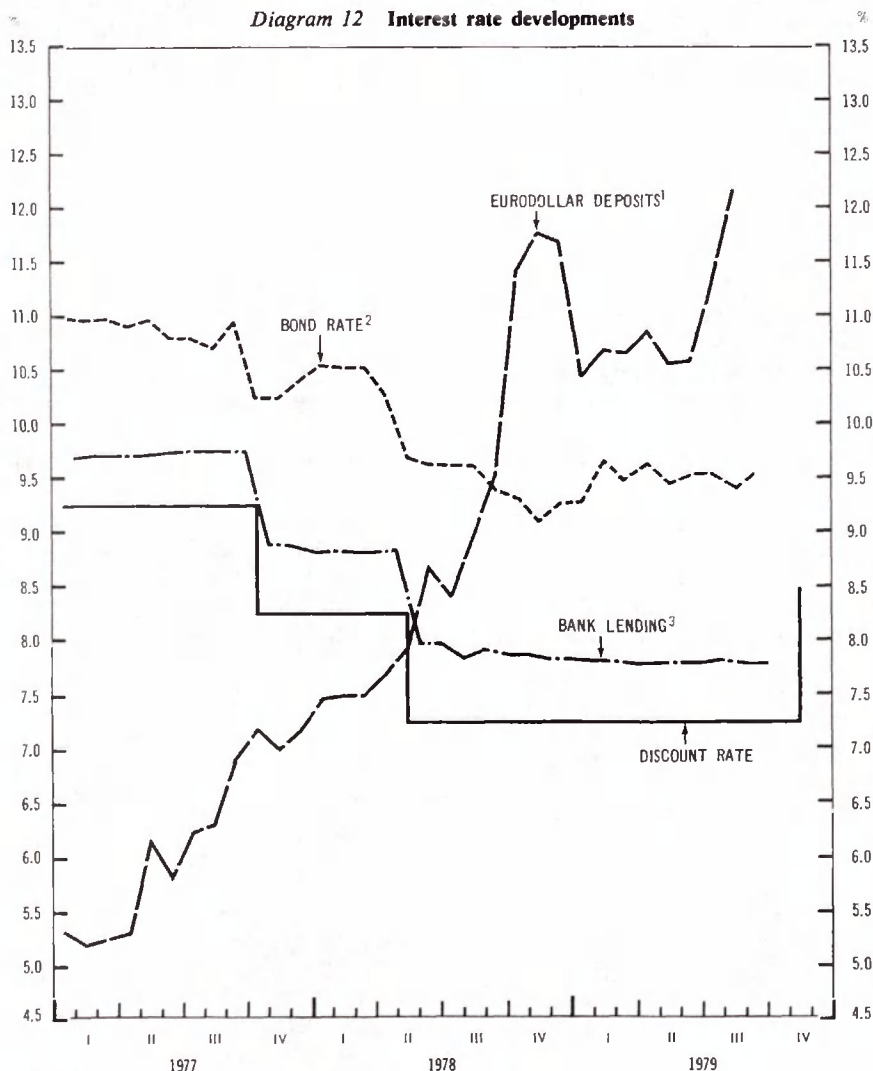
4 Total Central Bank debt - Postipankki's call money market placements.

5 Credit quotas of the commercial banks at the Bank of Finland. Note that banks can exceed their quotas by paying progressively increasing penalty interest rates.

Sources: Bank of Finland and OECD, *Main Economic Indicators*.

abroad. However, as noted above, the commercial banks' debt to the Bank of Finland subsequently rose rapidly and the call money market interest rate shot up to reach close to 13 per cent by mid-November. Bank lending has accelerated from a year-on-year rate of 9.2 per cent in January to 15.4 per cent by October. The major part of this increase appears to have concerned households as the loan categories normally associated with companies have shown only a moderate rise. Also, commercial banks, whose lending is primarily oriented to corporations, have expanded their credits less than other bank categories (by 14.8 per cent at end-October). The growth of the broadly-defined money supply (M3) has been accelerating but the narrowly-defined money stock (M1), while fluctuating within a range of some 9 to 17 per cent during the past year, has shown no clear tendency to accelerate.

Diagram 12 Interest rate developments



1 Three-month Eurodollar deposits (end of month).

2 Yield on long-term Finnish Government Bonds.

3 Average lending rate of Finnish Commercial Banks.

Sources: OECD, *Main Economic Indicators*; Bank of Finland.

Energy policy

As a relatively large consumer of energy heavily dependent on imports, Finland is potentially very vulnerable to sharp increases in international energy prices and to a possible curtailment of supplies. In the event, the impact of the energy crisis on the Finnish economy, and more particularly on the balance of payments, has been in large measure neutralised by two factors — one related to the structure of Finnish exports and the other of institutional nature. In the wake of the first oil price shock in 1973/74, prices of semi-manufactured and chemical product exports rose substantially, so that by the end of 1974 Finland was one of the few OECD countries whose terms of trade were more favourable than at mid-1973. In 1979 Finland has probably not experienced a significant deterioration in the terms of trade thanks once again to booming prices for these products. At the same time the bilateral five-year trading agreements with the Soviet Union, from which Finland obtains about two-thirds of its crude oil supplies, have allowed for an expansion of Finnish exports to balance the effect of the increase in oil prices⁴⁶. This stands in marked contrast to the OECD-area where low absorption by oil-producing countries has resulted in a deflationary impact on GNP.

Although the effect of the energy crisis on the Finnish economy has thus been more limited than might have been at first feared, the country's potential vulnerability still needs to be taken into account in assessing future prospects. For this reason the Government has undertaken studies of the longer-term outlook for energy demand, and earlier this year adopted a comprehensive programme aimed at reducing dependence on foreign sources. The following paragraphs summarise these perspectives and the programme after comparing the energy situation in Finland with that in other OECD countries.

Finland is a relatively large consumer of energy, whether measured in terms of energy demand per head of population or of input requirements per unit of output (GDP)⁴⁷. Although the important forest products industry is relatively energy-intensive, climatic conditions are the main explanation for the relatively high energy consumption. This is reflected in the high share of total demand accounted for by the household sector (33 per cent vs. 24 per cent on average for the 13 other OECD countries for which data are available). Furthermore, Finland's dependence on imports has risen sharply over the years, from about two-fifths of energy supplied in 1960 to three-quarters at present. This is higher than the overall 40 per cent average for the OECD area as a whole or the 63 per cent for OECD countries which are net importers of energy.

46 Finland imported crude oil from six countries in 1978 as follows:

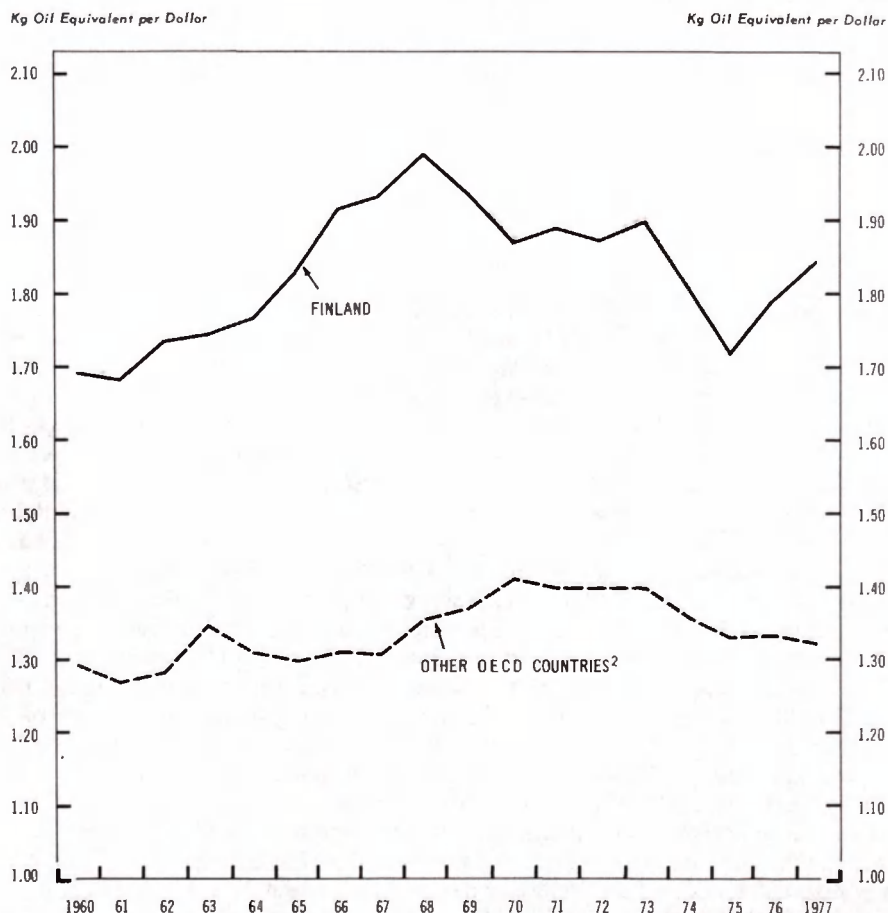
	Per cent
Soviet Union	65.7
Saudi Arabia	15.0
Iran	9.0
U.K.	5.2
Irak	3.6
Norway	1.5
	100.0

Purchases have not been made on the "spot" market. See also footnote 51.

47 In 1977 (the latest year for which data are available) Finland was the fifth highest energy user per head of population (among all OECD countries excluding Luxembourg) and sixth in terms of energy-intensity of output. Among other Nordic countries only Sweden had a higher consumption per capita.

The structure of energy supply, heavily influenced by natural resource endowments, varies of course considerably by country. Finland is obliged to import all hydrocarbons as no domestic sources have been found, and geological structures hold out little hope for the future. Wood has been an important domestic fuel source in the past, although up to recent years the potentially most abundant domestic resource (peat) remained virtually unexploited. Finland's structure of energy supply has changed significantly in the five years to 1978. The share of oil (including petroleum products) in total primary energy requirements has been reduced by around 5 percentage points to 51 per cent, or approximately the same order of magnitude as the

Diagram 13 Energy intensity of output¹



¹ Total energy requirement in kgs of oil equivalent per unit GNP/GDP measured in US dollars at 1970 prices and exchange rates.

² Belgium, France, Germany, Italy, Japan, Netherlands, Norway, Spain, Sweden, United Kingdom and United States.

Sources: Finnish submission to OECD and OECD Secretariat (Combined Energy Staff).

Table 17 Finnish energy balance, 1978
Million metric tons oil equivalent

	Solid fuels	Crude oil, oil products	Natural gas	Nuclear	Hydro-power	Electricity	Total
Domestic production	3.86	—	—	0.78	2.44	—	7.08
Imports	3.67	13.86	0.84	—	—	0.14	18.51
Exports	—	-1.76	—	—	—	-0.02	-1.78
Bunkers	—	-0.26	—	—	—	—	-0.26
Stock changes	0.28	1.10	—	—	—	—	1.38
Total energy requirements	7.81	12.94	0.84	0.78	2.44	0.12	24.93
Electricity	-2.82	-0.84	-0.47	-0.78	-2.44	3.00	-4.35
Manufactured gas	-0.57	-0.01	0.26	—	—	—	-0.32
Petroleum products	—	-0.69	—	—	—	-0.03	-0.72
Energy sector and losses	—	—	—	—	—	-0.20	-0.20
Total final consumption	4.42	11.40	0.63	—	—	2.89	19.34
Industry	2.84	3.17	0.62	—	—	1.72	8.35
Transportation	—	2.72	—	—	—	0.01	2.73
Other	1.58	4.35	0.01	—	—	1.16	7.10
Non-energy use	—	1.16	—	—	—	—	1.16

Source: Finnish submission to OECD.

OECD average. On the other hand, there was an increase of around 3 percentage points in the share of solid fuels to nearly one-third of total supply, which compares with less than one-sixth for the average of OECD country. This reflected largely increased coal imports and to some extent the rapid expansion of peat production as from 1975. Some resort (around 3½ per cent) has also been made to natural gas and nuclear energy, although these two sources combined account for less than 7 per cent compared with more than 20 per cent for the OECD area as a whole. Total gross energy imports were valued at Mk. 7.2 billion in 1978 (22 per cent of total merchandise imports) of which some 60 per cent was crude oil⁴⁸. As some petroleum products are exported, net energy imports amounted to Mk. 6.4 billion.

As in the rest of the OECD area, energy use rose rapidly in Finland during the 1960s and up to the 1973/74 crisis, after which a marked slowdown has been evident. The average increase in consumption amounted to 6.1 per cent a year during 1960-1973 (5.0 per cent for total OECD), but slowed to only 1.1 per cent (0.8 per cent) during 1973-1977. In part, this has reflected more sluggish overall growth of the economy; in addition, the longer-term elasticity of energy demand with respect to GDP declined from 1.17 to 0.74⁴⁹ in response to sharp increases in domestic prices as well as to other measures designed to conserve energy, of which the main element has been fiscal incentives to increase the efficiency of space heating of the housing stock⁵⁰. It is difficult, however, to judge to what extent the elasticity has been affected by autonomous changes in the structure of demand and output. The average import price of crude oil in 1978 was 4½ times its 1972 level, while the retail prices of fuel oils and

48 The other main imports were solid fuels (15 per cent) and petroleum products (17 per cent).

49 The decline in the elasticity has been more marked for the total OECD: from 1.00 to 0.36 between these two periods.

50 Mainly in the form of a 20 per cent subsidy on the cost of equipment installation.

motor spirits last year were 3 and 2½ times their respective 1972 levels⁵¹. Among twelve OECD European countries Finland had, as at end 1978, the cheapest light fuel and second cheapest motor spirit, while both heavy fuel oil and diesel fuel are below the average in the other countries⁵². Nevertheless, since 1972 consumer prices of energy products have increased much faster in Finland than in other OECD countries, as indeed had also been the case in earlier years⁵³. Relative to total consumer price movements, the energy element (fuel, lighting and gasoline) has also been increased faster than in other member countries.

