



BANK OF FINLAND

Monthly Bulletin

Budget proposal

Main trends in Finnish economic development in 1860—1985

Structural change in Finnish manufacturing

Monetary and foreign exchange policy measures from February 1987 to January 1988

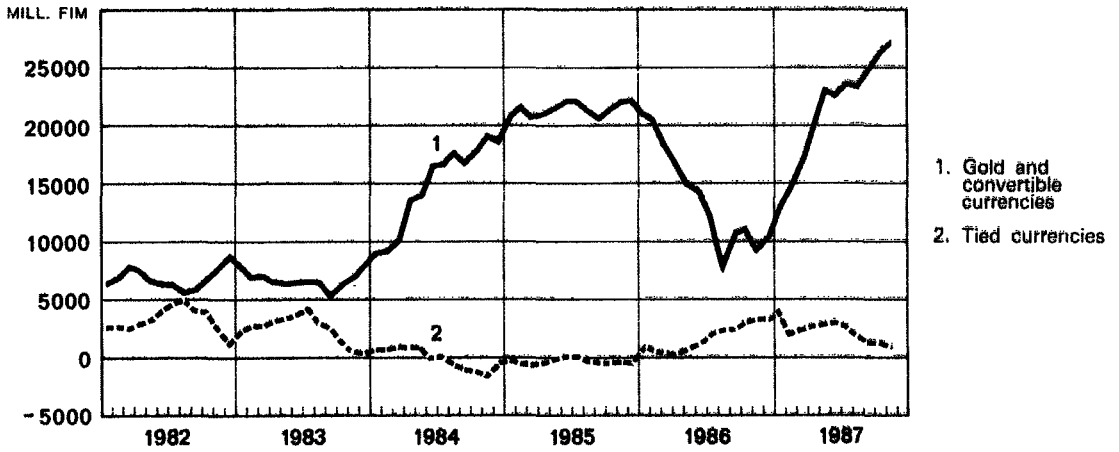
Supplementary budgets

Finland's balance of payments in January—September 1987

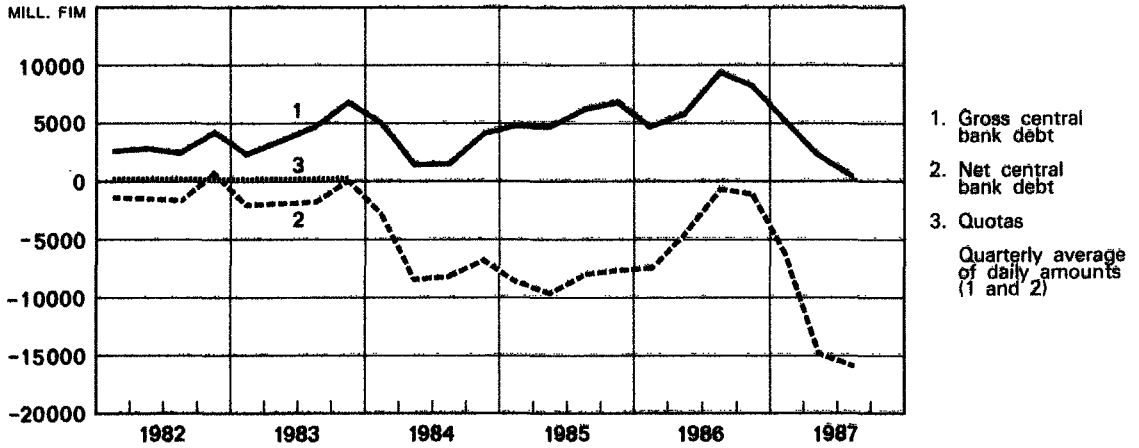
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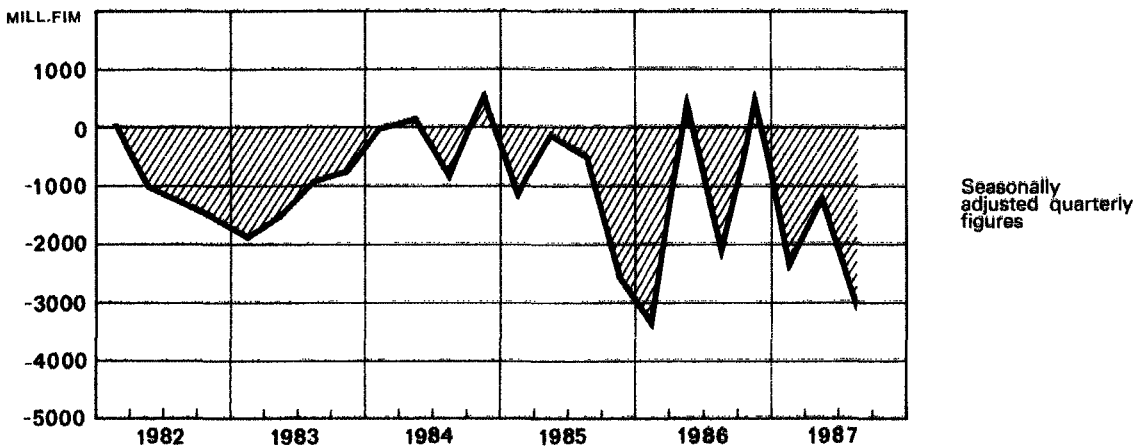
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THE BUDGET PROPOSAL FOR 1988

by Jarmo Pesola, Lic.Pol.Sc.
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The central government budget proposal for 1988 is based on the assumption of a continuation of relatively favourable and well-balanced economic developments next year. When the budget was prepared last spring, GDP growth of the order of 3 per cent was thought likely in 1988. In addition, it was estimated that a slight slowdown in the rate of consumer price inflation from the 3.5 per cent projected for the current year was possible. It was anticipated that the unemployment rate would stabilize around the 5 per cent mark. Consequently, the 1988 budget was designed to be mildly restrictive. The tightening of fiscal policy is primarily aimed at restraining consumption, which has been growing rapidly. However, it is hoped that a shift to a more stringent stance will increase incentives to invest by creating conditions conducive to a lowering of interest rates. On the other hand, the fairly rapid expansion in budgeted transfers to local authorities will amplify the stimulative effect of the local government sector, so that the overall impact of public sector operations will be relatively expansionary next year (Table 1).

TABLE 1. IMPACT OF FISCAL POLICY, PER CENT OF GDP AT CONSTANT PRICES

	1984	1985	1986 ¹	1987 ^{**}	1988 ^{**}
Public sector	-1.7	0.5	0.3	0.6	0.3
of which: Central government and social security funds	-1.9	-0.1	-0.4	0.5	-0.1
Local government	0.2	0.6	0.7	0.1	0.4
Volume change in GDP	3.3	3.5	2.4	3.5	3.0

* Estimate

** Forecast

¹ Adjusted for the temporary effects of the 1986 civil servants' strike on the years 1986 and 1987

Source: Ministry of Finance

One of the prime goals set for fiscal policy is to bring down the rate of inflation to 2 per cent next year. An essential requirement for

achieving this target is that incomes agreements in 1988 should be very moderate. The budget seeks to promote necessary structural change in the economy. In particular, resources are to be channelled to enhancing real competitiveness. It is aimed to raise the qualitative level of education and research. Furthermore, improving the functioning of the labour market is considered a key component of economic policy. A new Employment Act is due to enter into force on a regionally differentiated basis from the beginning of 1988. Although it will have only limited effects next year, it will subsequently entail a rapid increase in central government expenditure.

Over the longer term, the primary objective of fiscal policy is to rein in the growth of expenditure. In the period 1984 to 1987, the increase in the volume of central government spending has exceeded that of total output. Central government expenditure in relation to GDP is projected to rise to almost 28 per cent next year (Table 2). A sharp curtailment in the growth of spending is important, among other things because, under the tax reform planned to be introduced in 1989, the easing in the progressiveness of taxation due to lower marginal taxes will reduce the growth of tax revenue in comparison with the present system.

TABLE 2. SELECTED CENTRAL GOVERNMENT BUDGET ITEMS IN RELATION TO GDP, PER CENT

	1984	1985	1986	1987 [*]	1988 ^{**}
Expenditure (excl. redemptions of state debt)	26.0	26.3	26.7	26.6	27.7
Net borrowing requirement	1.0	1.0	0.4 ¹	1.7 ¹	1.2 ²
Debt (end of year)	13.8	13.5	14.0	14.8	15.1

* Estimate

** Forecast

¹ Adjusted for the effect of the 1986 civil servants' strike

² Adjusted for the effect of the abolition of the Investment Fund of Finland

Source: Ministry of Finance

According to the budget proposal, total revenue, excluding net borrowing, is projected to amount to FIM 107.9 billion in 1988, an increase of some 14 per cent on budgeted revenue for 1987. Limiting the combined effect of the inflation adjustment of income tax brackets and allowances to 1 1/2 per cent is estimated to tighten personal income taxation by about FIM 0.6 billion compared to a full adjustment for inflation. Adjusted for the estimated effect — some FIM 0.6 billion — of the postponement of tax refunds to 1987 as a result of the 1986 civil servants' strike and for the effect of corporate tax refunds totalling just over FIM 0.4 billion in 1987, central government revenue from income and wealth taxes is projected to grow by almost 11 per cent next year. Compared with the cash receipts estimate for 1987, this represents an increase of nearly 9 per cent. Finland's gross tax ratio is projected to remain at about 37 per cent and the net tax ratio at 23 1/2 per cent.

Receipts other than income and wealth taxes are also projected to grow sharply in comparison with the budget proposal for the previous year; the increase is estimated at 24 per cent. Despite the aim of restraining inflationary pressures, increases in indirect taxes, tariffs and public charges are estimated to raise the consumer price index by 0.5 per cent in the course of 1988 (the corresponding effect in 1987 is 0.6 per cent).

Expenditure is set to continue growing at a fairly rapid pace next year. Budgeted outlays total FIM 113.8 billion in 1988. Excluding redemptions of state debt and imputed outlays of almost FIM 2.3 billion arising in connection with the abolition of the Investment Fund of Finland¹, central government expenditure is projected to increase by just over 4 per cent in real terms compared with the ordinary budget for 1987. A substantial part of the growth of central government spending in 1988 is attributable to the effects of the two-year pay agreements for civil service employees con-

cluded in 1986. The agreements, which expire at the end of February 1988, provide for pay increases which will raise earnings in the central government sector by about 6 per cent in the early months of 1988 even without new negotiated increases. Spending will also be boosted by a relatively rapid increase in current transfers to the local government sector. They are estimated to rise by just over 6 per cent in real terms compared with the ordinary budget for 1987. However, when the greater-than-forecast increase in current transfers to local authorities in 1987 is taken into account, planned transfers in the budget proposal for 1988 show no increase at all in real terms.

In the 1988 budget proposal, the former practice of budgeting separately for gross borrowing and redemptions has been replaced by net budgeting. As a result, total budgeted expenditure for 1988 is some FIM 10.6 billion less than under the old practice. Since total budgeted expenditure for 1987, including the supplementary budgets, is approximately FIM 117.5 billion (according to the old practice), the comparable figure for 1988 according to the ordinary budget proposal would be FIM 124.4 billion. The budget proposal for 1988 provides for a net increase in borrowing powers of approximately FIM 6 billion, the major part of which it is intended to raise domestically. Outstanding state (budgetary) debt in relation to GDP is projected to exceed 15 per cent at the end of next year (Table 2). Under the new budgetary practice, the central government is also allowed to raise funds by issuing promissory notes with a maturity of less than one year.

The central government net borrowing requirement for 1988 (adjusted for the technical effect, equivalent to just under FIM 1 billion, of the arrangements in connection with the Investment Fund of Finland) is estimated at FIM 5 billion in the budget proposal. Measured in terms of the change in the deficit, the central government budget is estimated to have a slightly restrictive impact on GDP of the order of about half a percentage point (Table 2). The

¹ The funds of the Investment Fund of Finland will be transferred to Postipankki, which is due to become a state-owned limited company (Postipankki Ltd) at the beginning of 1988.