In late 1977 the Ministry of Trade and Industry published a study in which the implications of future economic growth, real energy prices and conservation measures⁵⁴ for energy demand and supply were examined. The study suggested that energy demand could in any case be expected to slow down compared with past experience mainly on account of the existing substantial degree of saturation of consumer demand for space heating, domestic electricity use and fuel for personal transportation. Depending on the assumed growth of output⁵⁵, the elasticity of energy demand with respect to GDP was estimated to decline to between 0.80 and 0.94 during the 1980s. Except for the fastest growth scenario (5 per cent per year) investment requirements would in real terms be less than during the mid-1970s when there had been a considerable need to increase electricity generating and fuel supply capacities. The demand for crude oil would rise to between 15.3 and 18.9 million tons but its share of total energy supply would fall to between 46 and 49 per cent (for the 5 and 2 per cent growth scenarios respectively) compared with 51 per cent in 1978. In the case of faster economic growth, the bulk of increased energy demand would be for electricity and it is assumed that this would be largely met by an expansion of nuclear capacity.

Should the rise in the price of imported crude oil be such that by 1990 its real price (relative to the consumer price index) reached 1½ times its 1977 level⁵⁶, implying an average annual rise of 3.2 per cent, total energy demand would decline by about ½ per cent a year, or by about 5 per cent over the whole period. The main impact would fall on household demand for heating and other domestic needs⁵⁷. A programme to promote both more efficient use of energy and the exploitation of indigenous sources,

51 Excluding taxes, price levels were between 3 and 3½ times their respective 1972 averages. The share of taxes in the retail price has declined. There is a difference in cost between petroleum products refined domestically by Neste (the State-owned oil company) on the one hand and those imported from the Soviet Union. Prices of the latter are determined by Rotterdam spot quotations. An Import Trade Fund has been established to equalise retail prices of products from these two sources, which this year has entailed subsidising the imported products partly from the State budget.

52 The other countries were Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland and the U.K.

53 Between 1972 and 1978 energy retail prices increased by an average of 16.1 per cent per year compared with 13.5 per cent for the consumer price index and 12.5 per cent on average for a selection of other OECD countries. Between 1960 and 1972 the increases amounted to 5.7 and 2.2 per cent respectively (the last-mentioned figure covers, however, only 9 other countries for which data are available).

54 *Energiatalouden Kehitysnäkymät 1980-luvulla*, Helsinki, 1977. Similarly to the energy programme discussed below, this study covers the period to 1990. A subsequent investigation has examined prospects to the year 2000.

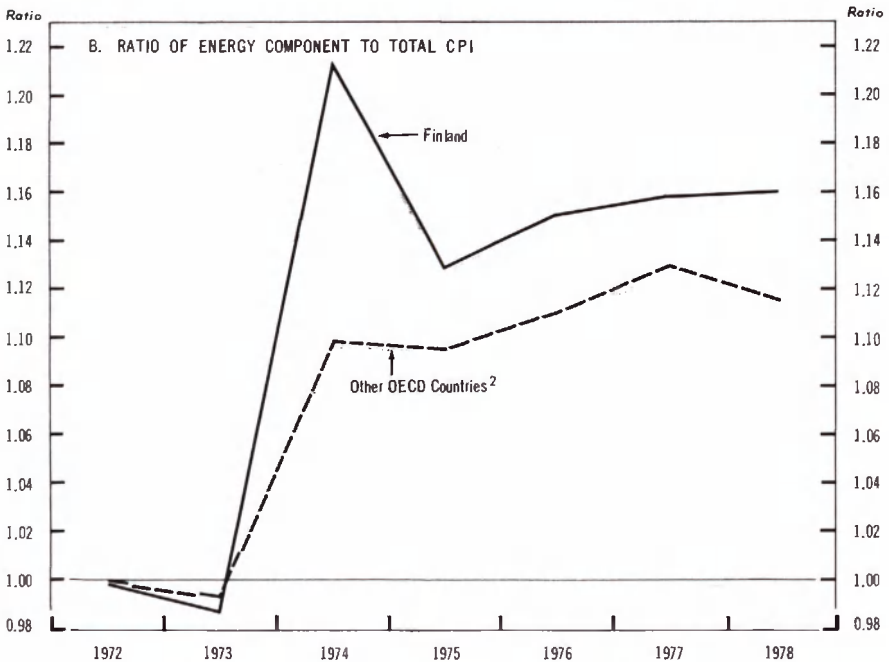
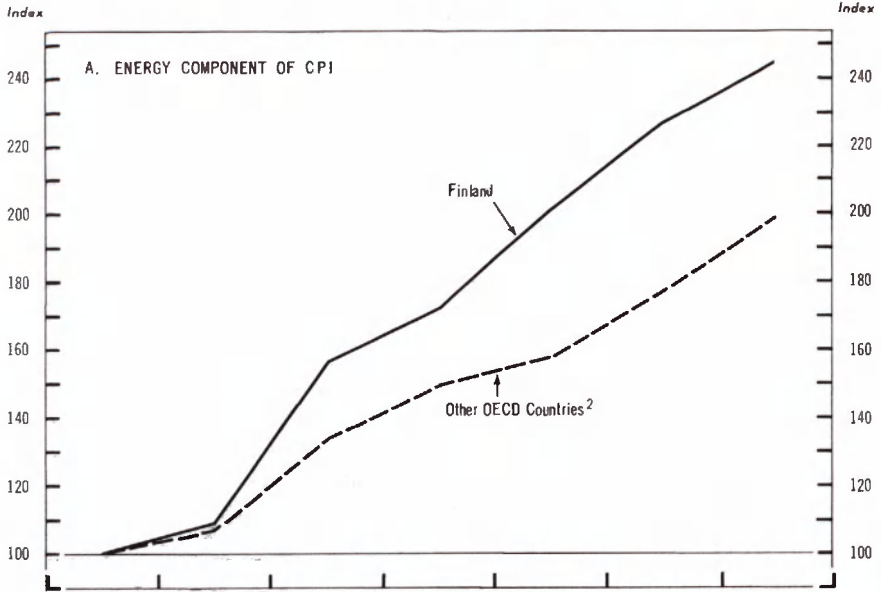
55 Four alternative growth scenarios were studied assuming annual average GDP growth rates of 2, 3, 4 and 5 per cent.

56 Approximately similar increases were assumed for other types of energy imports except for nuclear fuel for which in all scenarios a doubling of the real price is assumed.

57 Sectoral elasticities used, which seem, however, to have been largely based on foreign studies, were:

Industry	-0.15
Transportation	-0.10 to -0.30
Household heating and electricity	-0.30
Other	-0.30

Diagram 14 Energy consumer prices¹
1972 = 100



1 Covers fuel, light and gasoline except for Austria, Ireland, Luxembourg, New Zealand, Norway and Sweden (fuel and light only).

2 Simple average for Australia, Austria, Canada, Denmark, Germany, France, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom and United States.

Source: Secretariat estimates.

and costing about Mk. 6 billion in supplementary investments (in 1977 prices)⁵⁸ could reduce the growth rate of energy demand by about 1 percentage point a year. The degree of self-sufficiency could, however, only be raised by about 3 percentage points to one-quarter of total supplies. Such a programme would make a substantial contribution to reducing dependence on oil, demand for which could be cut by around one-fifth by 1990 compared to what it would have been otherwise. Largely on account of a significantly reduced need for extra power-generating capacity, the net addition to investment outlays required by such a programme would only amount to Mk. 0.2 billion during the 1980s (assuming a 4 per cent GDP growth rate).

In March this year the Finnish government adopted a long-term energy programme basically aimed at ensuring adequate energy supplies consistent with the economy's growth aims⁵⁹.

The programme centres around two objectives:

- a) Energy conservation to ensure that the growth rate of energy demand is maintained below the real GDP growth rate.
- b) Increased exploitation of indigenous energy supplies — specifically of wood and peat which, though competitive on a purely energy-equivalent basis, would require considerable new investment to convert present capital installations to their use⁶⁰.

At the same time the pattern of energy imports is to be modified to raise the shares of oil covered by bilateral agreements and of coal. Natural gas imports are to be increased to the ceiling provided for under present (bilateral) trade agreements. Under the terms of the 5-year trade agreement recently signed with the Soviet Union, Finland is to import between 7 and 8 million tons of crude oil and 1.4 billion cubic metres of natural gas per year during the period 1981-85.

The readily identifiable cost to the exchequer of the programme is put at about Mk. 200 million in 1979 (about ½ per cent of total budget expenditure) rising to about Mk. 300 million (at 1979 prices) by 1982⁶¹. By far the greatest emphasis (as measured in terms of budget cost) is placed on the conservation objective. Expansion of the present programme of grants for improving the efficiency of heating buildings is estimated to absorb some two-thirds of total outlays⁶². Grants to local governments and corporations to promote the use and production of domestic energy supplies would account for almost one-sixth of expenditure, while a doubling of outlays on research would absorb the bulk of remaining appropriations. Interest on loans for financing equipment suitable for exploiting indigenous energy is to be subsidised. In addition to the above-mentioned measures, pricing and tariff policies as well as the use of employment funds are to be designed with a view to promoting the programme's twin objectives. Accordingly, the incidence of energy taxation is to be placed on primary (rather than secondary) energy and applied to imports only. As regards pricing final products, domestic prices should reflect import cost movements, while energy tariffs

58 This represents about one-quarter of the value of non-residential gross fixed asset formation in 1977.

59 *The Finnish Energy Policy Programme*, Helsinki, 1979.

60 The other main indigenous energy forms are hydroelectricity and uranium. The programme assumes, however, no expansion of these sources. In the case of nuclear energy, decisions as to the construction of power plants is to be made on an ad hoc basis; the programme assumes, however, no further stations after the remaining two of the present planned four stations come into operation in 1980.

61 This estimate covers only direct expenditure specifically earmarked for the energy programme. Outlays under other programmes which may also have implications for energy-saving as well as eventual revenue shortfalls due to tax concessions are not included.

62 After 1982 it is intended to go over to loans rather than grants for a good deal of this expenditure.

are to be designed so that large-scale consumption should not be encouraged. Consideration is to be given to according tax concessions to encourage the use of domestic fuels.

Implementation of the programme is estimated to reduce energy usage from a forecast 32 million metric tons oil equivalent (MTOE) in 1990 (assuming a 3 per cent GDP growth rate) to about 30 MTOE — implying a cut in the elasticity of energy demand with respect to output from 0.87 to 0.70 on average over the period. An interesting feature emerging from the programme is the limited scope, essentially for technical reasons, for substitution between different energy forms. It would be extremely difficult to raise the share of indigenous sources from the present 28 per cent to more than 34-40 per cent by 1990. Without special measures, the domestic share would fall to about 25 per cent; thus implementation of the programme will raise the share by 10 percentage points or so⁶³. The main scope for expanding domestic fuel usage is in district heating systems, although in absolute terms industry would make most use of such resources.

It is extremely difficult to establish a "balance sheet" for the programme, but clearly it envisages that reduced reliance on imported energy will, at least in a narrower, short-term sense, raise the cost of energy. In other words, a cost attaches to enhancing the security of supplies. In overall macroeconomic terms, increased resources will need to be directed toward energy investments — perhaps of the order of Mk. 1 billion (1979 prices) per year of which about one-third would be imported equipment. Against this there would be an overall "saving" of about 2 MTOE in fuel

Table 18 Structure of primary energy consumption
Per cent¹

	1960	1973	1978	1990 ¹	
				(a)	(b)
Oil	22.7	56.1	50.5	50	34-40
Natural gas	—	—	3.5		
Coal	17.6	8.5	14.6	9	10
Nuclear power	—	—	3.2	13	13
Electricity net imports	1.0	4.7	1.3	3	3
Imports	41.4	69.3	73.2	75	60-66
Hydropower	12.4	11.4	10.1	9	10
Peat	—	0.2	1.2	3	7-10
Wood	30.5	8.0	6.2	13	17-20
Other domestic	15.7	11.1	9.3		
Domestic sources	58.6	30.7	26.8	25	34-40
Total	100.0	100.0	100.0	100	100

1 Based on estimates of tons oil equivalent.

2 Forecast assuming average annual 3.0 per cent GDP growth rate and:

a) no intensification of energy saving measures.

b) pursuit of energy programme adopted in March, 1979.

Source: Ministry of Trade and Industry, *Energy Statistics, 1978* and *The Finnish Energy Policy Programme, Helsinki, 1979*.

63 It will be noted that these figures differ from those quoted in the energy-saving scenario on page 47 above. Firstly, the total energy use forecast for 1990, assuming 3 per cent average annual GDP growth and no extra measures, has been reduced from 33.2 to 32 MTOE. Secondly, the earlier publication examined the implications of savings measures only under the 4 per cent GDP growth rate scenario (which it was estimated would raise total usage to 36.7 MTOE without special measures) whereas the programme is based on an assumed 3 per cent growth rate. Nevertheless, even making allowance for these differences, the programme appears to envisage a significantly greater scope for substitution between imported and domestic sources than did the earlier study.

consumption and of 4-6 MTOE per year in fuel imports by 1990. Such estimates must of course remain highly tentative, depending *inter alia* on actual developments in respect to, for example, total output and relative prices.

IV SHORT-TERM PROSPECTS AND POLICY CONCLUSIONS

Policy assumptions and the external environment

On the basis of policy measures so far announced, both policy stance and the external environment in 1980 are likely to be less favourable to continued expansion of economic activity than in 1979. Compared with the 1979 estimated out-turn, the 1980 State budget proposal envisages an increase of 9.8 per cent in outlays (excluding financial transactions) and 10.8 in revenue (excluding borrowing), implying a deficit of Mk. 2.0 billion, slightly less than estimated in 1979⁶⁴. But with an expected substantial increase in debt servicing, the gross borrowing requirement is estimated to amount to Mk. 5.9 billion, an increase of about Mk. 1 billion. Tax scales are to be adjusted again for the anticipated inflation rate in 1979 (7½ per cent). Exemption of industrial investment in buildings from turnover tax is to be continued, while expenditure on machinery and equipment will be liable to two-thirds (compared with one-half at present) of the normal tax rate and employers' contributions to child endowment are to be suspended in 1980. On the other hand, certain indirect tax rates and public charges are to be raised, the most important being an increase in the excise tax on fuel. On balance, discretionary measures are estimated to reduce cash receipts by Mk. 1 billion, or by some 2¼ per cent, in 1980.

On the expenditure side, employment support programmes are to be maintained at a high level and energy-policy related outlays strongly expanded. Local governments' overall surplus (net lending) is expected to rise slightly, but the social security funds' saving should decline by an approximately matching amount. The net lending of general government (national accounts basis) is forecast to rise from 1 per cent of GDP in 1979 to 2 per cent in 1980. And according to estimates of the Ministry of Finance, the demand impact of overall public sector operations will swing over from being expansionary this year to contractionary in 1980⁶⁵. This change can be attributed entirely to a substantial tightening in the effect of State operations. Full-employment budget balance estimates also indicate a shift to a more restrictive stance. However, since the presentation of the budget proposals for 1980 it has been decided to postpone Mk. 380 million of central government expenditure from 1979 to 1980, which will slightly affect the above-mentioned results.

Prospects for the external environment are very uncertain. The expansion of Western markets is presently forecast to slow down from an estimated 8 per cent in 1979 to about 5½ per cent. In terms of individual products, the outlook is even more uncertain, given *inter alia* the importance of inventory cycles for a large part of the basic industries and the likely increased competition from North American wood product suppliers in Finland's traditional West European markets. As 1980 is the last year of the current five-year trade agreement with the Soviet Union, the scope for expanding exports to that market would normally be limited. However, the recent sharp

64 Compared with the 1979 initial proposals, the 1980 expenditure and revenue increases amount to 12.3 and 11.9 per cent respectively.

65 As can be seen from Table 16, from a positive impact equivalent to 0.6 per cent of GDP in 1979 to a negative one equal to 0.9 per cent in 1980.

oil price increases may well lead to an increased volume of orders to achieve better balance in the bilateral trading account, thus favourably affecting production. Also, some deliveries scheduled under the 1981-1985 five year agreement may take place in 1980.

Short-term outlook

The prospects are thus for a significant slowdown in the expansion of activity in the course of 1980 largely reflecting weaker external demand, the deflationary impact of the expected terms of trade deterioration and the less expansionary policy stance. Year-on-year, real GDP may nevertheless expand by approximately 4½ per cent, or one of the highest rates in the OECD area. The labour market situation may still improve at least up to mid-year, but inflationary pressures are likely to mount, as a result both of rapidly rising foreign trade prices and an acceleration in the growth of unit labour costs. The current external balance is also projected to shift to a deficit as a result of the deterioration in the terms of trade and the cyclical position of Finland in relation to its main trading partners.

Considerable uncertainty attaches to the outlook for wages and prices, especially in view of the forthcoming wage negotiations. The Secretariat's assumptions imply a slowing down in the growth of real disposable income to around 3¾ per cent on average in 1980. There should still be some backlog of demand for durables but the savings ratio is unlikely to change significantly, since the favourable impact of the improved employment situation on consumers' confidence may be offset by households' efforts to maintain the real value of their financial assets in a period of accelerating price increases. Thus, the volume growth of consumer outlays is forecast to slow down approximately in line with real incomes.

Table 19 Short-term forecasts

	1978 Mk. billion	Percentage volume changes		
		1978	1979 ¹	1980 ¹
Private consumption	77.6	1.2	5.0	3.5
Government consumption	26.4	5.0	3.7	3.5
Gross fixed investment	32.5	-9.2	5.4	4.6
Final domestic demand	136.6	-0.9	4.9	3.8
Stockbuilding ²	-3.9	-0.9	3.3	1.7
Total domestic demand	132.7	-1.8	8.6	5.6
Exports of goods and services	42.9	8.0	10.0	4.0
Imports of goods and services	37.3	-3.5	15.8	8.0
Statistical discrepancy ²	1.2	-0.2	0.0	0.0
Gross domestic product	139.5	1.4	7.2	4.4
<i>Memorandum items:</i>				
Gross fixed investment				
Private	27.9	-11.1	6.5	5.2
Government ³	4.6	2.2	-0.6	0.9
Consumer prices ⁴		7.8	7.5	9.9
Household real disposable income		2.8	5.5	3.8
Savings ratio ⁵		7.4	7.9	8.1
Current account (US \$ million)		609	100	-700

1 Secretariat estimates and forecasts.

2 Percentage point contribution to GDP growth rate.

3 Excluding public enterprises.

4 Consumer price index.

5 Households' saving as per cent of disposable income.

Sources: Finnish National Accounts statistics and Secretariat forecasts.

The recent improvement in profits and rates of manufacturing capacity utilisation as well as the buoyancy of order inflows point to continued strength in private non-residential fixed investment in coming months. The latest survey of the Confederation of Finnish Industries also suggests that the business sector will increase its investment outlays next year. On the other hand, as noted earlier, the average rate of capacity utilisation remains short of typical boom levels in the past and order books are judged as being below normal by about one-fifth of industrial companies. On balance, since investment is traditionally lagging behind the general business cycle, the volume of private non-residential investment is forecast to continue to expand significantly in the first half of 1980 but then to stagnate or even fall slightly in the second half. As noted, the turnover tax concessions for certain investment outlays are being maintained in 1980, though at a slightly lower level for expenditure on machinery and equipment. Furthermore, the effect on investment plans of the recent increase in interest rates may be dampened because conditions of existing bank loans are subject to revision in line with current movements in interest rates in Finland. In spite of a small further decline in the number of completions, residential investment may remain flat as State support continues to put emphasis on renovation work consistent with long-term energy policy⁶⁶. Overall private gross fixed investment may grow by around 5 per cent in 1980.

Under these conditions the real growth of private final domestic demand would decelerate on average to 4 per cent in 1980. According to official forecasts presented with the 1980 budget proposal, the volume of general government final expenditure should again increase by about 3 per cent as in 1979. Local government investment should be somewhat more buoyant than this year following the strengthening of local authorities' finances in 1979, but central government real capital outlays should fall slightly. With stockbuilding probably exerting a much smaller contributions to the growth of real GDP than in 1979, total domestic demand is forecast to rise by around 5½ per cent in 1980; this estimate implies, however, a significant deceleration in the course of the year to an annual rate of approximately 2 per cent in the second half.

As noted, the growth of Western markets should decelerate significantly next year but the special conditions attaching to bilateral trade with the Soviet Union could allow for an expansion of shipments to that market. Furthermore, it is expected that operations of the State-owned refining company, Neste, will contribute appreciably to the overall growth rate of exports⁶⁷. Although the international competitiveness of Finnish industry may not deteriorate significantly, loss of market shares are anticipated for wood-based products as a result of increased competition in European markets and of capacity shortages in certain branches of Finland's forest industries. In all, exports of goods and services on a national accounts basis are thus forecast to grow by around 4 per cent in volume in 1980 (5 per cent for merchandise alone). With total demand expansion decelerating to around 5 per cent, import volume growth is also projected to slow down all the more since the composition of demand will not be as import-intensive as in 1979. Demand for imported consumer durables may weaken substantially, but that for machinery and equipment may remain more buoyant at least in the first half of the year. For the year as a whole imports of goods and services may still expand by around 8 per cent in volume implying a negative contribution of the real external balance to the growth of GDP of around 1 per cent.

66 The volume of State housing loans (deflated by the cost of construction) is forecast to fall by close on 10 per cent, whereas the number of dwellings to attract subsidies for renovation work is forecast to rise significantly in 1980. See also page 9 above.

67 Under the terms of a recent agreement, Neste will refine oil products for Sweden. At the same time it will be substantially increasing exports from its own production.

Industrial production should rise somewhat faster than total output but follow a similar timepath. The metal industry is forecast to benefit from the domestic investment cycle as well as the assumed expansion of exports to the Soviet Union. The construction industry is, however, expected to remain rather depressed. The improvement in the labour market should thus continue at least up to mid-year with employment rising and the unemployment rate declining further. However, considerable differences are likely to persist between various sectors. In certain parts of manufacturing the shortages of skilled manpower have already appeared and are likely to be aggravated. Employment-support programmes are estimated to absorb some 97 thousand persons.

Together with the foreign trade picture, the greatest uncertainty attaches to the outlook for prices and incomes as the present centralised agreement expires at the end of February, 1980. Even with a moderate settlement there is a danger that wage drift stemming from compensatory claims in those industries where profits have recently recovered significantly could spill over to other sectors. With external inflationary impulses not expected to ease significantly if at all, the pressures on prices that have become evident recently at the producer and wholesaler levels are likely to be maintained. Even if profit margins came under some strain, given the less buoyant domestic demand conditions, the pressure on consumer prices may strengthen⁶⁸.

With the terms of trade expected to deteriorate by 2½ percentage points⁶⁹ the current balance of payments is projected to shift to a deficit of the tune of \$700 million or Mk. 2.8 billion. This would be consistent with a virtual elimination of the trade surplus and a further deterioration in the balance of net invisibles, reflecting heavier debt servicing commitments. Needless to say, these projections depend crucially on the assumptions made with regard to oil prices. In the present forecast, the Secretariat has assumed that the price of oil next year will rise in line with the world prices of manufactures. Allowing for recently announced increases by certain oil producing countries this would imply a year-on-year increase of OECD oil import prices of 31½ per cent in dollar terms.

Policy conclusions

The last 12 months have seen a marked improvement in economic performance with output rising faster than in any other OECD country and unemployment being substantially reduced. Despite the sharp increase in oil prices, cost and balance of payments developments have so far remained relatively favourable; and although the Markka has appreciated slightly in effective terms, international competitiveness has

68 Increases in various indirect taxes and State charges are estimated to raise consumer prices by 1 percentage point.

69 Balance of payments assumptions:

	Percentage change from previous year		
	1978	1979	1980
Volume (customs basis)			
Merchandise			
Exports	7¼	9¼	5
Imports	-5	19¼	8½
Prices (unit values)			
Exports	6	14	8½
Imports	11	13¼	11
Oil prices (in \$)	1¼	34	31½
Trade balance (fob basis, \$ billion)	1.2	0.9	0.2
Current balance	0.6	0.1	-0.7

been somewhat further improved. The foundations for the good performance in 1979 had been laid in earlier years when the large internal and external imbalances inherited from the 1973-1974 boom were progressively corrected.

This successful adjustment process was undoubtedly related to the strategy followed by the authorities and by its large degree of social acceptance, but specific factors have also played a role.

- a) As in some other Nordic countries, the improvement in international competitiveness owes much to exchange rate adjustments effected in 1977-1978 and to the favourable post-devaluation development of costs and prices. Tax concessions offered by the Government in return for wage and price restraint has been a key element. The reduction in social security charges contributed to limiting the rise in costs, and the moderation shown by the unions was an important factor.
- b) The dampening of costs was also helped by a good productivity performance in industry. The major part of the labour force that was hoarded at the beginning of the recession was gradually released in the following years. It was not until 1979 when activities rebounded sharply that employment rose again significantly. The social cost of this policy was cushioned by specific labour market schemes providing *inter alia* for expansion of employment in public services and projects.
- c) Due to the regional and commodity composition of its exports, Finland has probably benefited more than most other Member countries from the revival of foreign trade in 1979 in the wake of the concerted action programme adopted by OECD Ministers last year and the upturn in the world stock cycle. And in marked contrast to the OECD area, domestic demand expansion was not hampered by unfavourable developments in the terms of trade.

Prospects for 1980 are inevitably less bright given the country's sensitivity to international developments, the marked slowdown of activity forecast for the OECD area, and the uncertainties arising from recent developments in the world oil market. Although real GDP growth may remain among the highest in the area (around 4½ per cent), with beneficial implications for the labour market, a sharp deceleration is nevertheless expected during the year. Reflecting the relatively high level of domestic activity and a foreseeable deterioration of the terms of trade, the current balance may move into a deficit of the order of \$700 million, or 1½ per cent of GDP. A deficit of this order would seem acceptable in view of the large deterioration foreseen for the OECD area and of the forecast relative cyclical position of Finland. But any additional weakening of the current account due to a loss of international competitiveness would be clearly cause for concern. In view of the sluggish trend of real wages in earlier years and the recent marked recovery of profits in the export industries, there is indeed a clear risk of acceleration in wage increases through either negotiated agreements within the framework of the wage and salary settlements due in early 1980, or higher wagedrift.