(Continued on page 45)

	1986		1987			
	Nov. 28	Dec. 31	Nov. 6	Nov. 13	Nov. 23	Nov. 30
Assets						
Gold and foreign currency claims	13 131	14 088	27 547	28 002	27 938	28 629
Gold	2 081	2 081	2 081	2 081	2 081	2 081
Special drawing rights	989	983	961	967	964	961
IMF reserve tranche	799	794	800	798	795	793
Convertible currencies	5 741	6 795	22 409	22 881	23 106	23 637
Tied currencies	3 521	3 435	1 296	1 273	992	1 156
Other foreign claims	2 566	2 585	4 391	4 392	4 379	4 377
Markka subscription to Finland's IMF quota	2 566	2 585	2 455	2 455	2 455	2 455
Term credit	—	—	1 936	1 937	1 924	1 922
Claims on financial institutions	13 529	14 074	4 845	4 944	5 089	5 219
Banks' cheque accounts	—	—	—	—	—	—
Call money credits	9 181	6 818	35	97	27	55
Term assets	—	2 381	—	—	—	—
Till-money credits	1 709	2 305	2 214	2 254	2 475	2 538
Bonds	2 111	2 111	2 167	2 168	2 157	2 196
Other claims on financial institutions	528	459	429	425	430	430
Claims on the public sector	1 008	1 002	969	969	970	971
Bonds	73	59	4	4	4	4
Total coinage	935	935	965	965	966	967
Other claims on the public sector	—	8	—	—	—	—
Claims on corporations	4 931	4 844	3 826	3 841	3 811	3 798
Financing of exports	1 773	1 749	935	950	925	922
Financing of domestic deliveries	2 886	2 833	2 653	2 646	2 640	2 631
Bonds	66	65	47	55	55	54
Other claims on corporations	206	197	191	190	190	190
Other assets	148	149	105	105	105	105
Total	35 313	36 742	41 683	42 254	42 292	43 099
Liabilities						
Foreign currency liabilities	52	31	143	139	127	151
Convertible currencies	28	17	69	69	62	62
Tied currencies	24	14	74	69	65	89
Other foreign liabilities	3 410	3 423	3 253	3 251	3 248	3 246
IMF markka accounts	2 566	2 585	2 455	2 455	2 455	2 455
Allocations of special drawing rights	844	838	798	796	793	791
Notes and coin in circulation	8 024	8 667	9 082	9 130	9 113	9 218
Notes	7 237	7 856	8 245	8 291	8 270	8 372
Coin	787	811	837	839	843	847
Liabilities to financial institutions	10 208	9 729	17 172	17 589	17 744	18 507
Banks' cheque accounts	0	0	—	—	—	—
Call money deposits	931	131	348	358	1 151	1 625
Term liabilities	—	—	5 790	6 189	5 564	5 817
Cash reserve deposits	9 180	9 270	10 984	10 984	10 984	11 024
Capital import deposits	20	254	—	—	—	—
Other liabilities to financial institutions	77	74	50	58	45	42
Liabilities to the public sector	801	2 001	1	1	1	1
Cheque accounts	1	1	0	1	1	0
Government deposit account	800	2 000	—	—	—	—
Capital import deposits	—	—	—	—	—	—
Other liabilities to the public sector	0	0	0	0	0	0
Liabilities to corporations	5 058	5 019	5 021	5 018	5 008	5 009
Deposits for investment and ship purchase	4 715	4 671	4 803	4 800	4 790	4 793
Capital import deposits	340	336	206	206	206	205
Other liabilities to corporations	3	12	12	12	11	10
Other liabilities	22	23	30	25	25	28
Valuation account and reserves	1 854	1 920	1 052	1 173	1 098	1 010
SITRA's capital	400	400	400	400	400	400
Capital accounts	5 484	5 529	5 529	5 529	5 529	5 529
Primary capital	5 000	5 000	5 000	5 000	5 000	5 000
Reserve fund	484	485	529	529	529	529
Undisposed profits	—	—	—	—	—	—
Net earnings	—	44	—	—	—	—
Total	35 313	36 742	41 683	42 254	42 292	43 099

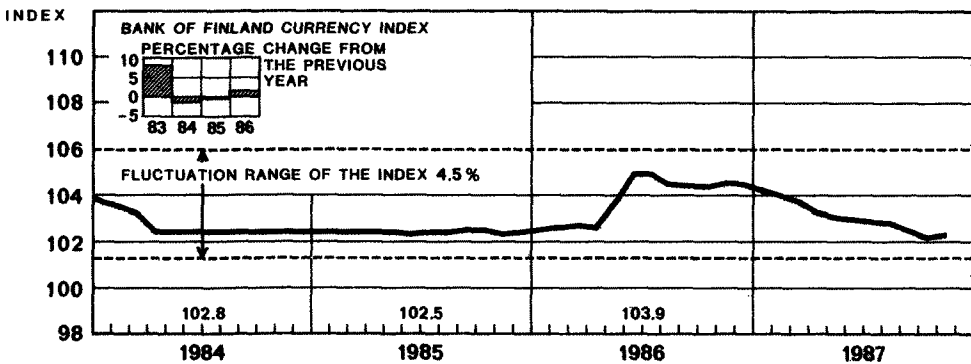
End of year or month	Foreign sector						Public sector			
	Gold, SDRs, IMF reserve tranche	Convertible currencies, net	Total convertible reserves (1+2)	Tied currencies, net	Other claims, net	Net claims (3 to 5)	Claims	Government deposit account	Other liabilities	Net liabilities (8-7+9)
	1	2	3	4	5	6	7	8	9	10
1983	2 360	5 835	8 195	550	-794	7 951	2 178	3 000	0	822
1984	3 527	15 303	18 830	-337	-917	17 576	1 951	4 200	77	2 326
1985	3 787	18 572	22 359	-285	-849	21 225	1 023	4 300	0	3 277
1986	3 858	6 778	10 636	3 421	-838	13 219	1 002	2 000	1	999
1986										
Nov.	3 869	5 713	9 582	3 497	-844	12 235	1 008	800	1	-207
Dec.	3 858	6 778	10 636	3 421	-838	13 219	1 002	2 000	1	999
1987										
Jan.	3 818	9 344	13 162	4 127	-820	16 469	1 001	-	1	-1 000
Feb.	3 821	11 215	15 036	2 196	1 182	18 414	957	-	1	-956
March	3 813	13 468	17 281	2 537	1 168	20 986	959	-	1	-958
April	3 811	16 440	20 251	2 908	1 160	24 319	960	-	0	-960
May	3 815	19 442	23 257	3 036	1 165	27 458	959	-	1	-958
June	3 837	19 006	22 843	3 207	1 167	27 217	959	-	1	-958
July	3 837	19 991	23 828	2 899	1 173	27 900	954	-	1	-953
Aug.	3 843	19 744	23 587	2 041	1 164	26 792	963	-	1	-962
Sept.	3 808	21 291	25 099	1 428	1 157	27 684	965	-	0	-965
Oct.	3 798	22 712	26 510	1 375	1 163	29 048	968	-	0	-968
Nov.	3 835	23 575	27 410	1 067	1 131	29 608	971	-	0	-971

OFFICIAL FOREIGN EXCHANGE RESERVES

Mill. FIM

	Dec. 31. 1986	Aug. 31. 1987	Sept. 30. 1987	Oct. 30. 1987	Nov. 30. 1987
Gold	2 081	2 081	2 081	2 081	2 081
SDRs	983	973	970	964	961
IMF reserve tranche	794	789	757	753	793
Convertible currencies, net	6 778	19 744	21 291	22 712	23 575
Total convertible reserves, net	10 636	23 587	25 099	26 510	27 410
Tied currencies, net	3 421	2 041	1 428	1 375	1 067
Total reserves, net	14 057	25 628	26 527	27 885	28 477

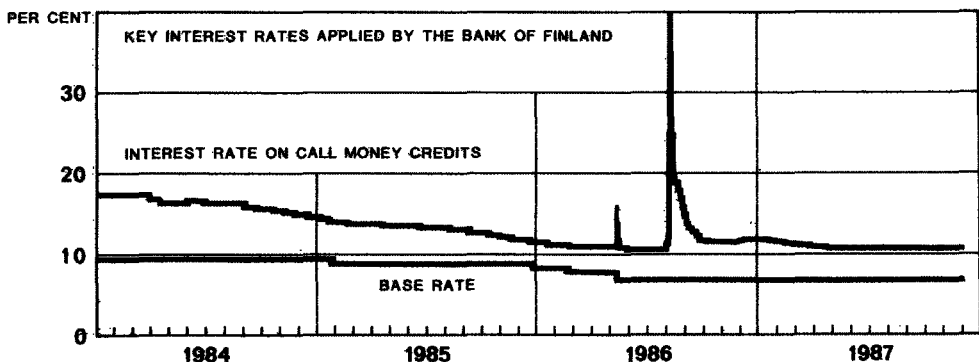
End of year or month	Domestic financial sector						Corporate sector				Notes and coin in circulation
	Till-money credits	Term liabilities of deposit banks	Term assets of deposit banks	Net demand for call money by deposit banks	Cash reserve deposits of deposit banks	Other liabilities, net	Net claims (1+2-3+4-5-6)	Permanent special financing schemes	Liabilities, net	Net claims (8-9)	
	1	2	3	4	5	6	7	8	9	10	11
1983	942	.	.	5 175	5 039	-1 998	3 076	4 529	1 282	3 247	6 574
1984	1 563	.	.	2 802	8 696	-1 618	-2 713	4 646	2 614	2 032	7 442
1985	1 925	.	.	4 014	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1986	2 305	2 381	.	6 687	9 270	-2 242	4 345	4 582	4 757	-175	8 667
1986											
Nov.	1 709	.	.	8 250	9 180	-2 542	3 321	4 659	4 786	-127	8 024
Dec.	2 305	2 381	.	6 687	9 270	-2 242	4 345	4 582	4 757	-175	8 667
1987											
Jan.	2 231	4 266	.	-370	9 353	-2 268	-958	4 360	4 685	-325	8 851
Feb.	2 012	4 736	1 600	-1 313	9 356	-2 227	-3 294	4 259	4 609	-350	8 453
March	2 177	3 572	4 000	-369	9 597	-2 243	-5 974	4 073	4 516	-443	8 325
April	2 114	2 111	6 703	878	9 734	-2 287	-9 047	3 927	4 427	-500	8 704
May	2 139	1 690	7 402	-872	9 975	-2 290	-12 130	3 807	4 222	-415	8 865
June	2 370	1 217	7 072	90	10 118	-2 488	-11 025	3 735	4 704	-970	9 011
July	2 234	89	5 709	157	10 435	-2 486	-11 178	3 706	4 806	-1 100	9 029
Aug.	2 439	258	4 199	-717	10 335	-2 486	-10 068	3 608	4 784	-1 176	9 013
Sept.	2 385	-	4 883	-223	10 853	-2 446	-11 128	3 567	4 838	-1 271	8 952
Oct.	2 284	-	6 178	-110	10 984	-2 541	-12 447	3 601	4 790	-1 189	9 069
Nov.	2 538	-	5 817	-1 570	11 024	-2 584	-13 289	3 561	4 773	-1 212	9 218