In these circumstances it must be a major objective of policy to avoid a repetition of the pattern typical of previous cycles. The structure of Finnish exports — heavily weighted by raw materials and semi-manufactures (notably wood, pulp and paper) for which prices fluctuate strongly — complicates the task of stabilisation policy. Experience clearly suggests that it is in nobody's real interest that the sharp rise in profits in these industries should lead to large and generalised increases in wages and other costs. Profits in the forest industry and some other manufacturing branches fluctuate sharply in the short run and must therefore be assessed over the whole business cycle. A strong increase in domestic costs next year — following the pattern of previous

cycles — at a time when world trade is weakening, would lead to loss of competitiveness and subsequently to a large external deficit, which would call for very restrictive demand management and a slow and difficult process of adjustment. Preventive action to avoid loss of price competitiveness, including moderate demand restraint, is clearly preferable.

In view of these considerations and given the recent emergence of pressure on wholesale and producer prices, a tightening of fiscal policy, such as implied by the 1980 budget, would seem to be needed. The decision to postpone a small amount of public expenditure from the 1979 budget into the second half of 1980 and more generally to concentrate public investment outlays under the 1980 budget in the second half of the year would seem particularly appropriate. Despite some tightening of stance and an increase of interest rates, monetary policy has remained by and large accommodating. But the rapid build up in the economy's liquidity base during most of 1979 may warrant a shift towards a more restrictive posture and a further rise in interest rates could become necessary on both internal and external grounds, especially if the rate of inflation were to accelerate. In this context introduction in 1979 of a cash reserve system and changes made by the Bank of Finland to institutional arrangements covering banks' access to Central Bank borrowing should facilitate the control of monetary variables.

Some restraint in demand management will clearly be required in 1980, but the need for further restriction can only be avoided if moderation in wage and other income settlements prevails. The outcome of the forthcoming negotiations to replace the centralised agreement which expires in February 1980 will assume particular importance. On earlier occasions, fiscal concessions were granted to influence income settlements and price developments and a similar combination of fiscal and income policy measures may again be considered. Experience has shown, however, that fiscal policy may tend to become too expansionary when wage drift is putting additional pressure on prices. Great prudence would, therefore, seem to be called for in deciding further tax concessions over and above those provided for in the budget proposal. These must remain compatible with an appropriate overall stance of fiscal policy, whose role as a counter-cyclical instrument should be preserved. Even with a moderate centralised agreement, the problem of wage-drift and the development of other incomes would remain. Activation of the various countercyclical schemes designed to dampen the export, profit and wage cycles typical in the past, could be useful from a medium-term point of view but, except possibly for the Investment Reserves system, may not be of great help in the circumstances likely to prevail in 1980. The degree of public understanding of the inevitable real income losses stemming from the oil price rise and of the need for moderate income settlements will, therefore, be of decisive importance.

In the somewhat longer run ensuring the viability and international competitiveness of Finnish industry will remain an overriding objective for policy. Even with the help of the recently adopted long-term programme designed to reduce overall energy usage and to substitute where possible domestic sources, Finland will continue to be heavily dependent on imported fuel. If total output growth is to be sufficiently strong to allow a further improvement of the labour market situation, export volumes will have to expand relatively fast in the next few years, but this will be more difficult to achieve than in the past given the expected slower growth of world trade. Maintenance of close control on domestic costs and prices constitutes a fundamental precondition for the realisation of this objective. But apart from the need to avoid a price-cost spiral, Finland will be faced in coming years — like most Member countries — with problems of distribution of the real national income. The official objective of stabilising the share of total taxes in national income is essentially based on the forecast of a slower increase of public investment because basic needs in this area have

been largely satisfied. It would be prudent to implement tax adjustments only if and when the forecasts for public investments are confirmed, although short-term counter-cyclical variations of the budget balance should naturally be accepted. With given household average saving ratios, some reductions of the share of available resources pre-empted by the public sector will allow a relatively high rate of investment by private enterprises. It is true that the share of private non-residential investment in GDP was exceptionally high a few years ago. But a relatively high rate of investment, and adequate profits, will most probably be required in the coming years. Apart from the specific investments of the long-term energy programme, the required diversification of production and exports — where important progress has already been made — and the need to increase productivity as well as to promote employment and regional policy objectives will probably imply heavy investment expenditures in the future.

NOTE

The short-term forecasts for the Finnish economy presented in this Survey were established in November 1979. They were based on the projections for the OECD area in 1980 published in the *OECD Economic Outlook* No. 26 of December 1979 which made the technical assumption of an unchanged price of oil in real terms. The subsequent large increases in world oil prices should lead to higher inflation, lower growth of real GDP and a deterioration of the current external account in 1980 — both through their direct impact and through their effects on real demand and inflation among Finland's trading partners. Increased exports to Eastern countries are unlikely, in the short term, to offset slower export growth to Western markets and weaken domestic demand to any substantial degree. Precise revisions to the forecasts included in this Survey are not yet possible. A broad idea of the mechanical effects of an increase of oil prices on the OECD area (but not on individual Member countries) is given by the simulations published on pages 22 and 23 of *Economic Outlook* No. 26

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ANNEXES

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Annex I

CALENDAR OF MAIN ECONOMIC EVENTS

1978

17th October

Commercial banks' access to call money market increased from 300 to 500 per cent of their Central Bank credit quotas.

26th October

Regulations concerning export guarantees ("C guarantees"), covering risks arising from increases in domestic cost level, revised; bases for assessing guarantee premium procedure introduced.

27th October

Third supplementary budget approved. Expenditure (Mk. 174 million) attributable to August 1978 measures. Borrowing authority increased by Mk. ¼ billion to Mk. 6 billion.

Government proposes several changes in business taxation, especially to benefit small and medium-sized firms: for example, new form of reserve, based on wage bill, proposed.

Exemption of industrial buildings from sales tax proposed to be extended to buildings started not later than end-June 1979 (see *OECD Survey of Finland*, 1979, page 48).

31st October

Bank of Finland reduces scope of cash payment scheme for imports to cover 18 per cent of value of commodity imports.

16th November

Use of Investment Funds from profits relating to accounting periods ending 1975-1977 permitted to end-1979 (see *OECD Survey of Finland*, 1979, page 47).

17th November

Law concerning inflation control whereby Government empowered to reduce or totally abolish customs duties, import levies and certain excise duties, extended by two years to end-1980.

7th December

Unemployment fund benefits increased by 6 per cent.

15th December

Cost of industrial buildings begun between 1st October 1978 and end-June 1979 and completed by end-September 1980 as well as cost of new manufacturing machinery and equipment acquired (or agreed to be acquired) between 1st October 1978 and end-September 1980, to be tax deductible in year construction work started or the machinery and equipment ordered, during taxation years 1978-1982. In addition, acquisition costs not applied to this special allowance to be totally deductible in one year and not tied to annual maximum depreciation allowance stipulated in taxation legislation.

22nd December

Fourth supplementary budget approved. Expenditure (Mk. 1,142 million) mainly to cover extra commitments due to inflation. Sales tax concessions for new industrial buildings extended (beginning from 1st November 1978) to apply to buildings started by end-June 1979 at latest.

28th December

Structure of business income taxation, particularly for small and medium-sized enterprises, revised as from 1979. Stipulations concerning operating reserves, based on wages and salaries paid, designed to

improve labour-intensive enterprises' capability of building reserves; maximum taxable income of joint-stock companies subject to reduced tax scales raised from Mk. 10,000 to Mk. 50,000; maximum deduction for dividend receipts by private persons for State income taxation purposes raised from Mk. 1,000 to Mk. 1,500.

1979

1st January

Employer pension contribution rates raised to 11.7 per cent, from 10.0 per cent for long-term employees and from 11.0 per cent for short-term employees.

Minimum hire purchase down-payment for new passenger cars reduced to 40-50 per cent (from 40-60 per cent) and maximum repayment period increased to 18-24 months (from 9-18 months).

Investment Fund law replaced by Investment Reserves law covering all individuals and corporations engaged in business and liable to tax. Maximum permissible transfers to Investment Reserves, which are deductible from both State and local government income tax, normally 50 per cent of book profit, but Government may raise this to maximum 80 per cent. Half of amounts transferred to be deposited at Bank of Finland in blocked account. Investment Reserves to be more freely disposable than previous Investment Funds and are to give entitlement to extra investment deduction for taxation purposes.

9th January

Central organisations of employers and unions sign thirteen-month incomes agreement, the main provisions of which are:

- i) 1st February 1979 — general wage increase of 2 ¼ per cent (in industry 30 pennies/hour plus ½ per cent, latter to be distributed according to agreement between labour market parties at union level) and shift-work allowances increased. These increases are in addition to 1 per cent rise scheduled under modified provisions of preceding agreement.
- ii) 1st March 1980 — 1 ½ per cent earnings guarantee increase. Payment to industry, however, in form of 17 penni/hour increase from 1st December 1979.
- iii) Should consumer price index exceed 233 (1972 = 100) by October 1979, compensation to be paid in form of special wage increase from 1st December 1979. If excess greater than 1 per cent wage rates to be adjusted to compensate fully for the excess, otherwise flat-rate compensation of 17 penni/hour to be paid.

In conjunction with the agreement, organisations representing business and industry should urge member firms to exercise restraint in pricing and dividend payments as well as to increase investment. At same time Government proposes policy package (estimated to cost gross Mk. 2 billion, of which Mk. 1.6 billion applicable to 1979) including:

- i) Reduction of 1 per cent in withholding tax scales applied to personal income as from 1st February 1979 (estimated to reduce general government cash revenue — but not final tax liabilities — by Mk. 0.2 billion).
- ii) Reduction in employers' social security contribution rate by ½ percentage points from 1st February (estimated cost Mk. 0.9 billion in 1979).
- iii) Other concessions to households include:
 - a) extension of ¼ percentage point reduction in old-age pension contribution rate to end-1979,
 - b) reduction by ½ percentage point in insured persons' health insurance contribution rate extended from end-1979 to end-February 1980,
 - c) unemployment benefits to be raised by 7 ½ per cent for family people,
 - d) child endowment benefits to be raised by average 10 per cent from 1st October 1979,
 - e) graduated reduction in seniority qualifications for fifth annual week of holidays,
 - f) taxation of forestry to be reduced.
- iv) Increased expenditure on employment support, including public works (Mk. 200 million), transfers to local governments to combat youth unemployment (Mk. 130 million), other miscellaneous measures (Mk. 65 million) and number of housing starts to be increased. Furthermore, assistance to be given to local government investments started during period 1st January - end-August 1979 and completed by end-August 1980.

11th January

Increased target prices and prices policy support estimated to raise farm revenue by Mk. 294.3 million and Mk. 155.7 million respectively under new agricultural incomes settlement. Extension of farmers' annual vacation to 14 days (compensation payable to vacation helpers) would add further Mk. 4.0 million. In addition, agricultural income may be increased during 1979/80 pricing year by amount corresponding to eventual indexation adjustments provided for under the centralised incomes agreements.

26th January

1979 budget approved. Total expenditure estimated at Mk. 43.5 billion (up 16 per cent on 1978 main budget), total revenue (excl. borrowing) at Mk. 38.4 billion (up 7.5 per cent) and borrowing at Mk. 5.2 billion. Income and wealth tax scales and most important deductions adjusted by 8 per cent on average from beginning of 1979 (new scales to be applied from beginning of February). Ceiling rule of income and wealth taxation incorporated permanently in legislation, so that maximum of 30 per cent of State wealth tax may be excused.

1st February

Employers' social security contribution rates reduced from 8.375 - 9.375 to 6.875 - 7.875 per cent.

23rd February

First supplementary budget approved. Expenditure (Mk. 664 million) attributable to Central Government measures associated with centralized incomes policy settlement and for stimulating economic growth and employment. Borrowing authority increased from Mk. 5.2 to Mk. 6.2 billion.

Government empowered to grant special tax concessions to individuals or enterprises engaged in productive activity during 1979-1988 for improving structure of production and promoting employment or regional development (however, concessions do not apply to income and wealth tax or sales taxation).

1st March

To promote use of indigenous fuels Central Government may subsidise up to 20 per cent of cost of installing plant using indigenous energy sources (wood, peat, straw or waste for fuel).

Cash payment scheme for imports abolished. Permissible period for repayment of financing credits reduced from six to three months.

Extraordinary employment support amounting to Mk. 3,000 - 6,000 per person payable to firms offering full-time (permanent) employment to persons referred by employment exchanges before 3rd - June 1979.

In accordance with general guidelines issued by Government on 21st December 1978 housing rents may be raised by maximum 23 penni/m² per month.

8th March

Bank of Finland and monetary institutions (all banks accepting deposits from public) sign cash reserve agreement by which latter may be obliged to place as cash reserve deposits with Bank of Finland equivalent of at most 5 per cent of total demand and time deposits (or Mk. 2.5 billion). Maximum amount to be deposited monthly limited to 0.4 per cent of total deposits (about Mk. 200 million). Reserve deposits to bear interest at rate $\frac{3}{4}$ percentage point below discount rate.

Government decides in principle on measures to promote employment; *inter alia*, local governments' finances and their opportunities to provide employment to be improved and employment support payable to firms to be increased.

1st April

Commercial banks' Central Bank credit quotas reduced from Mk. 1.0 billion to Mk. $\frac{1}{2}$ billion. Ceilings on commercial banks' call money market credits raised to 800 per cent of each bank's Central Bank credit quota.

20th April

Monetary institutions to deposit with Bank of Finland by end-May amount equal to 0.2 per cent of their deposits as at end-April.

11th May

Bank of Finland lowers currency index by somewhat less than 1 percentage point.

21st May

Monetary institutions' cash reserve deposit rate increased from 0.2 to 0.4 per cent of deposits by end-June.

15th June

Monetary institutions' cash reserve deposit rate increased from 0.4 to 0.8 per cent of deposits by end-June.

19th June

Loans from Investment Fund of Finland extended to cover investment in industrial villages made by local governments and joint-stock companies.

20th June

Second supplementary budget approved. Expenditure (Mk. 1,157 million) attributable to Government decision of 8th March 1979 concerning employment promotion and to agricultural income settlement of 11th January 1979.

29th June

Exemption of industrial building investment from sales tax extended to apply to buildings started not later than end-December 1979 and completed by end-March 1981 (see *OECD Survey of Finland*, 1979, page 48).

Reduction to one-half of normal sales tax rate on machinery and equipment purchases by manufacturing sector extended to plant ordered by end-December 1979 and delivered by end-June 1980 (see *OECD Survey of Finland*, 1979, page 48).

1st July

Employers may qualify for subsidies in conjunction with early retirement arrangements up to end-June 1980.

Arrangements for commercial banks' access to Central Bank credit changed whereby latter is to take form of overdraft. For individual banks such credit may not exceed on any one day 2.5 times its quota and interest is charged at Bank of Finland's basic discount rate. Individual bank quotas, defined as monthly averages, total Mk. 200 million. Ceiling on call money advances to which commercial banks entitled raised to Mk. 5.0 billion. Central Bank credit of last resort remains sale of bonds to Bank of Finland under buy-back arrangement within one week, to which interest rate differential of $\frac{1}{3}$ per cent is applied. Postipankki (Post Office Bank) also granted overdraft facility of up to Mk. 10 million, and accorded access to call money market up to Mk. 600 million.

2nd July

With view to evening out cyclical fluctuations, but subject to ensuring continued profitability and viability of the industry concerned, Government empowered to oblige export firms to make export deposits to Bank of Finland where prices for a product or group of products of significance for Finland's exports rise substantially and where increased export earnings would manifestly endanger economic stability. Such deposits to be repaid within three years and to attract interest of at least 5 per cent.

5th July

Price recommendation agreement for roundwood for felling season 1st July 1979 - 30th June 1980 signed, implying average rise of 8 per cent in stumpage prices.

10th July

Transfers to Investment Reserve permitted from research and development funds and made freely disposable after two, instead of five, years.

18th July

Monetary institutions' cash reserve deposit rate raised from 0.8 to 1.2 per cent of deposits by end-July.

13th August

Bank of Finland lowers currency index by about $\frac{1}{2}$ percentage point to 116.9 per cent.

22nd August

Monetary institutions' cash reserve deposit rate raised from 1.2 to 1.6 per cent of deposits by end-August.

31st August

Agriculture to be compensated (Mk. 159.2 million in all, of which Mk. 99.4 million in form of increased target prices) for production cost increases since latest agricultural income settlement (see 11th January 1979).

14th September

1980 budget proposal submitted to Parliament. Total expenditure estimated at Mk. 48.9 billion (up 12 per cent on 1979 main budget), total revenue (excl. borrowing) at Mk. 43.0 billion (up 12 per cent)

and borrowing set at Mk. 5.9 billion. Changes in income and wealth tax rates estimated to reduce 1980 tax yield by Mk. 1.1 billion. Employers' child endowment contributions to be suspended in 1980. Rates of employers' and insured persons' health insurance contribution and of insured persons' national pensions insurance contribution to remain unchanged. State's share in financing national pensions expenditure to be increased. Alcohol and tobacco prices to rise by 6 per cent and excise duty on petroleum products to be increased from 1st December 1979. State Railway tariffs to be raised.

21st September

Government lowers currency index fluctuation limits from 121.7-116.4 to 121.0-114.0

1st November

Bank of Finland raises discount rate from 7¼ to 8½ per cent.

4th December

Protocol signed with Soviet Union providing for 20 per cent increase in value of bilateral trade in 1980.

Annex II

REVISION TO FINNISH NATIONAL ACCOUNTS

The Finnish National accounting system has been revised to conform with the United Nations - OECD recommended definitions¹. Annual data according to the new system have been published by the Central Statistical office in 1979 for the period 1970-1978, although certain sector detail of national income estimates as well as capital financing accounts are as yet only available from 1975²; it is intended to extend the historical series back to 1960. Flow of funds accounts, which had previously been separate, are now fully integrated into the national accounting system.

As shown in the following table, the revisions to measurement methods and improved coverage have raised the estimated level of gross domestic product by about 3¼ per cent in 1975, the new base year for constant-price estimates

Output by sector, 1975

	Mk. billion		Per cent difference	Percentage distrib.	
	Revised	Former		Revised	Former
Primary production ¹	10.0	11.0	-9.1	10.5	12.3
Industry	28.2	30.2	-6.6	29.7	33.7
Construction	9.4	9.4	—	9.8	10.5
Trade, restaurants, communications	17.7	15.2	16.4	18.6	17.0
Other services	30.0	23.8	26.1	31.4	26.5
Total	95.3	89.6		100.0	100.0
Less					
imputed bank charges	2.4	—			
GDP ²	92.9	89.6	3.7		

1 Agriculture, forestry and fishing.

2 Valued at producer prices under the revised system and at factor cost under the former system.

The main change concerns the increased value of "other services". The downward revision to industrial output reflects both sector definitional changes and revisions to the valuation of intermediate inputs. The upward revision to total output is reflected in an adjustment to wage and salary receipts which now agree more closely with data from income tax returns and other sources. Estimates of private consumption have also been revised upwards substantially — mostly as a result of improved estimating methods and of information obtained from consumer expenditure surveys. To a lesser extent there has also been a shift from public to private consumption owing to definitional changes, an aspect which also applies to gross fixed capital formation. The increase in private investment also reflects the improved coverage of service sector activity.

Sector definitional changes have led to a) non-profit organisations' being broken out from the household sector and b) financial institutions being broken out from the enterprise sector. The effects of these changes as well as of the revisions to disposable income and its utilisation are shown in the table below. The overall savings ratio is now 7 percentage points lower than the former estimate, the entire difference being attributable to households/non-profit institutions whose combined ratio is almost 9 percentage points lower.

1 *System of National Accounts, Studies in Methods, Series F No. 2, Rev. 3*, United Nations, New York, 1968.

2 Quarterly estimates are also available from 1970.

Gross domestic income and expenditure, 1975

	Mk. billion		Per cent difference	Percentage distrib.	
	Revised	Former		Revised	Former
Income					
Wages and salaries	49.3	44.8	10.0	48.4	45.7
Employer soc. sec. contributions	10.0	9.7	3.1	9.8	9.9
Gross operating surplus	33.7	35.2	-4.3	33.1	35.9
Depreciation	12.6	9.1	38.5	12.4	9.3
Operating surplus	21.1	26.1	-19.2	20.7	26.6
Indirect taxes less subsidies	8.9	8.3	7.2	8.7	8.5
GDP at market prices	101.9	98.0	4.0	100.0	100.0
Expenditure					
Private consumption	56.8	49.8	14.1	55.7	50.8
Public consumption	17.8	18.3	-2.7	17.5	18.7
Private gross fixed investment	27.9	25.7	8.6	27.4	26.2
Public gross fixed investment	3.7	4.5	-17.8	3.6	4.6
Exports	24.6	24.9	-1.2	24.1	25.4
Imports	30.9	31.3	-1.3	30.3	31.9
Stockbuilding	1.7	6.1		1.7	6.2
Statistical error	0.3			0.3	

National disposable income and its utilisation, 1975

	Mk. billion						Per cent	
	Disposable income		Consumption		Saving		Savings ratio	
	Revised	Former	Revised	Former	Revised	Former	Revised	Former
Enterprises	-0.6	..	—	—	-0.6	..		
Financial institutions	3.1	..	—	—	3.1	..		
Sub-total	2.5	3.7	—	—	2.5	3.7		
General government	24.8	25.2	17.8	18.3	7.0	6.9	28.2	27.4
Non-profit institutions	1.1	..	1.8	..	-0.6	..		
Households	59.2	..	54.9	..	4.2	..	7.1	..
Sub-total	60.3	58.4	56.7	49.8	3.6	8.6	6.0	14.7
Total	87.6	87.3	74.5	68.1	13.1	19.2	15.0	22.0

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STATISTICAL ANNEX

Table A Supply and use of resources (new SNA)
Mk. million, current prices

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Consumers' expenditure on goods and services	25 871	28 163	32 985	39 037	46 807	56 750	64 709	71 268	77 605
General government current expenditure on goods and services	6 622	7 553	8 788	10 649	13 692	17 790	21 296	23 969	26 444
Gross fixed capital formation	11 629	13 394	15 909	20 038	26 113	31 621	31 842	33 778	32 528
Change in stocks	1 594	1 163	-347	-74	4 258	1 717	-768	-2 596	-3 858
NATIONAL EXPENDITURE	45 716	50 273	57 335	69 650	90 870	107 878	117 079	126 419	130 719
Exports of goods and services (non-factor)	11 726	12 182	14 872	17 998	24 594	24 631	29 511	36 897	42 854
Imports of goods and services (non-factor)	12 294	13 102	14 733	18 609	28 103	30 940	31 944	34 812	37 301
Statistical discrepancy	-515	-224	-212	659	382	313	359	-1 438	1 195
GROSS DOMESTIC PRODUCT IN PURCHASERS' VALUES	44 634	49 129	57 262	69 698	87 742	101 882	115 003	127 065	139 467

Source: Finnish revised national accounts 1970-1978.

Table B Supply and use of resources (new SNA)

Mk. million, 1975 prices

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Consumers' expenditure on goods and services	46 187	47 101	50 779	53 827	55 058	56 750	57 276	56 470	57 138
General government current expenditure on goods and services	13 187	13 819	14 764	15 775	16 666	17 790	18 792	19 562	20 538
Gross fixed capital formation	24 022	24 982	26 724	28 908	29 918	31 621	28 850	27 295	24 737
Change in stocks	3 315	2 236	-602	-114	4 926	1 717	-714	-2 219	-3 145
NATIONAL EXPENDITURE	86 711	88 138	91 665	98 396	106 568	107 878	104 204	101 108	99 268
Exports of goods and services (non-factor)	23 848	23 506	26 875	28 723	28 536	24 631	28 263	30 908	33 391
Imports of goods and services (non-factor)	24 586	24 402	25 389	28 822	30 761	30 940	29 872	27 995	27 005
Statistical discrepancy	-2 263	-1 776	-1 185	-251	-3 089	313	-455	-1 509	-1 704
GROSS DOMESTIC PRODUCT IN PURCHASERS' VALUES	83 710	85 467	91 966	98 045	101 254	101 882	102 141	102 512	103 950

Source: Finnish revised national accounts 1970-1978.

Table C Gross domestic product by industry of origin (new SNA)

Mk. million, 1975 prices

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Agriculture, hunting, forestry and fishing						9 998	10 130	10 315	10 178
Mining and quarrying	363	300	348	366	369	364	398	428	427
Manufacturing	20 734	21 061	23 581	25 111	26 370	25 283	25 665	25 427	26 060
Electricity, gas and water	1 900	1 983	2 265	2 506	2 591	2 625	2 719	2 980	3 304
Construction	7 582	7 433	8 086	8 851	9 023	9 374	8 533	8 542	8 339
Transport, storage and communication						6 980	6 851	6 911	7 088
Wholesale and retail trade, restaurants and hotels	7 989	8 397	9 210	10 087	10 423	10 701	10 689	9 970	9 872
Finance, insurance, real estate, and business services						12 722	13 187	13 601	14 029
of which: Owner-occupied dwellings						6 873	7 206	7 545	7 882
Public administration and defence						4 069	4 218	4 384	4 575
Other community, social, and personal services						11 349	12 032	12 368	12 808
less: Imputed bank service charge	1 613	1 724	1 866	2 056	2 155	2 350	2 337	2 387	2 462
Net commodity taxes, and other correction items						10 767	10 056	9 973	9 732
GROSS DOMESTIC PRODUCT IN PURCHASERS' VALUES	83 710	85 467	91 966	98 045	101 254	101 882	102 141	102 512	103 950

Source: Finnish revised national accounts 1970-1978.