MONETARY POLICY INDICATORS

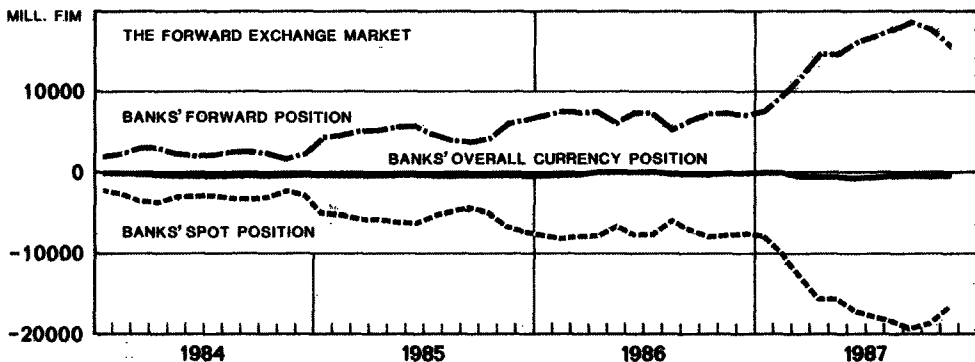
Average for period	Gross central bank debt of the deposit banks mill. FIM	Net central bank debt of the deposit banks mill. FIM	Cash reserve deposits of the deposit banks mill. FIM	Cash reserve requirement %	Call money credit extended by the Bank of Finland	Interest rate on call money credits %	3-month Helibor rate %	Base rate ¹ %	Average lending rate of the commercial banks ¹ %
	1	2	3	4	5	6	7	8	9
1982	3 201	-783	2 778	3.1	1 571	11.64	.	8.81	9.33
1983	4 539	-1 213	4 345	4.3	2 724	15.37	.	9.00	9.56
1984	3 176	-6 365	6 325	5.4	-39	16.53	.	9.50	10.49
1985	5 812	-8 293	9 578	5.6	1 285	13.37	.	9.04	10.41
1986	7 237	-3 208	9 189	4.8	5 861	13.43	.	7.42	9.08
1986									
Sept.	10 290	68	9 021	4.7	9 088	13.86	.	7.00	8.77
Oct.	7 846	-1 524	8 960	4.7	7 436	11.93	.	7.00	8.75
Nov.	7 616	-1 784	9 047	4.7	7 263	11.80	.	7.00	8.74
Dec.	9 785	580	9 183	4.7	8 321	11.97	.	7.00	8.81
1987									
Jan.	7 106	-2 248	9 275	4.7	3 594	11.99	12.25	7.00	8.81
Feb.	5 035	-6 671	9 353	4.7	-1 595	11.76	11.14	7.00	8.80
March	3 732	-9 717	9 362	4.7	-281	11.44	10.54	7.00	8.84
April	3 137	-13 160	9 602	4.7	-773	11.14	10.04	7.00	8.86
May	2 269	-14 575	9 758	4.7	42	11.00	9.89	7.00	8.87
June	1 707	-16 457	9 980	4.7	-285	11.00	9.69	7.00	8.91
July	895	-15 748	10 128	4.7	-912	11.00	9.63	7.00	8.93
Aug.	616	-15 586	10 431	4.7	254	11.00	9.55	7.00	8.94
Sept.	181	-15 918	10 352	4.9	-628	11.00	9.48	7.00	8.95
Oct.	19	-16 643	10 861	4.9	-537	11.00	9.45	7.00	8.97
Nov.	36	-17 524	10 985	4.9	-642	11.00	9.48	7.00	..

¹ End of period for monthly figures.



FORWARD EXCHANGE MARKETS IN FINLAND

Period	Banks' forward positions in mill. FIM with						Banks' forward selling rates for USD		
	Domestic firms			Foreign banks Net	Bank of Finland Net	Overall Net	Deviation from spot rate, per cent per annum		
	Assets	Liabilities	Net				1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
1985	16 982	1 733	15 249	708	-9 005	6 876	3.3	3.2	3.1
1986	11 446	1 319	10 127	-2 461	-92	7 591	6.6	6.7	6.7
1986									
June	13 094	1 665	11 429	-575	-2 619	8 068	4.2	3.8	3.6
July	12 032	1 518	10 514	-1 170	-1 949	7 619	4.6	4.7	4.8
Aug.	12 351	2 393	9 958	-2 263	-1 559	6 006	12.5	7.8	7.1
Sept.	13 762	2 179	11 583	-1 981	-1 291	8 116	7.8	7.1	6.7
Oct.	13 147	2 047	11 100	-1 464	-996	8 388	6.6	6.5	6.3
Nov.	12 049	1 843	10 205	-2 224	-423	7 590	6.2	6.3	6.2
Dec.	11 446	1 319	10 127	-2 461	-92	7 591	6.6	6.7	6.7
1987									
Jan.	13 285	1 515	11 770	-2 248	-5	9 541	6.3	6.0	6.1
Feb.	14 389	1 385	13 003	-1 204	26	11 789	4.4	4.5	4.5
March	15 908	1 263	14 645	-490	18	14 262	4.0	3.9	3.8
April	17 739	1 145	16 594	-1 384	18	15 203	3.2	2.9	2.8
May	18 742	981	17 762	-1 465	-423	15 711	3.0	2.5	2.3
June	18 322	771	17 551	-163	-287	16 699	2.3	2.2	2.2
July	18 596	805	17 792	867	-712	18 055	2.7	2.5	2.4
Aug.	20 075	793	19 282	630	-987	18 966	2.8	2.5	2.4
Sept.	20 088	718	19 369	1 535	-1 664	19 363	1.8	1.7	1.5
Oct.	20 358	1 178	19 181	284	-2 116	17 602	1.7	1.0	1.0



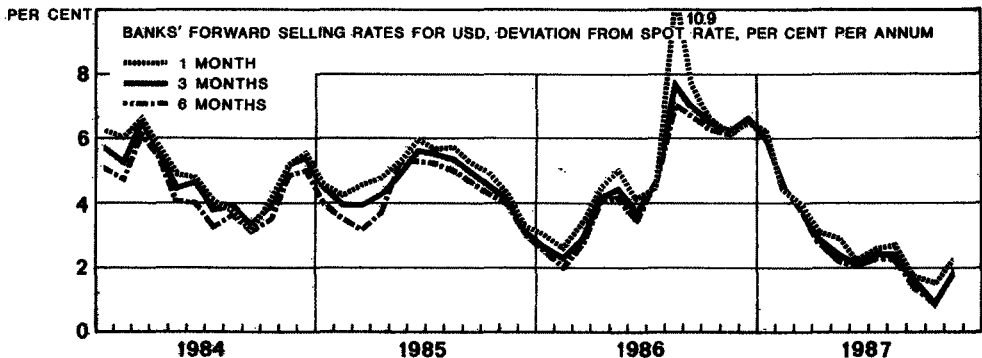
FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange, FIM

Period	New York 1 US USD	Montreal 1 C CAD	London 1 £ GBP	Dublin 1 Ir£ IEP	Stockholm 1 Skr SEK	Oslo 1 Nkr NOK	Copenhagen 1 Dkr DKK	Frankfurt 1 DM DEM	Amsterdam 1 Hfl NLG	Brussels 1 FB BEC	BEL	Zurich 1 Sfr CHF
	1	2	3	4	5	6	7	8	9	10	11	12
1982	4.820	3.913	8.423	6.854	0.7703	0.7484	0.5793	1.9876	1.8066	0.10584	0.09859	2.3779
1983	5.570	4.524	8.456	6.957	0.7275	0.7644	0.6107	2.1861	1.9566	0.10934	0.10742	2.6570
1984	6.010	4.645	8.023	6.533	0.7277	0.7384	0.5816	2.1165	1.8772	0.10428	0.10274	2.5642
1985	6.206	4.554	8.000	6.590	0.7222	0.7231	0.5871	2.1142	1.8745	0.10483	0.10421	2.5360
1986	5.078	3.659	7.459	6.816	0.7138	0.6882	0.6290	2.3454	2.0789	0.11399	0.11299	2.8349
1986												
Oct.	4.896	3.532	7.005	6.669	0.7126	0.6674	0.6489	2.4446	2.1631	0.11780	0.11692	2.9852
Nov.	4.959	3.583	7.072	6.685	0.7133	0.6599	0.6495	2.4500	2.1685	0.11795	0.11725	2.9435
Dec.	4.907	3.562	7.055	6.712	0.7111	0.6529	0.6523	2.4649	2.1809	0.11853	0.11760	2.9443

1987

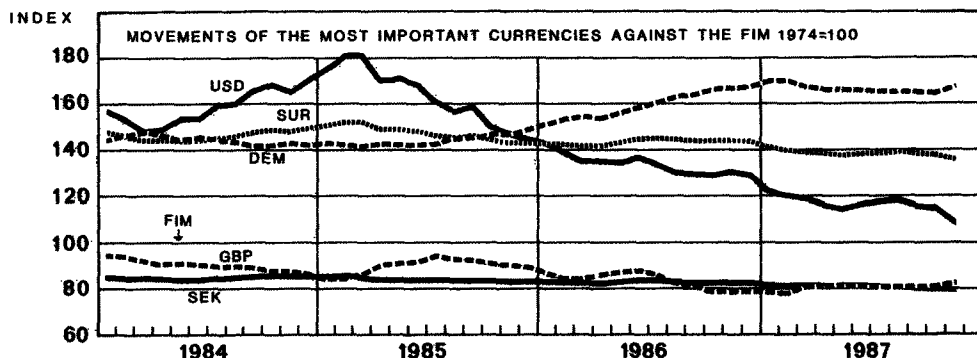
Jan.	4.641	3.413	6.998	6.689	0.7031	0.6485	0.6590	2.4988	2.2148	0.12042	0.11854	2.9774
Feb.	4.560	3.422	6.971	6.660	0.7021	0.6520	0.6619	2.4991	2.2140	0.12073	0.11934	2.9603
March	4.509	3.421	7.185	6.579	0.7040	0.6521	0.6537	2.4603	2.1785	0.11884	0.11821	2.9353
April	4.422	3.360	7.216	6.535	0.7014	0.6542	0.6480	2.4429	2.1652	0.11797	0.11747	2.9599
May	4.358	3.253	7.280	6.534	0.6979	0.6561	0.6486	2.4398	2.1648	0.11770	0.11709	2.9689
June	4.427	3.311	7.221	6.530	0.6990	0.6606	0.6469	2.4353	2.1620	0.11754	0.11726	2.9367
July	4.487	3.389	7.236	6.522	0.6981	0.6652	0.6409	2.4309	2.1589	0.11730	0.11688	2.9246
Aug.	4.505	3.404	7.207	6.503	0.6956	0.6645	0.6334	2.4275	2.1547	0.11695	0.11627	2.9321
Sept.	4.394	3.344	7.240	6.493	0.6902	0.6624	0.6299	2.4258	2.1552	0.11686	0.11630	2.9284
Oct.	4.361	3.337	7.249	6.489	0.6872	0.6591	0.6301	2.4196	2.1504	0.11629	0.11576	2.9163
Nov.	4.138	3.151	7.354	6.551	0.6827	0.6462	0.6382	2.4617	2.1875	0.11772	0.11722	2.9957



Average selling rates for foreign exchange, FIM

Paris 1 FF FRF	Rome 1 Lit ITL	Vienna 1 OS ATS	Lisbon 1 Esc PTE	Reykjavik 1 lkr ISK	Madrid 1 Ptas ESB	Tokyo 1 Y JPY	Moscow 1 Cl Rbl SUR	Melbourne 1 A \$ AUD	1 European currency unit XEU	1 special drawing right SDR	Currency index ¹
13	14	15	16	17	18	19	20	21	22	23	24
0.7365	0.00358	0.2831	0.0613	0.4079	0.0441	0.01943	6.624	..	..	5.30563	115.9
0.7353	0.00369	0.3111	0.0514	0.2325	0.0391	0.02351	7.491	..	..	5.94325	125.1
0.6907	0.00344	0.3013	0.0414	0.1939	0.0375	0.02534	7.357	..	..	6.14739	102.8
0.6940	0.00327	0.3012	0.0367	0.1520	0.0366	0.02610	7.419	..	..	6.27879	102.5
0.7355	0.00343	0.3339	0.0343	0.1259	0.0364	0.03028	7.228	..	..	5.94432	103.9
0.7481	0.00355	0.3481	0.0337	0.1236	0.0369	0.03139	7.252	..	..	5.92250	104.5
0.7506	0.00355	0.3483	0.0335	0.1243	0.0366	0.03049	7.263	..	..	5.93316	104.6
0.7524	0.00357	0.3505	0.0333	0.1231	0.0366	0.03025	7.242	..	..	5.91076	104.6
0.7512	0.00354	0.3553	0.0329	0.1190	0.0360	0.03004	7.107	3.084	5.156	5.79556	104.3
0.7517	0.00353	0.3555	0.0325	0.1184	0.0356	0.02975	7.050	3.063	5.153	5.74575	104.1
0.7407	0.00347	0.3503	0.0322	0.1176	0.0352	0.02980	7.003	3.119	5.103	5.71328	103.8
0.7350	0.00343	0.3478	0.0319	0.1162	0.0350	0.03097	6.971	3.165	5.072	5.70115	103.3
0.7316	0.00339	0.3474	0.0316	0.1155	0.0350	0.03106	6.935	3.136	5.063	5.67351	103.1
0.7306	0.00337	0.3468	0.0315	0.1163	0.0352	0.03066	6.969	3.196	5.050	5.68539	103.0
0.7316	0.00337	0.3460	0.0314	0.1170	0.0355	0.02989	6.985	3.199	5.045	5.68463	103.0
0.7288	0.00337	0.3455	0.0313	0.1171	0.0360	0.03057	7.020	3.206	5.031	5.70792	102.9
0.7280	0.00337	0.3450	0.0311	0.1155	0.0364	0.03071	6.953	3.215	5.031	5.66425	102.5
0.7262	0.00336	0.3441	0.0308	0.1152	0.0369	0.03044	6.928	3.135	5.020	5.63821	102.2
0.7266	0.00336	0.3501	0.0306	0.1140	0.0367	0.03061	6.838	2.863	5.076	5.57249	102.4

¹ Until December 31, 1983 the base year was 1974=100.
Since January 1, 1984 the base year has been 1982=100.



DEPOSITS BY THE PUBLIC

Mill. FIM

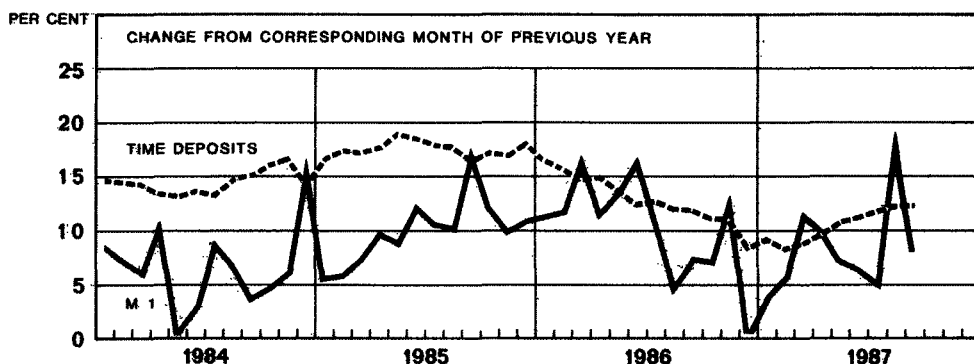
End of year and month	Demand deposits				Time deposits					Total (4 + 9)
	Commercial banks	Savings banks & Co-op. banks	Posti-pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	All deposit banks (5 to 8)	
	1	2	3	4	5	6	7	8	9	
1983	7 056	4 567	3 676	15 300	34 302	29 273	24 175	9 938	97 689	112 988
1984	8 470	5 268	4 463	18 201	39 354	33 333	27 900	11 266	111 852	130 053
1985	9 382	5 988	5 027	20 397	49 240	38 167	32 133	12 671	132 210	152 607
1986*	9 643	6 235	4 194	20 071	51 003	42 315	36 263	13 992	143 572	163 643

1986*

Sept.	9 240	5 842	5 871	20 953	49 591	41 102	35 046	13 045	138 784	159 737
Oct.	9 505	5 890	4 899	20 294	49 922	41 403	35 283	13 603	140 211	160 505
Nov.	9 010	6 073	5 278	20 361	50 201	41 867	35 636	13 778	141 482	161 843
Dec.	9 643	6 235	4 194	20 071	51 003	42 315	36 263	13 992	143 572	163 643

1987*

Jan.	9 054	5 891	4 401	19 346	51 823	43 129	37 068	14 402	146 423	165 770
Feb.	8 874	5 839	4 613	19 326	51 697	43 997	37 750	14 340	147 784	167 111
March	10 518	6 111	4 503	21 132	52 127	43 924	37 684	14 222	147 956	169 088
April	9 752	6 408	5 127	21 287	53 004	44 510	38 123	14 570	150 207	171 493
May	9 044	6 614	5 245	20 903	53 786	45 126	38 707	15 004	152 624	173 527
June	10 730	6 961	5 540	23 231	54 074	45 669	39 019	15 147	153 909	177 140
July	9 489	6 705	5 432	21 626	54 525	46 098	39 248	15 224	155 095	176 720
Aug.	10 415	6 807	5 927	23 149	55 353	46 464	39 447	15 351	156 615	179 764
Sept.	9 746	7 004	5 897	22 647	54 971	46 479	39 482	15 255	156 186	178 833



ADVANCES TO THE PUBLIC – MONEY SUPPLY

Mill. FIM

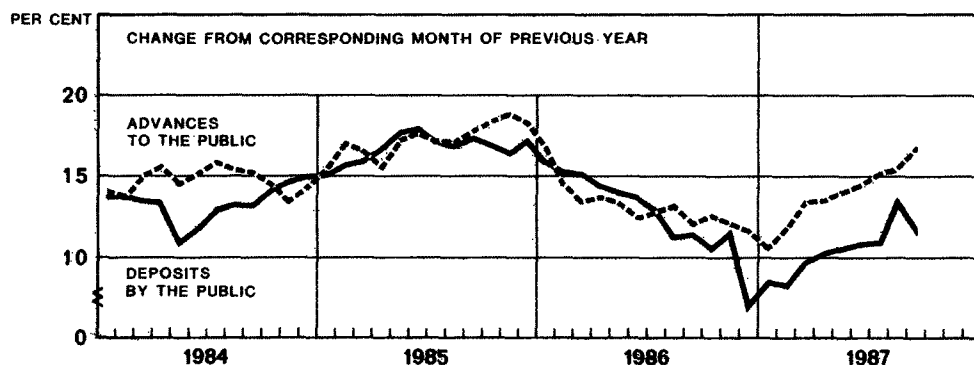
End of year and month	Advances granted by				Types of advances			Total (1 to 4) (5 to 7)	Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency		M ₁	M ₁ + Quasi-Money
	1	2	3	4	5	6	7		8	9	10
1983	56 162	29 276	27 322	13 471	104 627	4 350	17 253	126 231	21 427	121 906
1984	65 965	32 705	31 164	14 687	118 924	5 233	20 363	144 520	24 945	141 658
1985	81 669	36 991	35 751	16 745	140 139	6 313	24 704	171 155	27 694	166 652
1986*	88 188	42 230	40 776	20 052	158 689	7 542	25 016	191 246	27 838	179 324

1986*

Sept.	86 148	40 864	39 542	19 607	154 570	7 771	23 819	186 160	28 064	174 220
Oct.	87 572	41 343	39 913	20 120	156 083	7 573	25 294	188 949	27 471	175 271
Nov.	88 261	41 642	40 213	20 571	157 222	7 644	25 820	190 686	27 915	176 682
Dec.	88 188	42 230	40 776	20 052	158 689	7 542	25 016	191 246	27 838	179 324

1987*

Jan.	88 786	42 644	40 929	20 238	160 024	7 455	25 118	192 597	27 075	181 194
Feb.	90 278	43 090	41 263	20 448	161 541	7 557	25 981	195 079	26 782	182 436
March	91 254	43 663	41 877	20 981	162 649	7 943	27 183	197 775	28 901	183 992
April	92 616	44 403	42 305	21 113	164 310	8 019	28 108	200 437	29 029	186 783
May	94 605	45 155	42 967	21 439	166 436	7 998	29 732	204 167	28 547	188 548
June	96 129	45 869	43 506	21 678	168 879	8 224	30 079	207 182	30 754	192 092
July	97 155	46 628	44 254	21 994	170 902	8 262	30 867	210 031	29 126	192 062
Aug.	98 745	47 389	44 953	22 237	173 395	8 392	31 538	213 324	30 991	195 215
Sept.	101 179	48 355	45 831	22 268	175 775	8 697	33 160	217 632	30 360	194 321



STATE FINANCES

Mill. FIM

Revenue	Jan.-Sept.		Expenditure	Jan.-Sept.	
	1986	1987		1986	1987
Income and wealth tax (net)	20 199	21 959	Wages, salaries, pensions etc.	11 532	12 912
Gross receipts	53 442	59 211	Repair and maintenance	1 447	1 503
Refunds & local authorities	-33 243	-37 252	Other consumption expenditure	6 351	7 401
Other taxes on income and wealth	390	474	Total consumption expenditure	19 329	21 817
Employers' child allowance payments	4	0	State aid to local authorities	17 109	19 654
Sales tax	19 664	23 323	State aid to industries	7 431	7 985
Customs duties and import charges and levies	1 247	1 306	of which: agric. price subsidies	3 525	3 993
Excise duties	9 703	8 601	Child allowances	1 291	2 069
Excise duty on alcoholic bevs.	3 375	3 805	Share in national pensions and sickness insurance schemes	1 313	2 091
Excise duty on tobacco	1 318	1 571	Deficit of State enterprises	1 075	1 262
Excise duty on liquid fuel	3 410	2 333	Other transfer expenditure	10 189	10 817
Other excise duties	1 600	892	Total transfer expenditure	38 408	43 878
Tax on autom. and motor-cycles	2 425	2 759	Machinery and equipment	1 715	2 055
Stamp duties	2 433	2 449	Construction of buildings	655	880
Special diesel etc. vehicles tax	330	345	Land and waterway construction	1 813	2 081
Other taxes and similar revenue	1 490	1 733	Total real investment	4 183	5 016
Total taxes	57 885	62 949	Interest on State debt	3 736	3 853
Miscellaneous revenue	5 228	5 365	Other expenditure	17	15
Interest, dividends etc.	1 744	1 902	Total other expenditure	3 753	3 868
Surplus of state enterprises	1 618	1 777	Increase in inventories	206	352
Redemptions of loans granted	1 364	1 417	Lending	2 839	3 284
Total revenue	67 840	73 409	Other financial investment	653	1 052
Foreign borrowing	4 546	3 914	Total expenditure	69 373	79 266
Domestic borrowing	6 140	7 382	Redemption of foreign loans	3 942	3 722
Total borrowing	10 686	11 296	Redemption of domestic loans	3 651	5 177
Deficit (+) or surplus (-)	-1 561	3 459	Total redemptions	7 592	8 899
Total	76 965	88 165	Total	76 965	88 165

State debt	1985	1986	1987			
	Dec.	Dec.	July	Aug.	Sept.	Oct.
Foreign debt	25 677	26 981	27 561	26 635	26 384	27 312
Long-term debt	20 872	24 602	25 826	26 466	26 751	27 860
Short-term credit	432	411	678	576	484	443
Domestic debt	21 304	25 013	26 504	27 042	27 235	28 303
Total State debt	46 981	51 994	54 065	53 677	53 619	55 615
Total debt mill. \$	8 562	10 597	12 051	11 914	12 202	12 752

FOREIGN TRADE

Mill. FIM

Value, mill. FIM

Period	Exports	Imports	Surplus of exports (+) or imports (-)
	f.o.b	c.i.f.	
	1	2	3
1982	63 026	64 751	-1 725
1983	69 692	71 528	-1 836
1984	80 904	74 682	+6 222
1985	84 028	81 520	+2 508
1986*	82 579	77 601	+4 978

1987*

Jan.	6 712	6 706	+6
Feb.	6 375	5 731	+644
March	7 360	7 327	+33
April	7 286	6 499	+787
May	7 007	7 154	-147
June	7 444	7 083	+361
July	6 623	6 457	+166
Aug.	6 602	6 939	-337
Sept.	8 040	7 084	+956

Jan.-Sept.