Table D Central government revenue and expenditure (new SNA)
Mk. million

	1975	1976	1977	1978 ¹
CURRENT REVENUE	23 257	29 732	31 718	33 334
Direct taxes on households	7 047	10 140	9 523	8 260
Direct taxes on corporations, etc.	966	1 472	1 091	1 151
Indirect taxes	12 993	15 057	17 769	20 376
Income from property and entrepreneurship	238	477	528	676
Other domestic current transfers	2 012	2 586	2 806	2 871
Current transfers from the rest of the world	—	—	—	—
CURRENT EXPENDITURE	19 878	23 666	26 994	30 115
Purchase of goods and services	6 364	7 306	7 972	8 777
Defence	1 386	1 489	1 738	1 964
Civil	4 978	5 817	6 234	6 812
Subsidies	3 966	4 631	5 004	5 167
Property income payable	265	287	469	658
Current transfers	9 283	11 443	13 548	15 514
To other public authorities	5 446	6 884	7 986	9 180
To households	3 719	4 418	5 412	6 184
To the rest of the world	118	141	150	151
NET CURRENT SAVING	3 379	6 065	4 724	3 218
Depreciation	426	501	593	656
GROSS SAVING	3 804	6 567	5 317	3 874
Gross fixed capital formation	1 758	1 848	1 895	2 095
Purchases of land, net	139	179	122	91
Increase in stocks	161	70	106	56
SURPLUS ON CURRENT AND FIXED INVESTMENT ACCOUNT	1 746	4 469	3 194	1 633
Capital transfers to other sections, net	896	493	497	609
NET LENDING	850	3 977	2 698	1 023

¹ Preliminary.

Source: Direct communication to the OECD.

Table E Balance of payments
US \$ million

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978 ¹
Exports of goods, fob	1 975	2 294	2 344	2 930	3 802	5 473	5 500	6 321	7 652	8 529
Imports of goods, cif	2 030	2 643	2 800	3 192	4 335	6 799	7 614	7 384	7 617	7 852
TRADE BALANCE	-55	-349	-456	-262	-533	-1 326	-2 114	-1 063	35	677
Transportation, net	138	171	157	178	261	285	268	309	346	410
Travel, net	1	34	59	82	89	87	29	6	-1	40
Other services, net	-3	4	16	18	8	28	59	64	102	233
Investment income and transfers, net	-60 ⁴	-99	-114	-133	-212	-286	-415	-484	-642	-746
CURRENT BALANCE	21	-239	-339	-117	-387	-1 212	-2 173	-1 169	-159	615
Long-term borrowing	251	352	650	735	486	725	1 834	1 590	1 605	2 193
Amortization of long-term loans	-172	-165	-204	-299	-358	-408	-394	-463	-683	-1 398
Long-term export credits (net)	-43	-60	-49	-92	9	-59	-58	-50	-60	-188
Other long-term capital items (net) ²	-12	-48	-20	-26	-30	-6	17	12	-57	-56
Short-term capital ³	-8	269	134	-78	75	568	570	46	-768	-425
NON-MONETARY TRANSACTIONS	37	109	172	123	-205	-392	-204	-33	-122	740
SDR allocations	—	21	20	21	—	—	—	—	—	—
Change in reserves of										
Central Bank (incl. IMF credit tranche)	-27	134	132	66	-128	-196	121	-20	42	569
Other	64	-4	60	78	-77	-196	-325	-13	-164	171

1 Estimates.

2 Including direct investment.

3 Including errors and omissions.

4 Including the writing off by the Government of Sweden of a debt of about \$19 million.

Source: Bank of Finland Monthly Bulletin.

Table F Labour market

	Labour force surveys						Employment exchange service					
	Labour force		Employment		Unemployment (per cent of civilian labour force)		Unemployed persons seeking work			Unfilled vacancies		
	Orig.	Adj.	Orig.	Adj.	Orig.	Adj.	Orig.	Adj.	Insured	Orig.	Adj.	
	1 000 persons				Per cent		1 000 persons			1 000 persons		
1971	2 172		2 123		2.3		44.1		23.7		11.7	
1972	2 173		2 118		2.5		59.5		28.1		15.8	
1973	2 215		2 164		2.3		50.2		24.5		23.4	
1974	2 268		2 229		1.7		40.1		20.6		29.8	
1975	2 272		2 221		2.2		50.9		27.8		18.5	
1976	2 254 ¹		2 163 ²		4.0 ¹		80.2		41.0		11.2	
1977	2 248		2 111		6.1		132.5		59.3		6.4	
1978	2 253		2 084		7.5		175.2		71.5		5.5	
Quarterly: 1975	1	2 198	2 266	2 150	2 231	2.2	1.8	47.2	39.2	26.9	20.7	25.4
	2	2 294	2 273	2 250	2 231	1.9	1.9	43.1	42.9	22.4	23.3	20.7
	3	2 343	2 271	2 295	2 216	2.0	2.4	49.9	58.6	29.4	19.6	16.2
	4	2 251	2 277	2 189	2 212	2.8	3.1	63.4	68.9	32.3	10.5	12.8
1976	1	2 204	2 269	2 113	2 193	4.1	3.5	89.3	74.9	48.6	10.1	12.5
	2	2 278	2 253	2 183	2 166	4.2	4.1	81.2	80.1	42.2	13.7	11.8
	3	2 338	2 249	2 248	2 156	3.8	4.4	69.8	80.8	35.8	13.8	11.3
	4	2 195	2 238	2 109	2 139	3.9	4.4	80.4	86.9	37.3	7.4	9.1
1977	1	2 186	2 248	2 055	2 132	6.0	5.3	128.7	108.1	68.9	6.3	7.8
	2	2 268	2 247	2 132	2 120	6.0	6.0	133.7	130.8	63.5	8.2	6.8
	3	2 329	2 248	2 192	2 107	5.9	6.3	118.0	136.8	46.5	7.0	5.8
	4	2 208	2 249	2 065	2 093	6.5	7.0	149.7	160.7	58.3	4.1	5.3
1978	1	2 194	2 252	2 005	2 081	8.6	7.8	194.4	163.2	88.1	4.3	5.3
	2	2 273	2 252	2 106	2 086	7.4	7.3	172.2	167.9	71.9	7.0	5.8
	3	2 326	2 251	2 167	2 088	6.8	7.2	161.8	187.7	63.2	6.0	5.0
	4	2 218	2 258	2 058	2 082	7.2	7.6	172.3	184.0	62.9	4.6	6.1
1979	1	2 210	2 269	2 034	2 112	8.0	7.2	191.3	160.2	80.0	6.0	7.4
	2	2 295	2 274	2 156	2 136	6.1	6.0	153.7	149.0	56.5	10.2	8.5

1 According to the renewed Labour Force Sample Survey.

2 Including employed whose occupational status and branch of industry are unknown.

Sources: Central Statistical Office, Bulletin of Statistics, and OECD, Main Economic Indicators.

Table G Production and employment by sector (continued on following page)

		Industry								Forestry			
		Industrial production, 1975 = 100								Employment (thous.)	Timber fellings (thous. m ³)	Labour force in commercial logging	
Total	Mining and quarry- ing	Manufacturing								Acc. to labour force survey			
		Total	Food, bever- ages, tobacco	Textiles, clothing, leather	Wood and wood products	Paper and paper prod.	Chem- icals, etc.	Metal products	Elec., gas, and water	Number of persons			
ISIC	2	3	31	32	33	34	35	381	4			1 000 pers.	
1971	83	81	84	89	84	117	96	90	74	75	579	41 806	52
1972	93	96	94	98	90	123	107	104	88	86	578	36 220	41
1973	99	101	100	99	90	140	114	111	97	95	584	34 749	39
1974	104	100	104	100	97	123	119	110	102	99	613	34 595	35
1975	100	100	100	100	100	100	100	100	100	100	609	29 288	30
1976	102	115	102	99	101	107	103	107	100	104	587	27 430	28
1977	103	122	102	97	96	111	105	110	105	113	578	28 003	26
1978	106	122	104	102	94	225	112	121	95	125	562	29 440	23

Sources: Central Statistical Office, Bulletin of Statistics, and Bank of Finland, Economic Indicators for Finland, and OECD, Indicators of Industrial Activity.

Table G Production and employment by sector (continued)

Agriculture			Building and construction						Commerce					
Production		Employment ¹	Building permits granted		Work in progress end of period		Dwellings completed (thous.)	Employment ²	Retail sales			Passenger car registrations (thous.)	Employment in commerce ³	
Quantity of milk received by dairies (mill. liter)			Total	of which: Dwellings	Total	of which: Dwellings			Value ²	Volume ³				
Orig.	Adj.						Mill. cu. m.			Orig.	Adj.			
1971	2 797	374	42.63	19.54	37.64	17.09	50.4	184	216	135		75.3	316	
1972	2 796	339	47.73	20.56	40.57	18.10	59.9	180	242	149		101.4	320	
1973	2 734	304	54.96	24.68	51.42	21.29	62.4	185	287	158		118.6	341	
1974	2 711	303	53.23	22.35	52.84	20.66	73.0	187	344	164		96.6	350	
1975	2 722	277	51.42	19.65	52.45	18.51	69.4	189	202	122		117.6	345	
1976	2 840	245 ⁴	46.89	19.95	51.85	19.08	57.5	160 ⁴	232	123		92.7	321 ⁴	
1977	2 822	223	41.88	18.86	48.12	18.37	57.0	152	241	113		90.5	308	
1978	2 841	208	41.99	17.89	42.78	16.36	54.9	149	251	110		81.2	301	
Quarterly:														
1975	1 534	635	258	12.59	3.31	50.24	18.16	15.7	179			38.9	326	
	2 797	672	282	15.90	7.46	54.44	20.07	19.0	192			34.3	343	
	3 782	687	293	12.21	4.84	56.38	20.89	16.4	199	208	124	123	28.9	364
	4 607	721	276	10.71	4.04	52.45	18.51	18.3	186	228	132	120	15.5	350
1976	1 611	730	240	8.52	3.04	48.82	16.64	12.1	146	197	109	123	24.3	315
	2 839	709	247	14.00	7.39	51.73	19.43	14.1	162	229	124	127	27.2	321
	3 798	698	274	12.42	5.43	55.22	21.56	12.8	175	237	124	122	24.1	336
	4 592	702	219	11.96	4.09	51.85	19.08	18.5	158	264	135	121	16.9	307
1977	1 584	701	215	6.73	2.92	47.95	17.24	11.3	147	202	99	114	26.3	295
	2 826	702	222	13.22	7.00	51.52	20.09	14.7	151	243	114	114	25.6	312
	3 813	711	245	11.41	4.72	52.69	21.41	13.2	164	254	118	115	23.5	324
	4 599	707	209	10.52	4.21	48.12	18.37	17.9	150	265	121	109	15.1	300
1978	1 579	696	197	10.11	3.72	44.63	16.25	11.5	137	218	98	112	25.9	289
	2 824	702	215	12.92	6.51	47.46	18.70	14.9	151	252	110	110	21.0	305
	3 817	715	229	11.07	4.12	48.76	19.45	11.6	160	255	111	108	19.3	320
	4 620	729	192	7.79	3.54	42.78	16.36	16.9	152	281	120	109	15.1	289
1979	1 602	722	182	7.75	3.32	39.45	14.80	10.2	133				27.4	290
	2 845	722	202	19.16	7.45	47.04	18.51	10.4	149				25.6	310

1 According in labour force surveys, thousand persons.

2 Including sales tax; 1964 = 100 up to 1974, 1972 = 100 from 1975.

3 1964 = 100 up to 1974, 1972 = 100 from 1975.

4 According to the renewed Labour Force Sample Survey.

Sources: Central Statistical Office, Bulletin of Statistics, and Bank of Finland, Economic Indicators for Finland.

Table H Imports: Prices, volume, value and by commodity group

	Import prices (Markka) 1949 = 100				Volume of imports ¹ 1975 = 100					Value of imports Mk. million						
	Total	Crude mate- rials	Simply pro- cessed	Finished goods	Total		Raw mate- rials, etc.	Fuels and lubri- cants	Invest- ment goods	Con- sumer goods	Total	Raw mate- rials, etc.	Fuels and lubri- cants	Invest- ment goods	Consumer goods	
					Orig.	Adj.									Adj.	Adj.	Adj.	Pas- senger cars	Other
1971	292	281	259	336	79		84	82	71	66	11 734	7 037	571	2 333	326	1 417
1972	319	297	287	370	82		88	92	63	77	13 107	7 842	609	2 354	479	1 771
1973	383	340	381	417	93		98	96	73	92	16 599	9 916	729	2 919	632	2 336
1974	535	500	598	496	100		105	114	87	92	25 666	16 525	1 978	3 857	507	2 775
1975	554	509	586	555	100		100	100	100	100	28 002	17 057	1 670	5 223	704	3 285
1976	555	539	535	589	96		100	88	84	95	28 555	17 828	1 581	4 966	692	3 411
1977	621	641	567	662	88		92	102	70	93	30 708	19 128	2 066	4 828	772	3 831
1978	661	628	602	748	84		91	104	57	85	32 338	20 431	2 224	4 801	830	4 000
Quarterly: 1975	1 569	498	648	539	107	112 ²	112	111	107	111	7 381	4 522	387	1 359	232	879
	2 558	504	607	547	95	99	99	121	99	96	6 703	4 053	387	1 243	184	826
	3 552	514	581	550	94	94	94	90	95	96	6 666	4 054	433	1 217	179	740
	4 539	519	510	584	100	92	95	89	96	91	7 250	4 426	464	1 403	109	840
1976	1 529	507	506	572	87	91	90	92	88	88	6 326	3 740	338	1 280	159	797
	2 544	514	533	578	84	86	91	74	77	89	6 248	3 874	272	1 114	187	794
	3 568	556	556	591	98	99	105	96	87	98	7 532	4 772	493	1 238	150	851
	4 580	582	543	617	107	98	107	89	80	101	8 449	5 442	478	1 334	197	968
1977	1 587	579	545	636	83	87	90	91	71	91	6 785	4 169	331	1 198	173	903
	2 618	633	568	661	88	90	93	107	76	93	7 710	4 712	457	1 308	226	973
	3 641	684	587	667	84	85	91	104	59	92	7 689	4 991	628	965	172	899
	4 638	668	570	686	93	85	89	103	67	93	8 524	5 256	650	1 357	201	1 056
1978	1 637	633	577	704	78	82	89	103	59	82	7 385	4 524	406	1 296	183	970
	2 655	635	593	738	83	84	91	107	56	87	8 035	5 008	517	1 191	247	1 069
	3 672	626	614	767	79	81	88	101	57	82	7 825	4 972	647	1 086	187	898
	4 680	618	623	785	93	85	96	103	51	86	9 092	5 927	653	1 228	214	1 062
1979	1 695	629	638	805	90	95	105	90	59	102	9 103	5 825	382	1 383	274	1 236
	2 711				94	94	106	101	60	98	10 131	6 469	704	1 386	337	1 220

1 Yearly figures are averages of unadjusted quarterly figures.

2 Affected by strike and the like.

Sources: Board of Customs, Monthly Bulletin of Foreign Trade, Central Statistical Office, Bulletin of Statistics, and Bank of Finland, Economic Indicators for Finland.