1986*	59 568	57 411	+2 157
1987*	63 449	60 980	+2 469

Indices of exports and imports
1980 = 100

Period	Volume		Unit value		Terms of trade
	Exports	Imports	Exports	Imports	
	1	2	3	4	
1982	100	95	119	117	101
1983	104	98	127	125	101
1984	114	98	134	131	102
1985	115	104	138	135	102
1986	116	110	135	121	111

1985

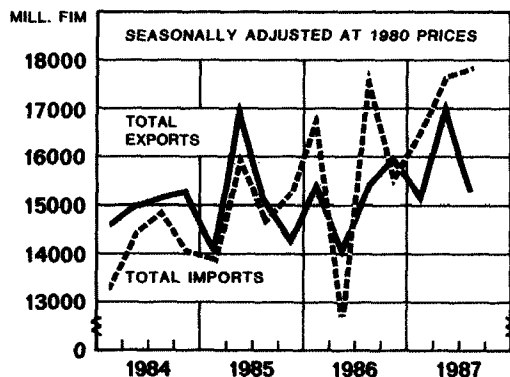
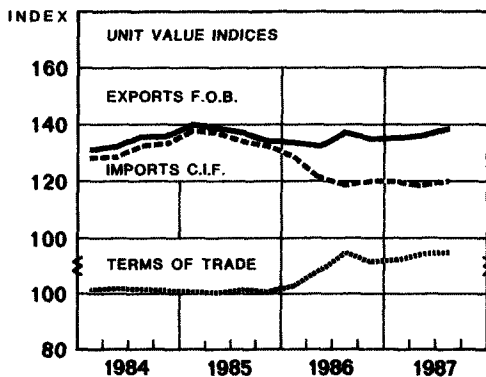
July-Sept.	113	100	138	135	102
Oct.-Dec.	117	113	135	133	102

1986*

Jan.-March	113	110	134	129	103
Apr.-June	104	90	133	122	109
July-Sept.	116	119	138	120	116
Oct.-Dec.	128	115	136	121	112

1987*

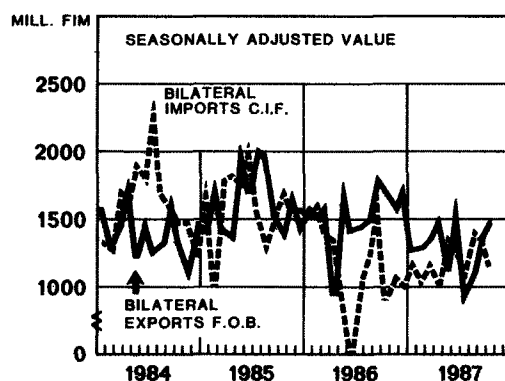
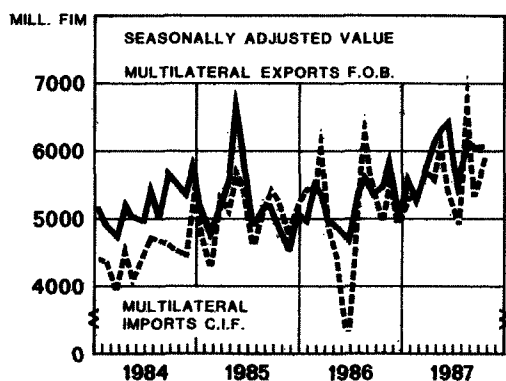
Jan.-March	114	113	136	120	113
Apr.-June	120	120	137	119	115
July-Sept.	116	116	139	121	115



FOREIGN TRADE BY MAIN GROUPS

Mill. FIM

Period	Exports, f.o.b.					Imports, c.i.f.				
	Agricultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Raw materials and intermediate goods	Fuels and lubricants	Finished goods		Other goods
								Investment goods	Consumer goods	
1	2	3	4	5	6	7	8	9	10	
1982	1 676	6 278	17 502	18 908	18 662	41 144	4 869	9 195	9 130	413
1983	1 723	6 944	19 327	20 211	21 487	44 757	5 006	10 860	10 572	333
1984	2 865	7 145	23 573	22 998	24 323	47 028	5 034	10 993	11 454	173
1985	2 678	6 728	25 030	24 412	25 179	50 944	5 502	11 675	12 967	432
1986*	2 478	6 947	24 600	26 115	22 439	45 413	3 949	12 898	15 069	273
1987*										
Jan.	213	584	2 040	2 073	1 803	3 921	304	1 080	1 255	146
Feb.	202	512	2 077	1 825	1 760	3 259	94	928	1 427	22
March	374	619	2 276	2 228	1 863	3 983	236	1 447	1 620	41
April	437	616	2 352	2 236	1 645	3 711	156	1 218	1 407	7
May	162	746	2 164	2 089	1 845	4 183	257	1 209	1 467	39
June	264	732	2 097	2 526	1 825	4 118	328	1 151	1 327	159
July	127	526	2 271	1 986	1 713	3 589	331	1 197	1 317	23
Aug.	187	545	2 191	1 848	1 830	3 994	432	1 012	1 471	30
Sept.	153	666	2 498	2 629	2 094	4 141	331	1 045	1 547	19
Jan.-Sept.										
1986*	1 983	4 863	17 974	18 312	16 436	33 827	3 060	9 152	11 244	127
1987*	2 119	5 546	19 966	19 440	16 378	34 898	2 470	10 287	12 838	486



FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January–September				January–September			
	1986*		1987*		1986*		1987*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
OECD countries in Europe	61.3	36 516	65.2	41 339	61.5	35 328	62.5	38 129
Austria	0.9	557	1.1	725	1.3	749	1.3	777
Belgium and Luxembourg	1.7	1 015	1.7	1 050	2.4	1 371	2.6	1 584
Denmark	4.0	2 380	3.9	2 502	2.8	1 626	2.8	1 732
France	4.4	2 640	5.3	3 355	4.2	2 387	4.4	2 690
Federal Republic of Germany	9.9	5 893	10.9	6 937	16.8	9 667	17.4	10 623
Italy	2.1	1 229	2.5	1 596	4.3	2 441	4.4	2 660
Netherlands	3.5	2 114	3.7	2 323	3.0	1 722	3.1	1 865
Norway	4.7	2 772	4.9	3 080	2.3	1 313	2.2	1 332
Portugal	0.3	156	0.3	215	0.9	520	1.0	620
Spain	1.0	622	1.3	805	1.1	609	1.0	625
Sweden	14.7	8 752	14.6	9 277	13.2	7 579	12.6	7 712
Switzerland	1.7	1 004	1.9	1 181	2.0	1 139	2.0	1 235
United Kingdom	10.8	6 439	11.5	7 290	6.6	3 761	6.8	4 158
Other	1.6	943	1.6	1 004	0.8	446	0.8	517
OECD countries outside Europe	9.4	5 624	8.9	5 634	12.3	7 075	13.1	7 997
Canada	1.1	683	1.2	752	0.5	293	0.5	307
Japan	1.6	952	1.5	923	6.7	3 843	7.2	4 409
United States	5.5	3 301	5.2	3 287	4.7	2 708	5.1	3 093
Other	1.2	689	1.1	672	0.4	231	0.3	188
CMEA countries	21.2	12 637	17.1	10 856	18.6	10 700	17.5	10 664
Czechoslovakia	0.3	204	0.4	234	0.5	294	0.5	296
German Democratic Republic	0.3	197	0.4	229	0.6	329	0.5	308
Poland	0.3	168	0.3	199	1.3	770	0.8	489
Soviet Union	19.5	11 594	15.6	9 873	15.6	8 951	15.0	9 172
Other	0.8	474	0.5	322	0.6	357	0.7	399
Latin America	1.5	907	1.5	948	2.5	1 442	2.0	1 228
Argentina	0.1	55	0.1	58	0.1	86	0.1	69
Brazil	0.2	126	0.3	194	0.7	428	0.5	328
Colombia	0.1	65	0.1	66	0.7	429	0.4	236
Other	1.1	662	1.0	630	0.9	500	1.0	595
Other	6.5	3 884	7.4	4 673	5.0	2 865	4.9	2 963
GRAND TOTAL	100.0	59 568	100.0	63 449	100.0	57 410	100.0	60 980
of which								
EFTA countries	22.1	13 187	22.6	14 368	18.9	10 855	18.3	11 137
EEC countries	38.7	23 078	42.2	26 775	42.6	24 429	44.2	26 944
OECD countries	70.7	42 140	74.0	46 973	73.9	42 403	75.6	46 126

BALANCE OF PAYMENTS

Period	Exports f.o.b.	Imports c.i.f.	Trade account (1-2)	Transport. net	Travel, net	Other services, net	Goods and services account (3 to 6)	Invest- ment income, net	Un- required transfers, net	Other, net	Current account (7 to 10)
	1	2	3	4	5	6	7	8	9	10	11
1983	67 960	70 731	-2 771	+3 200	-748	+1 692	+1 373	-5 808	-797	+13	-5 219
1984	78 961	73 496	+5 465	+4 008	-1 211	-209	+8 053	-6 761	-1 050	-336	-93
1985	82 475	80 764	+1 711	+3 671	-1 773	-330	+3 279	-6 287	-1 096	-413	-4 517
1986*	81 086	76 745	+4 341	+3 070	-2 419	-370	+4 623	-6 954	-1 787	-382	-4 500

1984

Oct.-Dec.	21 423	19 469	+1 954	+837	-392	+213	+2 613	-1 961	-285	-112	+254
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1985

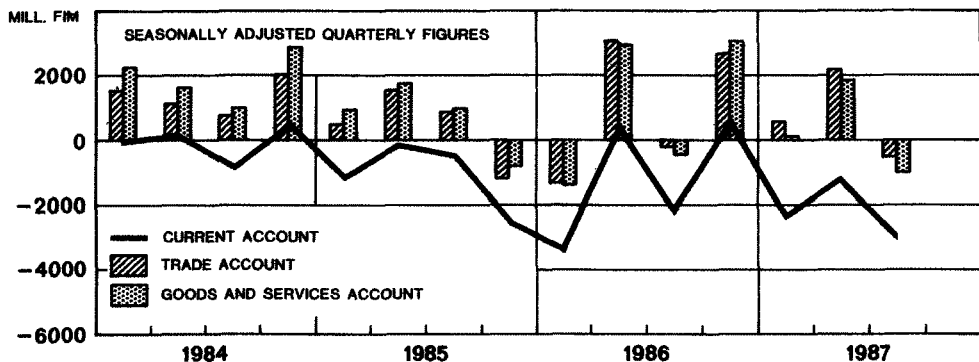
Jan.-March	19 734	18 667	+1 067	+935	-528	+18	+1 492	-1 872	-349	-148	-877
Apr.-June	22 109	21 120	+989	+1 016	-472	-237	+1 296	-1 649	-270	-82	-706
July-Sept.	20 284	19 366	+919	+906	-294	+81	+1 612	-1 257	-219	-86	+50
Oct.-Dec.	20 347	21 610	-1 263	+814	-479	-192	-1 121	-1 508	-259	-96	-2 984

1986*

Jan.-March	19 717	20 601	-884	+831	-600	-361	-1 014	-1 681	-431	-110	-3 237
Apr.-June	17 780	15 506	+2 273	+721	-645	-175	+2 175	-2 064	-280	-86	-254
July-Sept.	20 933	20 640	+293	+840	-513	-79	+541	-1 445	-424	-56	-1 385
Oct.-Dec.	22 657	19 998	+2 659	+678	-661	+245	+2 921	-1 763	-652	-130	+376

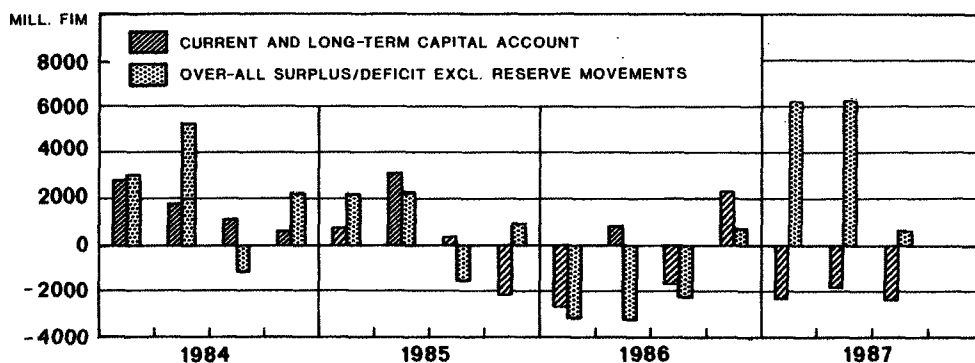
1987*

Jan.-March	20 141	19 645	+496	+690	-813	-342	+31	-2 032	-589	-117	-2 708
Apr.-June	21 399	20 563	+836	+739	-755	-228	+593	-2 662	-405	-126	-2 600
July-Sept.	20 936	20 356	+580	+711	-585	-60	+647	-1 572	-476	-99	-1 500



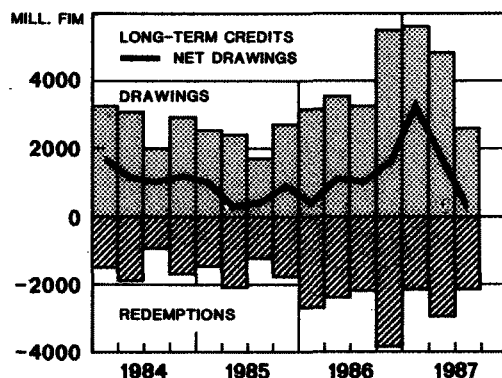
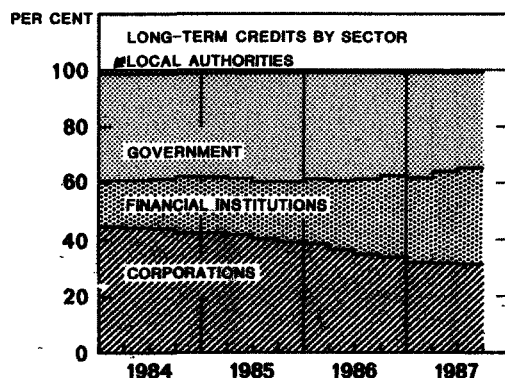
Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net	Long-term capital account (12 to 15)	Current and long-term capital account (11 + 16)	Prepayments and liabilities related to imports	Prepayments and receivables related to exports	Short-term capital of authorized banks, net	Miscellaneous, short-term capital items, incl. errors and omissions	Over-all surplus deficit excl. reserve movements (17 to 21)	Bank of Finland foreign exchange reserves
12	13	14	15	16	17	18	19	20	21	22	23
+10 112	-7 273	+423	-1 388	+1 874	-3 344	+3 273	-3 380	+1 266	+24	-2 162	+2 162
+14 087	-7 538	-1 682	+1 365	+6 232	+6 138	+760	+2 995	+2 086	-2 704	+9 275	-9 275
+11 724	-8 237	+1 313	+1 697	+6 497	+1 980	+1 795	-3 177	+5 267	-2 121	+3 744	-3 744
+19 319	-13 930	+382	-2 427	+3 344	-1 156	-18	-307	-10 754	+4 305	-7 930	+7 930
+3 659	-2 115	-933	-293	+318	+572	+300	+1 718	-702	+319	+2 208	-2 208
+3 171	-1 855	+330	-88	+1 558	+681	+1 499	-1 122	+2 208	-1 113	+2 153	-2 153
+3 022	-2 612	+373	+3 059	+3 842	+3 136	+1 130	-1 460	+1 911	-2 489	+2 228	-2 228
+2 138	-1 555	+263	-548	+298	+347	-22	-270	-1 400	-222	-1 566	+1 566
+3 393	-2 215	+347	-726	+799	-2 185	-812	-324	+2 548	+1 703	+930	-930
+3 955	-3 377	+241	-236	+583	-2 654	+1 822	-564	-3 085	+1 319	-3 162	+3 162
+4 434	-2 991	-111	-316	+1 016	+762	-1 172	-657	-2 589	+420	-3 236	+3 236
+4 065	-2 745	+110	-1 679	-249	-1 634	+1 044	+475	-3 349	+1 252	-2 213	+2 213
+6 865	-4 817	+142	-195	+1 995	+2 371	-1 712	+440	-1 731	+1 314	+681	-681
+6 990	-2 721	-265	-3 561	+443	-2 264	+1 231	+1 662	+6 464	-858	+6 236	-6 236
+6 046	-3 699	+81	-1 689	+739	-1 860	+290	-610	+3 770	+4 648	+6 237	-6 237
+3 225	-2 718	-112	-1 259	-864	-2 364	+773	-176	+2 628	-225	+637	-637

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

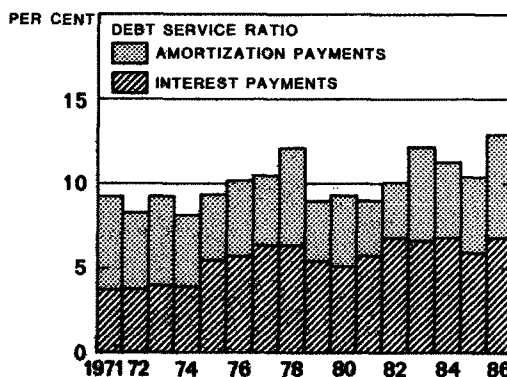
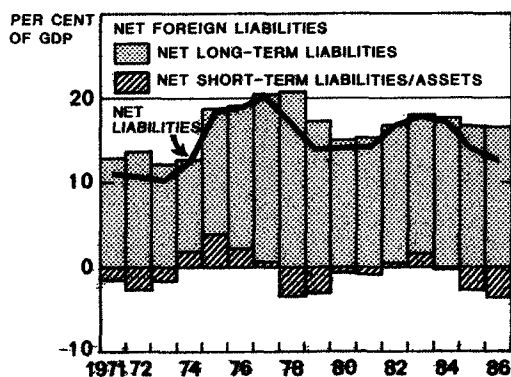


FINLAND'S FOREIGN ASSETS AND LIABILITIES

End of year and month	Long-term assets				Long-term liabilities					Net long-term liabilities (10-4)	
	Export credits	Direct investment	Other	Total (1 to 3)	Financial loans	Import credits	Direct investment	Portfolio investment	Other		Total (5 to 9)
	1	2	3	4	5	6	7	8	9	10	11
1983	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1984	8 920	8 689	1 915	19 524	63 958	3 865	2 905	2 013	805	73 546	54 022
1985	6 539	10 524	2 774	19 837	63 228	2 893	3 274	6 313	895	76 603	56 766
1986*	5 647	13 735	4 252	23 634	68 067	2 049	4 898	6 959	953	82 926	59 292
1984											
Dec.	8 920	8 689	1 915	19 524	63 958	3 865	2 905	2 013	805	73 546	54 022
1985											
March	8 473	9 942	2 061	20 476	64 484	3 651	2 899	2 900	778	74 712	54 236
June	8 027	10 379	2 177	20 583	64 801	3 318	3 058	6 317	873	78 367	57 784
Sept.	7 194	10 484	2 167	19 845	63 385	3 064	3 104	6 210	867	76 630	56 785
Dec.	6 539	10 524	2 774	19 837	63 228	2 893	3 274	6 313	895	76 603	56 766
1986*											
March	6 103	10 702	2 712	19 517	63 570	2 803	3 356	6 407	820	76 956	57 439
June	6 158	11 685	2 784	20 627	66 600	2 546	3 419	7 117	832	80 514	59 887
Sept.	5 865	12 609	3 119	21 593	67 670	2 487	3 685	6 911	906	81 659	60 066
Dec.	5 647	13 735	4 252	23 634	68 067	2 049	4 898	6 959	953	82 926	59 292
1987*											
March	5 660	14 160	6 805	26 625	69 960	1 962	5 017	6 572	1 683	85 194	58 569
June	5 588	15 011	7 819	28 418	72 554	1 843	5 225	6 578	1 627	87 827	59 409
Sept.	5 649	15 316	8 287	29 252	72 411	1 752	5 226	6 307	1 596	87 292	58 040



Short-term assets				Short-term liabilities				Net short-term liabilities (19-15)	Net liabilities (11+20)	Debt service flow	Of which amortization payments flow
Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (12 to 14)	Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (16 to 18)				
12	13	14	15	16	17	18	19	20	21	22	23
11 842	29 263	15 915	57 020	5 705	39 443	16 181	61 328	4 308	49 116	10 875	4 914
22 912	43 319	12 804	79 035	4 562	55 695	17 988	78 245	-790	53 232	11 594	4 613
25 183	38 775	18 155	82 113	4 070	51 374	17 354	72 798	-9 314	47 452	11 276	4 808
16 613	54 598	18 381	89 593	3 455	56 881	16 119	76 454	-13 138	46 154	13 356	6 185
22 912	43 319	12 804	79 035	4 562	55 695	17 988	78 245	-790	53 232	3 387	1 377
24 785	44 984	15 869	85 638	4 535	59 386	19 328	83 249	-2 390	51 846	3 397	1 561
26 208	46 661	18 635	91 504	3 729	62 896	19 987	86 612	-4 891	52 893	2 791	1 039
24 770	44 927	18 183	87 880	4 240	59 370	19 120	82 730	-5 150	51 635	2 320	1 011
25 183	38 775	18 155	82 113	4 070	51 374	17 354	72 798	-9 314	47 452	2 768	1 197
21 647	40 424	18 037	80 109	3 659	50 424	18 682	72 765	-7 343	50 096	3 858	2 126
18 470	45 237	18 213	81 921	3 499	52 647	16 965	73 111	-8 809	51 078	3 288	1 176
16 168	51 541	17 881	85 591	3 565	55 602	18 234	77 401	-8 190	51 876	2 312	837
16 613	54 598	18 381	89 593	3 455	56 881	16 119	76 454	-13 138	46 154	3 897	2 046
22 482	50 790	16 266	89 538	3 521	59 536	18 727	81 783	-7 754	50 815	3 490	1 441
28 680	54 691	17 215	100 587	3 490	67 208	19 077	89 775	-10 812	48 597	4 209	1 499
29 304	60 373	17 474	107 151	3 607	75 517	20 920	100 044	-7 107	50 933	2 805	1 224