Table I Exports: Prices, volume, value and by commodity group

	Prices 1949 = 100		Volume of exports ¹ 1975 = 100				Value of exports Mk. million						
	Total	of which: Pulp	Total		Wood ind. prod.	Paper ind. prod.	Metal and engin. prod.	Total	Agri- cultural and forestry prod.	Manufactured products			
			Orig.	Adj.	Adj.	Adj.	Adj.			Total	of which:		
											Wood ind. prod.	Paper ind. prod.	Metal and engin. prod.
1971	360	381	98		149	119	60	9 897	292	9 582	1 643	3 797	1 764
1972	376	363	113		156	134	74	12 082	325	11 732	1 809	4 376	2 547
1973	505	387	121		166	145	82	14 605	402	14 163	2 451	5 264	2 928
1974	671	574	121		131	144	99	20 686	414	20 192	3 154	7 872	4 245
1975	741	847	100		100	100	100	20 247	385	19 790	2 177	7 225	5 357
1976	739	818	117		126	114	116	24 505	721	23 656	2 892	7 860	6 892
1977	784	733	129		139	121	120	30 931	976	29 807	3 854	8 798	9 184
1978	789	646	138		169	138	114	35 206	838	34 219	4 641	10 402	9 593
Quarterly: 1975													
1	764	812	100	104	93	112	97	5 139	139	4 985	315	2 062	1 161
2	749	861	92	95 ²	89	103	86	4 713	70	4 625	481	1 784	1 175
3	725	863	89	91 ²	94	88	103	4 496	71	4 407	535	1 570	1 228
4	724	853	116	106	124	97	105	5 883	104	5 757	646	1 808	1 777
1976													
1	716	841	99	103	127	107	84	5 009	242	4 755	600	1 849	1 061
2	734	818	114	118	117	110	124	5 896	122	5 723	600	1 802	1 841
3	753	823	116	119	138	121	112	6 133	97	6 015	853	2 003	1 617
4	752	789	136	123	122	119	124	7 468	260	7 163	839	2 206	2 372
1977													
1	763	767	123	129	131	117	130	7 007	414	6 563	779	2 083	1 915
2	800	763	115	118	139	116	98 ²	6 858	227	6 602	962	2 061	1 805
3	791	734	129	133	141	124	129 ²	7 974	142	7 786	1 029	2 169	2 594
4	781	668	143	129	147	128	106	9 092	193	8 856	1 084	2 485	2 871
1978													
1	771	599	124	131	157	132	105	7 785	328	7 436	910	2 443	1 930
2	781	612	136	141	175	144	115	8 658	137	8 480	1 192	2 629	2 337
3	798	664	129	132	164	136	102	8 324	82	8 204	1 165	2 472	2 195
4	806	708	160	144	181	141	122	10 439	291	10 099	1 373	2 856	3 131
1979													
1	840	778	140	148	178	144	124	9 711	516	9 138	1 122	2 936	2 316
2	865	821	154	160	217	161	134	10 876	218	10 570	1 629	3 265	2 634

1 Yearly figures are averages of unadjusted quarterly figures.

2 Affected by strike and the like.

Sources: Board of Customs, Monthly Bulletin of Foreign Trade, Central Statistical Office, Bulletin of Statistics, and Bank of Finland, Economic Indicators for Finland.

Table J Foreign trade by area
Million US dollars, monthly averages

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
<i>Imports, cif</i>										
United States	8.6	11.4	10.5	11.7	17.1	28.8	35.0	31.8	29.7	32.9
United Kingdom	22.5	28.9	31.5	31.3	36.6	48.4	55.0	48.7	55.1	59.9
Sweden	25.6	35.4	38.5	45.9	64.3	90.7	101.4	97.8	85.0	94.2
Norway	4.6	5.2	6.1	7.6	9.9	16.9	16.5	18.9	23.4	18.1
Germany (Fed. Rep.)	27.4	36.2	38.0	44.1	60.9	83.2	90.2	90.1	87.0	88.2
Other OECD	37.1	47.7	52.5	63.0	86.8	120.5	141.6	129.1	131.6	141.1
Total OECD	125.8	164.8	177.1	203.6	275.6	388.5	439.7	416.4	411.8	434.4
Centrally planned economies	28.0	35.9	42.7	42.3	58.4	127.5	132.9	135.1	150.6	150.3
Other	14.8	19.1	13.2	20.6	27.8	52.2	62.2	64.6	72.8	69.5
World	168.6	219.8	233.0	266.5	361.8	568.2	634.8	616.1	635.2	654.2
<i>Exports, fob</i>										
United States	9.9	9.0	9.5	11.8	14.1	17.4	14.6	15.0	28.3	28.1
United Kingdom	30.3	33.5	37.4	44.8	61.7	86.3	66.2	75.0	75.8	89.7
Sweden	21.9	29.0	31.0	42.9	48.0	73.0	81.1	89.9	100.6	104.1
Norway	4.0	7.1	7.4	10.4	13.2	13.4	21.6	18.8	34.7	35.8
Germany (Fed. Rep.)	16.5	20.2	20.0	24.6	31.1	38.4	36.6	49.4	64.5	71.8
Other OECD	42.2	47.6	47.9	56.8	80.6	108.8	90.7	111.8	136.6	161.9
Total OECD	124.8	146.4	153.2	191.3	248.7	337.3	310.8	359.9	440.5	491.4
Centrally planned economies	29.3	31.2	28.5	38.8	46.5	79.2	111.0	127.7	144.8	149.1
Other	11.3	14.6	14.7	15.5	24.5	41.3	36.8	40.9	54.7	72.1
World	165.4	192.2	196.4	245.6	319.7	457.8	458.6	528.5	640.0	712.6

Source: OECD, Foreign Trade Statistics, Series A.

Table K. Prices and wages

	Consumer prices, 1972 = 100					Wholesale prices 1949 = 100			Building cost ¹	Wage and salary earnings 1964 = 100					
	Total	Food	Rent	Fuel and light	Clothing and footwear	Total	Do- mestic goods	Import- ed goods		Total	Industry	Workers	Private	Com- munes	Central Govern- ment
1971						312	315	302	149	185	195	195	188	178	176
1972	100	100	100	100	100	338	342	325	161	206	222	220	212	194	189
1973	111	112	116	110	111	398	401	385	188	238	260	258	247	217	213
1974	129	130	144	161	128	495	498	482	233	285	317	313	298	250	252
1975	153	157	162	184	150	562	575	513	259	347	383	384	362	307	312
1976	174	182	171	200	166	626	646	548	152	399	442	441	416	353	360
1977	196	216	183	221	181	692	713	610	171	433	484	479	453	378	387
1978	211	225	194	236	193	727	740	675	181	463	521	513	488	394	408
Quarterly: 1975															
1	143	143	156	180	143	546	555	508	247	315	354	351	330	277	280
2	150	155	161	183	146	560	572	512	260	354	392	393	371	310	315
3	155	161	164	185	151	566	580	515	263	358	390	396	374	311	322
4	161	167	166	187	159	576	592	516	265	366	399	404	380	332	334
1976															
1	168	169	168	190	163	598	617	527	145	382	416	417	396	347	347
2	171	176	169	198	164	610	629	537	148	404	449	448	422	356	364
3	177	190	171	202	164	639	660	560	154	406	448	451	425	355	364
4	182	194	174	209	173	655	677	570	159	407	456	451	426	356	364
1977															
1	187	201	174	212	176	676	699	588	166	411	457	453	428	365	373
2	194	214	179	218	181	689	710	606	170	437	488	485	457	382	390
3	201	224	187	223	180	698	720	615	174	440	493	488	461	382	390
4	204	225	191	231	186	704	723	632	176	445	499	492	468	382	394
1978															
1	206	223	192	235	187	711	729	645	177	448	502	496	471	385	396
2	210	224	194	235	193	720	734	667	179	457	516	509	483	388	399
3	213	225	196	236	191	732	744	686	181	467	522	518	493	395	411
4	216	226	196	238	202	744	755	700	185	481	544	531	506	408	427
1979															
1	220	227	202	239	202	758	771	710	190	496	559	545	523	423	437
2	225	230	206	246	212	775	785	737	197	508	567	559	535	432	449
3	229	233	209	259	213	803	809	777	201						

1 1964 = 100 up to 1975, 1973 = 100 from 1976.

Sources: Central Statistical Office, Bulletin of Statistics, and Bank of Finland, Monthly Bulletin.

Table L. Money and credit
Mk. million, end of period

	Central Bank						Commercial and savings banks ^{1, 2}								Money supply IMF definition ⁴ Orig.
	Dis-count rate per cent	Net foreign assets	Net claims on public sector	Claims on Finnish credit institutions		Net claims on corporate sector	Lending			Net foreign assets (IMF def.)	Bank deposits				
				Total net	of which:		Total	of which:			Sight deposits		Time deposits		
					Dis-counted bills ³			Commercial banks	Savings banks		Total	of which: Comm. banks	Total	of which: Comm. banks	
1971	8.50	2 449	8	838	849	-30	21 409	9 234	8 629	-223	2 488	1 343	20 906	6 962	4 025
1972	7.75	2 791	126	756	753	248	25 272	10 667	9 986	263	3 350	1 851	24 703	8 096	4 960
1973	9.25	2 346	-334	2 615	2 556	113	31 259	13 365	11 799	163	4 252	2 144	28 551	8 989	6 115
1974	9.25	1 669	-258	3 405	3 034	436	37 922	15 869	14 172	-457	5 116	2 551	33 487	10 213	7 267
1975	9.25	1 667	-962	4 135	3 385	394	44 296	17 773	16 906	-2 372	6 943	3 447	40 260	10 764	9 772
1976	9.25	1 437	-686	3 531	2 920	1 092	49 538	19 090	19 863	-2 311	6 726	3 030	44 025	12 789	9 601
1977	8.25	557	63	4 226	3 091	1 174	54 147	24 679	22 859	-2 237	6 666	2 948	48 359	14 999	9 871
1978	7.25	4 052	519	1 175	970	1 592	59 444	26 324	26 273	-1 478	7 615	3 887	55 477	17 035	11 496
Quarterly: 1975 1	9.25	1 667	-246	3 657	3 275	279	39 817	16 773	14 803	-1 205	5 235	2 530	34 656	10 520	7 666
2	9.25	1 932	-201	3 439	3 083	348	41 277	17 303	15 331	-1 709	5 449	2 822	35 740	10 851	8 101
3	9.25	1 832	-697	3 908	3 565	426	42 852	17 734	16 199	-2 140	5 113	2 546	36 437	10 959	7 677
4	9.25	1 667	-962	4 135	3 385	394	44 296	17 773	16 906	-2 372	6 943	3 447	40 260	11 764	9 772
1976 1	9.25	1 434	-1 127	3 813	3 035	671	45 297	17 902	17 462	-1 916	6 368	3 007	40 351	11 837	8 909
2	9.25	1 423	-970	3 979	3 358	802	46 591	18 396	18 007	-1 785	6 087	3 004	40 799	11 963	8 975
3	9.25	1 237	-773	3 584	3 031	1 153	47 691	18 453	18 831	-1 887	6 029	2 856	41 395	11 896	8 803
4	9.25	1 437	-686	3 531	2 920	1 092	49 538	19 090	19 863	-2 311	6 726	3 030	44 025	12 789	9 601
1977 1	9.25	1 609	-306	3 258	2 769	1 014	49 076	22 703	20 080	-2 589	6 668	2 973	44 097	13 371	9 497
2	9.25	1 394	-68	3 428	2 768	1 229	50 519	23 469	20 698	-2 686	6 904	3 267	45 579	13 740	9 996
3	9.25	1 621	22	3 128	2 700	1 210	52 141	24 063	21 602	-3 155	6 526	3 042	46 042	13 966	9 669
4	8.25	557	63	4 226	3 091	1 174	54 147	24 679	22 859	-2 237	6 666	2 948	48 359	14 999	9 871
1978 1	8.25	2 387	117	2 524	2 454	1 091	55 302	25 599	23 203	-2 919	6 682	2 922	49 560	15 350	10 059
2	7.25	3 930	171	1 542	1 607	925	56 767	26 123	23 937	-2 285	7 589	3 713	52 265	16 210	11 247
3	7.25	4 500	265	1 507	1 107	939	57 529	25 774	25 073	-1 631	7 400	3 475	53 261	16 328	11 071
4	7.25	4 052	519	1 175	970	1 592	59 444	26 324	26 273	-1 478	7 615	3 887	55 477	17 035	11 496
1979 1	7.25	5 298	708	562	829	1 666	61 274	27 186	26 892	-2 385	7 414	3 717	57 054	17 521	11 442
2	7.25	7 430	803	-124	295	1 760	64 422	28 860	27 931	-4 218	8 893	4 373	60 309	17 978	
3	7.25	6 428	495	27		1 779									

1 New series from 1977.

2 Including an insignificant amount of rediscounted bills.

3 Including mortgage banks, co-operative stores, co-operative banks, and Post-Office Bank.

4 Currency outside banks and sight deposits.

Sources: Bank of Finland, Monthly Bulletin, and IMF, International Financial Statistics.