PRICE INDICES

Period	Wholesale price index 1949 = 100	Basic price index for domestic supply 1980 = 100						Building costs 1980 = 100		
		Total	Origin		Purpose			Total	Wages in building trade	Building materials
			Domestic goods	Imported goods	Raw materials	Consumer goods	Investment goods			
	1	2	3	4	5	6	7	8	9	10
1985	1 324	140.5	143.1	132.8	137.5	145.8	142.4	144.3	144.4	142.8
1986	1 264	133.2	139.8	113.1	122.3	145.7	148.0	150.6	153.9	148.2
1987										
March	1 274	133.3	140.6	111.0	120.6	146.6	151.4	155.8	165.2	151.4
April	1 277	133.7	141.2	110.9	120.7	146.9	152.7	156.9	165.5	153.3
May	1 276	133.9	141.5	110.8	120.7	146.9	153.8	157.2	165.5	153.6
June	1 278	134.1	141.6	111.3	120.7	147.3	154.4	157.5	165.5	153.9
July	1 284	134.9	142.2	112.5	121.6	148.1	154.7	157.9	165.4	154.4
Aug.	1 285	135.0	142.4	112.8	121.8	147.9	155.4	158.2	165.4	154.9
Sept.	1 286	135.0	142.8	111.5	121.4	148.5	155.7	158.6	165.4	155.2
Oct.	1 293	135.6	143.5	111.5	122.0	149.0	156.1	158.8	165.4	155.6

Period	Consumer prices 1981 = 100									
	Total	Food	Beverages and tobacco	Clothing and footwear	Rent, heating and lighting	Household goods and services	Health and medical services	Transport and communication	Education and recreation	Other goods and services
	1	2	3	4	5	6	7	8	9	10
1985	134.6	139.1	140.3	126.1	130.9	129.7	155.7	130.4	132.5	140.4
1986	139.4	144.2	146.4	131.6	134.5	135.0	164.1	130.7	139.9	149.0
1987										
March	143.4	146.3	155.2	134.6	134.6	138.7	171.6	137.2	146.8	155.1
April	144.0	147.2	155.5	135.3	134.7	139.4	172.8	138.0	147.8	155.3
May	144.3	146.3	155.7	135.7	135.5	140.0	172.8	138.2	148.2	156.4
June	144.6	146.7	155.7	135.8	135.5	140.1	175.3	139.3	148.2	156.7
July	144.7	146.9	155.7	134.2	135.5	139.6	177.7	139.7	148.2	156.8
Aug.	145.0	147.6	155.7	135.3	135.5	140.1	177.7	139.1	148.2	158.3
Sept.	145.6	148.1	155.7	136.8	135.6	140.8	178.0	139.7	150.0	159.2
Oct.	145.9	149.0	155.8	136.2	135.6	141.3	177.9	139.6	150.0	159.7

WAGES

Index of wage and salary earnings 1980 = 100

Period	By industries			By institutional sectors			All salary earners	All wage earners	All employees	
	Wage earners in			Employees in services	State employees	Municipal employees				Employees in private sector
	Agriculture	Industry	Construction							
1	2	3	4	5	6	7	8	9	10	
1984	148.5	149.9	152.8	152.8	147.1	154.7	150.5	151.4	149.7	150.8
1985	160.6	161.2	168.8	165.1	158.8	166.7	163.5	164.2	162.2	163.5
1986*	176.3	171.0	179.0	178.6	169.8	180.1	174.5	176.6	172.0	174.9
1986*										
July-Sept.	172.2	171.4	178.8	179.8	171.0	181.3	175.2	177.8	172.2	175.8
Oct-Dec.	180.9	173.7	187.4	181.5	171.2	182.9	178.7	179.9	176.0	178.4
1987*										
Jan.-March	182.3	178.6	190.1	185.7	177.9	186.6	181.8	183.5	179.8	182.2
Apr.-June	186.1	184.4	193.6	191.9	186.1	192.1	188.4	190.7	185.4	188.8
July-Sept.	186.9	183.4	194.1	192.3	186.1	192.4	188.2	191.0	184.7	188.8

PRODUCTION

Volume indices of production 1985 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communication	Commerce	Public sector services	Others
1985										
Apr.-June	99	105	75	122	81	103	99	98	99	101
July-Sept.	98	92	172	42	105	105	97	101	100	99
Oct.-Dec.	109	107	83	122	136	107	109	113	101	106
1986*										
Jan.-March	94	94	69	106	78	88	97	90	102	98
Apr.-June	100	105	75	100	70	107	98	104	99	106
July-Sept.	103	94	178	43	110	107	102	107	103	105
Oct.-Dec.	112	111	84	115	139	107	114	114	104	112
1987*										
Jan.-March	99	100	69	106	75	88	101	95	105	103
Apr.-June	106	107	72	110	85	107	114	109	106	112

PRODUCTION

Index of industrial production 1980 = 100

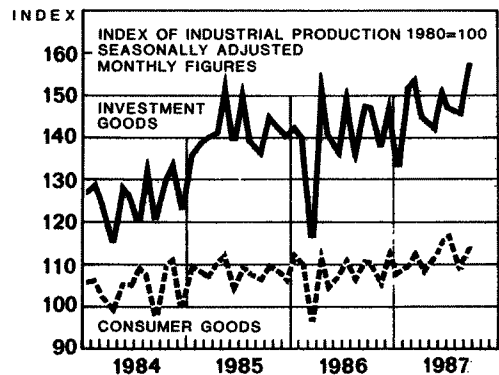
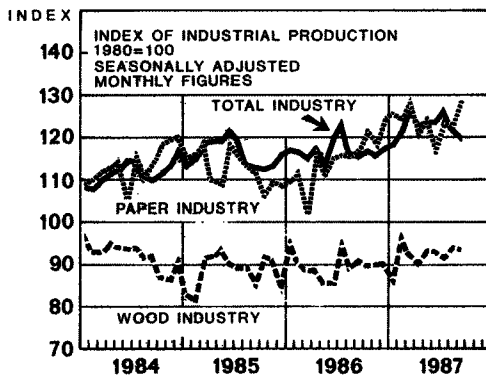
Period	Total	Investment goods	Consumer goods	Other producer goods	Special indices of manufacturing						Total adjusted for seasonal variations
					Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
	1	2	3	4	5	6	7	8	9	10	11
1984	111.8	126.8	105.6	111.9	109.3	92.4	114.3	111.5	108.4	120.0	112.1
1985	116.2	142.6	109.0	114.6	111.8	88.8	113.3	116.0	111.3	129.6	116.6
1986*	117.2	142.4	109.2	116.3	112.4	90.2	115.6	117.8	108.1	131.8	117.5

1986*

Sept.	125.3	152.0	116.2	124.5	113.4	105.9	116.5	124.7	144.5	143.9	115.9
Oct.	134.7	166.3	126.5	132.7	141.3	109.1	128.4	121.2	145.9	156.2	117.1
Nov.	123.9	149.5	116.9	122.3	130.5	92.7	121.2	125.2	120.6	140.3	115.9
Dec.	117.5	146.6	110.2	115.6	114.3	73.1	118.0	117.1	94.2	135.5	117.5

1987*

Jan.	121.4	138.0	115.6	120.7	102.9	81.3	127.9	118.5	98.4	128.0	118.5
Feb.	116.4	146.2	106.8	115.5	93.6	89.4	122.7	109.3	93.3	129.9	121.9
March	131.8	170.5	119.2	130.8	104.8	97.9	131.3	130.8	112.0	153.8	127.9
April	120.6	150.9	111.9	119.1	110.5	104.1	111.9	122.9	109.8	138.0	123.3
May	125.2	159.6	113.7	124.3	107.9	106.2	125.0	126.0	119.0	144.8	124.6
June	123.2	169.4	110.4	121.1	113.1	107.9	104.4	122.2	120.7	151.2	123.9
July	88.5	72.4	78.4	95.7	105.0	45.8	139.5	82.3	76.4	72.8	127.2
Aug.	119.7	132.7	109.9	121.7	108.7	85.2	129.0	127.7	135.7	126.2	122.5
Sept.	130.3	160.8	119.0	129.9	114.1	107.7	127.7	121.8	157.2	150.4	120.6



LABOUR – TIMBER FELLINGS – INTERNAL TRADE

Period	Population of working age, 1 000 persons	Total labour force, 1 000 persons	Employed, 1 000 persons	Un-employed, 1 000 persons	Unemployment, % of total labour force	Commercial timber fellings, 1 000 solid cu. m	Retail sales volume index 1980 = 100	Wholesale volume index 1980 = 100
	1	2	3	4	5	6	7	8
1985*	3 710	2 600	2 437	163	6.3	43 349	114	110
1986*	3 716	2 612	2 431	182	7.0	38 832	117	115
1986*								
Aug.	3 718	2 647	2 481	166	6.3	1 194	116	114
Sept.	3 715	2 600	2 428	172	6.6	2 143	116	126
Oct.	3 716	2 576	2 394	182	7.1	3 100	122	130
Nov.	3 717	2 567	2 392	175	6.8	3 626	110	115
Dec.	3 718	2 572	2 399	173	6.7	3 981	138	127
1987*								
Jan.	3 719	2 510	2 337	173	6.9	3 173	114	103
Feb.	3 718	2 487	2 346	141	5.7	4 912	104	106
March	3 718	2 520	2 376	144	5.7	5 678	112	125
April	3 720	2 518	2 384	134	5.3	5 692	122	126
May	3 720	2 535	2 411	124	4.9	3 888	122	123
June	3 719	2 707	2 577	130	4.8	2 309	126	123
July	3 720	2 720	2 597	123	4.5	953	..	..
Aug.	3 720	2 611	2 500	110	4.2	1 493	..	..
Sept.	3 721	2 525	2 408	116	4.6	2 562	..	..

CONSTRUCTION OF BUILDINGS

Period	Building permits granted					Buildings completed					Building-works under construction
	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	
Million cubic metres											
	1	2	3	4	5	6	7	8	9	10	11
1985*	48.17	18.17	6.70	16.53	3.41	44.74	17.40	4.94	15.97	3.35	49.64
1986*	48.02	16.94	6.23	17.29	4.00	40.36	15.29	5.09	13.49	3.51	52.27
1986*											
Jan.-March	9.30	2.98	1.20	4.09	0.51	8.36	3.62	0.58	2.96	0.68	46.70
Apr.-June	17.03	6.88	2.99	4.91	0.97	5.50	2.33	0.73	1.65	0.39	56.14
July-Sept.	12.78	4.35	1.27	4.82	1.26	11.67	3.93	1.84	3.79	1.29	57.28
Oct.-Dec.	8.91	2.73	0.77	3.47	1.26	14.83	5.41	1.94	5.09	1.15	52.27
1987*											
Jan.-March	8.88	2.95	1.00	3.46	0.95	7.97	3.45	0.71	2.81	0.54	48.43
Apr.-June	17.03	6.46	2.89	5.14	1.13	8.01	3.20	0.62	2.95	0.70	55.16

EXPLANATIONS RELATING TO THE STATISTICAL SECTION

BANK OF FINLAND

Page 4. *Public sector*: Claims = Government promissory notes + Bonds + Total coinage + Other claims on the public sector. Other liabilities = Cheque accounts + Counter cyclical reserves + Counter-cyclical deposits + Capital import deposits + Other liabilities to the public sector. Certificates of deposit are interest bearing, freely transferable term liabilities of the Bank of Finland sold to the government. Their maturities range from one week to one year. As from November 1, 1983, certificates of deposit were replaced by the government deposit account.

Page 5. *Domestic financial sector*: Other liabilities, net = Capital import deposits + Other liabilities to financial institutions - Bonds - Other claims on financial institutions.

Corporate sector: Permanent special financing schemes = Foreign bills + New export bills + Financing of suppliers' credits. Liabilities, net = Deposits for investment and ship purchase + Counter-cyclical withholdings + Capital import deposits + Import levy deposits + Export deposits + Other liabilities to corporations - Bonds - Other claims on corporations.

MONETARY POLICY INDICATORS

Page 6. All the figures except the average lending rate of the commercial banks are mean values of daily figures for the month or year in question. The average lending rate of the commercial banks is the mean value of the end of the month lending rates weighted by credit outstanding. The annual figure for the average lending rate is an unweighted average of the weighted average monthly rates.