INTERNATIONAL COMPARISONS

BASIC STATISTICS INTERNATIONAL COMPARISONS

	Reference period	Units	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia ¹
POPULATION	Mid-1978	Thousands	14 249	7 510	9 841	23 499	5 105	4 755	53 302	61 310	9 360	223	3 221	56 697 ²	114 898	355	13 937	3 107	4 060	9 820	37 109	8 278	6 337	43 144	55 895	218 548	21 968
	"	Inhabitants per sq. km	2	90	323	2	119	16	97	247	71	2	46	188	304	137	412	12	13	107	74	18	153	55	229	23	86
	Mid-1968 to Mid-1978	Net average annual increase %	1.7	0.2	0.2	1.3	0.5	0.3	0.7	0.3	0.7	1.0	1.0	0.7	1.3	0.6	0.9	1.3	0.6	0.7	1.2	0.5	0.4	2.5	0.1	0.9	0.9
EMPLOYMENT	1978	Thousands	5 975	3 015	3 711	9 972	2 414 ^{3,4}	2 074	20 921	24 679	(3 167) ^{5,6}	98 ^{7,8}	1 033	19 932	54 080	147 ^{9,10}	4 569	(1 204)	1 854	3 808	12 091	4 115	2 839	14 151 ^{11,12}	24 610	94 373	9 276 ¹³
	"	of which: Agriculture, forestry, fishing Industry ⁴	6.4	10.9	3.2	5.7	9.1	12.3	9.1	6.5	(28.4)	13.7	22.2	15.5	11.7	5.9	6.2	(11.8)	8.7	30.7	20.2	6.1	8.4	55.8	2.7	3.7	36.8
	"	Other	31.6	40.6	36.7	28.7	30.4	34.4	37.1	45.1	(30.3)	38.0	30.9	38.3	35.0	45.1	32.5	(34.1)	31.6	35.3	37.3	33.0	42.7	13.6	39.7	31.2	21.8
GROSS DOMESTIC PRODUCT at market prices	1978	US \$ billion ¹¹	110.2	58.1	96.1	206.0	55.5	32.2	470.5	639.2	31.4	2.1	12.2	237.0	980.4	3.4	130.5	18.0	39.7	18.3	147.2	87.2	84.4	48.7	308.2	2 098.6	47.1 ¹⁵
	1973 to 1978	Average annual volume growth ⁶	2.6	2.8	2.2	3.4	1.7	1.7	2.9	1.9	3.6	2.6	3.7	2.1	3.7	0.7	2.4	0.6	4.5	2.4	3.1	1.2	-0.9	6.7	0.9	2.4	6.1
	1978	Per capita US \$ ¹¹	7 734	7 736	9 818	8 766	10 872	6 772	8 827	10 426	3 355	9 417	3 788	4 180	8 533	9 859	9 364	5 753	9 778	1 864	3 967	10 534	13 319	1 129	5 514	9 602	2 140
GROSS FIXED CAPITAL FORMATION of which: Transport, machinery and equipment Residential construction	1977	% of GDP	23.1	27.2	21.2	22.7	23.3	26.7	22.6	20.9	23.0 ¹⁶	27.3	25.0	19.8	29.9	26.0	21.1	22.7 ¹⁷	36.6	17.0 ¹⁴	20.8	20.5	20.7	25.8	18.1	17.5	34.3
	"	"	7.4 ¹⁸	10.6	6.4	7.6	7.4	10.3	9.3	8.6	8.4	7.6	13.3	8.5	13.8	9.2	8.6	..	13.3	5.5 ¹⁴	..	8.5	6.9	..	9.0	7.3	..
	1972 to 1977	Average annual volume growth ⁶	4.6 ¹⁹	..	7.1	6.0	7.7	6.9	6.9	5.9	7.1	5.8	11.7	5.5	6.9	6.6	5.8	..	4.9	2.8 ¹⁴	..	4.2	..	3.7	3.3	4.8	..
NATIONAL SAVINGS RATIO ¹⁸	1977	% of GNP	18.3	24.6	21.7	21.3	18.8	27.2	23.4	24.2	19.9	27.1	17.0	22.1	32.2	39.4	23.5	23.6	23.2	11.0	19.8	16.7	26.5	17.2	20.3	17.7	35.2
GENERAL GOVERNMENT	1977	% of GDP	16.3	17.3	17.3	20.3	23.9	20.4	14.9	20.0	15.9	11.2	18.6	13.7	19.1	15.0	18.3	18.7	18.7	14.2 ¹⁴	10.3	28.5	12.9	14.5	20.8	18.4	17.4
	"	Current expenditure on goods and services	9.6	20.6	22.0	12.4	15.8	14.5	24.8	19.5	11.6	..	13.3	22.7	9.2	29.3	30.9	..	24.6	15.8 ¹⁴	12.7	24.4	15.3	9.2	15.3	11.6	..
	"	Current transfer payments	25.9	43.0	41.8	36.4	47.7	43.5	42.2	43.5	29.4	..	35.6	37.4	24.5	53.9	54.0	..	51.2	28.3 ¹⁴	26.7	60.9	34.3	21.6	40.5	32.0	43.1
NET OFFICIAL DEVELOPMENT ASSISTANCE	1978	% of GNP	0.5	0.3	0.6	0.5	0.7	0.2	0.6	0.3	..	..	..	0.1	0.2	..	0.8	0.3	0.9	..	..	0.9	0.9	..	0.4	0.2	..
INDICATORS OF LIVING STANDARDS	1977	US \$ ¹¹	4 000	3 660	5 000	4 870	5 080	3 250	4 450	4 690	1 890	5 200	1 900	2 220	3 510	4 760	4 480	2 590 ²⁰	4 940	1 260	2 251	5 140	6 100	810	2 580	5 600	849
	1976	Private consumption per capita	366	243	279	388 ²⁰	265	218	300	308	55	298	175	283	163	367	273	383	253	107	148	350	281 ²⁰	11	255	505	80
	1977	Passenger cars, per 1 000 inhabitants	395 ¹⁴	304 ¹⁴	313	596 ¹⁴	493	409 ¹⁴	293 ¹⁴	374	238 ¹⁴	411 ¹⁴	163	285	408	522	422	515 ¹⁴	366 ¹⁴	118 ¹⁴	239 ¹⁴	689 ¹⁴	634 ¹⁴	28 ¹⁴	415	718 ¹⁴	71
	1977	Telephones, per 1 000 inhabitants	274 ²⁰	247 ¹⁶	286	411 ²⁰	338	306 ²⁰	268 ²⁰	308	126 ²⁰	234 ²⁰	193	224	235 ²⁰	279	259 ²⁰	255 ²⁰	279	65 ²⁰	184 ²⁰	352 ²⁰	273 ²⁰	12 ²⁰	324	571 ²⁰	161 ¹⁴
	1976	Television sets, per 1 000 inhabitants	1.4 ²¹	2.2	2.0	1.7	1.9	1.5	1.5	2.0	2.1	1.6 ¹⁰	1.2	2.2	1.2	1.1	1.7	1.3 ²⁰	1.8	1.2	1.8	1.7 ²⁰	1.9	0.6	1.3	1.6	1.4
	1977	Doctors, per 1 000 inhabitants	45.0	32.0	61.3 ²⁰	66.4 ²⁰	57.4	60.8 ²⁰	54.6	41.5	45.4 ²⁰	..	50.0 ¹⁴	40.8 ²⁰	70.9	33.5 ²⁰	62.7	44.8	63.6	33.4 ¹⁴	35.5 ¹⁴	56.3 ¹⁴	68.2 ²⁰	12.7 ²⁰	44.6 ²⁰	72.0 ²⁰	..
	1977	Full-time school enrolment ²⁵	13.8 ¹⁴	16.8	15.3 ¹⁴	14.3 ²⁰	8.7	12.0	11.4	15.5	20.3	9.6	15.7	17.7	8.9	10.6	9.5	14.2	10.5 ¹⁴	38.9 ²⁰	15.9	8.0	9.8	..	14.1	15.2 ¹⁴	36.7 ¹⁴
	1977	Infant mortality ¹⁷
WAGES AND PRICES	1973 to 1978	Average annual increase	15.7	10.4	13.5	12.2	14.7	14.7	15.2	7.5	24.9	40.5	19.4	22.7	12.0	..	10.5	14.3	14.4	20.0 ²⁴	27.5	11.7	5.5	27.5 ²³	16.9	8.6	20.5
	"	Hourly earnings in industry ¹⁸	12.8	6.9	9.2	9.2	11.0	13.8	10.7	4.8	15.5	39.8	15.3	17.0	11.3	7.9	7.8	13.8	9.5	19.8	18.8	10.3	4.1	30.0 ²³	16.1	8.0	17.4
FOREIGN TRADE	1978	US \$ million ¹¹	14 364	12 132	44 808 ⁷	46 152	11 844	8 556	76 464	142 092	3 336	648	5 676	55 956	97 543	—	50 016	3 751	10 044	2 436	13 059	21 720	23 364	2 280	71 676	143 664	5 668
	"	As percentage of GDP	13.0	20.9	46.6	22.4	21.3	26.6	16.3	22.2	10.6	30.9	46.5	23.6	9.9	—	38.3	20.8	25.3	13.3	8.9	24.9	27.7	4.7	23.3	6.8	12.0
	1973 to 1978	Average annual volume increase	2.8	6.5	3.1	3.5	3.4	2.7	5.3	3.8	9.5	8.0	8.9	8.2	9.2	—	2.5	2.9	7.2	3.2	10.3	-0.3	3.7	-4.6	4.8	3.7	1.4
	1978	Imports of goods, cif	14 016	15 972	48 360 ⁷	43 560	14 760	7 848	81 684	120 672	7 560	684	7 116	56 364	79 344	—	52 872	3 870	11 424	5 172	18 664	20 496	23 652	4 548	78 588	173 292	9 983
	"	As percentage of GDP	12.7	27.5	50.3	21.1	26.6	24.4	17.4	18.9	24.1	32.6	58.3	23.8	8.1	—	40.5	21.5	28.8	28.3	12.7	23.5	28.0	9.3	25.5	8.3	21.2
1973 to 1978	Average annual volume increase	3.3	4.9	3.4	3.2	1.0	-2.0	4.4	4.3	1.4	2.8	4.8	0.8	-0.2	—	2.7	-3.0	3.0	5.7	0.5	0.5	1.8	1.0	1.4	4.8	3.7	
TOTAL OFFICIAL RESERVES ²⁵	End-1978	US \$ million	2 418	6 007	5 908 ⁷	4 569	3 219	1 266	13 929	53 883	1 171	138	2 689	14 826	33 500	—	7 585	453	2 878	1 845	10 774	4 398	21 561	1 001	17 067	19 584	2 462
	In 1978	As percentage of imports of goods	17.3	37.6	12.2	10.5	21.8	16.1	17.1	44.7	15.5	20.2	37.8	26.3	42.2	—	14.3	13.0	25.2	35.7	57.7	21.5	91.2	22.0	21.7	11.3	25.2

1 Partly from national sources.
2 Total resident population.
3 Private and socialised sector.
4 According to the definition used in OECD: Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
5 Social product.
6 At constant prices.
7 Including Luxembourg.

8 Excluding ships operating overseas.
9 Fiscal year beginning April 1st.
10 1973.
11 At current prices and exchange rates.
12 $\left[\frac{\text{GNP} - (\text{Priv. cons.} + \text{Pub. cons.})}{\text{GNP}} \right] \times 100$.
13 1972.
14 1976.

15 Children aged 15-19.
16 1974.
17 Deaths in first year per 1 000 live births.
18 Figures are not strictly comparable due to differences in coverage.
19 Private.
20 1975.
21 1971 to 1976.
22 1977.
23 1972 to 1977.

24 Hourly wage rate in industry and transportation in Lisbon.
25 Gold included in reserves is valued at 35 SDR per ounce (see IMF, International Financial Statistics, series Total Reserves).
NOTE: Figures within brackets are estimates by the OECD Secretariat.
Sources: Common to all subjects and countries: OECD: Labour Force Statistics, Main Economic Indicators, National Accounts, Observer, Statistics of Foreign Trade (Series A); Office Statistique des Communautés Européennes, Statistiques de base de la Communauté; IMF, International Financial Statistics; UN, Statistical Yearbook.

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