Gross central bank debt of the deposit banks = call money credits and term credits extended to and certificates of deposit bought from the commercial banks and Postipankki. As from January 1984, the only source of central bank debt was the call money market. Three month term credits were introduced in December 1986 and open market operations in CDs were started in March 1987. Banks' borrowing from the central bank is monitored; a bank exceeding stipulated limits comes under the special surveillance of the central bank. The rate of interest on call money credits is set by the central bank. The 3-month HELIBOR is the arithmetic mean of daily inter-bank offered rates for the four biggest commercial banks and Postipankki.

Net central bank debt of the deposit banks = Gross central bank debt of the deposit banks - The commercial banks' and Postipankki's call money and term deposits and their holdings of CDs issued by the Bank of Finland. - All deposit banks' cash reserve deposits at the Bank of Finland.

Cash reserve deposits of the deposit banks equal the total amount of cash reserve deposits at the Bank of Finland made by the deposit banks under the Cash Reserve Agreement of September 7, 1984. The deposit banks consist of the commercial banks, co-operative banks, savings banks and Postipankki.

The cash reserve requirement is set each month by the Bank of Finland as the percentage of each bank's stock of deposits and major part of a bank's net foreign debt which must be deposited at the central bank. Deposits are to be made one month after the close of the month to which the coefficient applies.

Call money credit extended by the Bank of Finland = Demand for call money by the deposit banks - Supply of call money by the deposit banks.

As from the beginning of 1986, the call money interest rate was differentiated into two separate rates of interest, the rate on call money credits and a lower one, the rate on call money deposits. As from the beginning of 1986, the figures on page 6 and the chart illustrating the call money rate have been prepared on the basis of the rate on call money credits.

FORWARD EXCHANGE MARKETS IN FINLAND

Page 7. The figures for columns 1-6 are calculated by the Bank of Finland on the basis of monthly reports from the banks on their outstanding forward exchange positions at the end of each month. The figures for columns 7-9 are based on monthly averages of daily representative quotations, as reported by the banks to the Bank of Finland.

The banks' foreign currency positions shown in the chart at the bottom of page 7 are monthly averages of daily spot and forward positions vis-à-vis the markka as reported by the commercial banks to the Bank of Finland. The spot position includes all foreign currency-denominated assets and liabilities of the banks, excluding their outstanding forward contracts.

FOREIGN EXCHANGE RATES

Pages 8-9. *Exchange rates* are annual and monthly averages of the Bank of Finland's daily quotations. From the beginning of 1987, all quotations are expressed as FIM per one unit of foreign currency. The Australian dollar (AUD) and the European Currency Unit (XEU) have been added to the list of quoted currencies. The *currency index* is shown as annual and monthly averages of daily index numbers. The chart at the bottom of page 8 shows the banks' forward selling rates for the US dollar as deviations from the spot rate.

DEPOSITS BY THE PUBLIC -

ADVANCES TO THE PUBLIC - MONEY SUPPLY

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

Page 10. *Deposits by the public*. The central government and the financial institutions are mainly excluded from the public. From 1974 deposits include domestic deposits denominated in foreign currency.

Page 11. *Advances to the public*. The central government and the financial institutions are not included in the public.

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

Money Supply M₁ = Finnish notes and coins in circulation - Finnish notes and coins held by the banks + Demand deposits held by the public (incl. Demand deposits at the Bank of Finland). Quasi-Money = Time deposits held by the public (incl. Time deposits at the Bank of Finland).

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

STATE FINANCES

Page 12. Official figures computed by the Economics Department of the Ministry of Finance. Revenue and expenditure: Extra-budgetary funds and the aggregated net current deficit of State enterprises are included: Figures are reported on a cash payment basis.

FOREIGN TRADE

Pages 13-15. Figures supplied by the Board of Customs. *Indices* (p. 13): The volume indices are calculated according to the Paasche formula and the unit value indices according to the Laspeyres formula. *Terms of trade*: the ratio of export indices to import indices. *Foreign trade by countries*: (p. 15): from January 1980 imports by countries of origin, exports by countries of consignment.

BALANCE OF PAYMENTS

Pages 16-17. Figures are calculated by the Bank of Finland.

Columns 1-7. The figures for the trade and goods and services accounts are in accordance with the System of National Accounts.

Columns 12-13. Long-term loans comprise financial loans and import and leasing credits.

Column 15. Miscellaneous long-term capital items, net = direct investment, net + portfolio investment by foreigners + financial loans and development credits to abroad + Finland's subscriptions to international financial institutions, net.

Column 23. Changes in the foreign exchange reserves of the Bank of Finland exclude changes in the markka value of the reserves caused by changes in exchange rates.

FOREIGN ASSETS AND LIABILITIES

Pages 18-19. Figures calculated by the Bank of Finland.

Long-term assets: Other = financial loans + development credits + Finland's subscriptions to international financial institutions. Long-term liabilities: Portfolio investment = the outstanding amount of share issues by Finnish companies on foreign stock exchanges and of securities sold to foreign buyers through the Helsinki Stock Exchange. Other = Leasing credits + subscriptions to international financial institutions paid in the form of bonds.

Column 22. Debt service = Net investment income of short-term and long-term assets and liabilities + net amortisation payment of long-term foreign assets and liabilities, excluding early repayments of loans due to the restructuring of debt, repatriations of equity capital (included under direct investment), as from the beginning of 1986 repurchases of shares (included under portfolio investment), and repayments of the Bank of Finland's reserve and oil credits.

Columns 22 and 23 during the year and the quarter.

Chart Debt service ratio: Debt service as a per cent of current account earnings.

PRICE INDICES

Page 20. All indices calculated by the Central Statistical Office.

WAGES - PRODUCTION

Pages 21-22. Figures supplied by the Central Statistical Office.

Page 22. *Index of industrial production* calculated by the Central Statistical Office. The grouping, by branches of industry is in accordance with the Standard Industrial Classification (SIC) which is a version of the 1968 edition of the ISIC. The SIC facilitates international comparisons between Finnish statistics and corresponding data from countries which use the ISIC. The seasonally adjusted series is calculated by the Bank of Finland on the basis of the index of industrial production per working day according to a method resembling the U.S. Bureau of Census Method II.

LABOUR - TIMBER FELLINGS - INTERNAL TRADE - CONSTRUCTION OF BUILDINGS

Page 23. *Labour* figures supplied by the Central Statistical Office. *Commercial timber fellings* compiled by the Forest Research Institute. *Retailers' and Wholesalers' volume indices* supplied by the Central Statistical Office. *Construction of buildings* figures calculated by the Central Statistical Office.

Owing to rounding, the figures in statistical tables do not necessarily add up to the totals shown.

SYMBOLS USED: * Preliminary, † Revised, 0 Less than half the final digit shown, . Logically impossible, . . . Not available, - Nil, S affected by strike, - Break in series.

SOME PARTICULARS ABOUT FINLAND

FORM OF GOVERNMENT

From 1155 to 1809 Finland formed a part of the kingdom of Sweden. Connected from 1809 with Russia, Finland was an autonomous country with the Emperor as Grand Duke until December 6, 1917, the date of Finland's declaration of independence. The republican constitution was adopted in 1919. The legislative power of the country is vested in Parliament and the President. The highest executive power is held by the President, elected for a period of 6 years. The President for the current term, January 27, 1982, to March 1, 1988, is Mauno Koivisto.

Parliament, comprising 200 members is elected by universal suffrage for a period of 4 years. The number of seats of the different parties in Parliament elected in 1987 is as follows: Social Democratic Party of Finland 56, National Coalition Party 53, Centre Party 40, Democratic League of the People of Finland 16, Finnish Rural Party 9, Swedish People's Party 13, Christian League of Finland 5, The Greens 4 and Democratic alternative 4.

Finland is divided into 461 self-governing municipalities. Members of the municipal council are elected by universal suffrage for a period of 4 years.

INTERNATIONAL ORGANIZATIONS

Finland became a member of BIS 1930, IMF 1948, IBRD 1948, GATT 1950, UN 1955, IFC 1956, IDA 1960, EFTA 1961, ADB 1966, OECD 1969, IDB 1977 and AfDB 1982.

LAND

THE AREA is 338 000 square kilometres (Great Britain's area is 244 000 sq. km and Italy's area 301 000 sq. km). Of the total, inland waters form 9.4%. Of the land area (1980) 2.5 mill. ha (8.2%) are cultivated and 19.7 mill. ha (64.5%) are covered by forests.

OWNERSHIP OF LAND (1979). The total land area was distributed among different classes of owners approximately as follows: private 58.7%, State 31.4%, joint stock companies etc. 7.4%, municipalities and parishes 2.5%.

POPULATION

NUMBER OF INHABITANTS (1985): 4.9 million. Sweden 8.4, Switzerland 6.5, Denmark 5.1, and Norway 4.2 million.

DENSITY OF POPULATION (1985): In South Finland 47.9, in East and Central Finland 14.3, in North Finland 4.2 and in the whole country an average of 16.1 inhabitants to the square kilometre.

DISTRIBUTION BY AREA (1985): 40% of the population inhabit the rural areas, 60% towns. The largest towns are: Helsinki (Helsingfors), the capital, 485 795 inhabitants, Tampere (Tammerfors) 169 026, Turku (Åbo) 161 398.

EMPLOYMENT (1986): Agriculture and forestry 11%, industry and construction 32%, commerce 15%, transport and communication 8%, financing, insurance, real estate and business services 6%, community and personal services 28%.

LANGUAGE (1985): Finnish speaking 93.6%, Swedish speaking 6.1%, others 0.3%.

EDUCATION (1987): Practically all persons over 15 years of age are literate. There are 8 universities (the oldest founded in 1640) and 12 colleges of university standard.

CHANGE OF POPULATION (1985): births 12.2 ‰, deaths 9.8 ‰, change + 3.5 ‰, net immigration + 0.6 ‰, Deaths in France 10.1 ‰ and Great Britain 11.8 ‰.

TRADE AND TRANSPORT

NATIONAL INCOME (1986), in million FIM: Gross domestic product at factor cost by industrial origin: agriculture and fishing 13 993 (4%), forestry 9 943 (3%), manufacturing 85 036 (27%), construction 24 386 (8%), trade, restaurants and hotels 36 949 (12%), transport and communication 25 105 (8%), banking and insurance 14 851 (5%), ownership of dwellings 20 904 (6%), other services 84 562 (27%), total 315 729. Index of real domestic product 102 (1985 = 100).

FOREST RESOURCES (1984). The growing stock comprised of 1 660 million m³ (solid volume with bark) of which 45% was pine and 37% spruce the remaining 18% being broad-leaved trees chiefly birch. Of the growing stock 656 million m³ was up to the standard required for logs, 51% of these being pine. The annual growth was 68 million m³ and the total drain calculated on the basis of roundwood consumption was 52.3 million m³.

AGRICULTURE (1984). Cultivated land 2.4 million hectares. Number of holdings 203 933 of which 143 931 are of more than 5 ha. Measure of self-sufficiency in bread cereals 93%.

INDUSTRY (1984). Gross value of industrial production FIM 244 745 mill., number of workers 390 301, salaried employees 147 608, motive power 8.7 mill. kW. Index of industrial production 111.8 for 1984 (1980 = 100).

STATE RAILWAYS (Dec. 31, 1985): Length 5 979 km.

MERCHANT FLEET (Sept. 30, 1987): Passenger vessels 167 (253 136 gross reg. tons), tankers 28 (241 604 gross reg. tons), dry cargo vessels 104 (258 220 gross reg. tons), other vessels 114 (70 897 gross reg. tons), total 413 (823 857 gross reg. tons).

AUTOMOBILES (Dec. 31, 1986): Passenger cars 1 619 848, lorries and vans 187 465, buses 9 166, other automobiles 12 470, total 1 828 949.

FINNISH AIRLINES (Feb. 28, 1985). Finnair has in use 1 DC-8-62, 3 DC-9-10, 5 DC-9-41, 12 DC-9-51, 3 DC-9 Super 82, 3 DC-10-30, 1 DC-10-30 ER and 3 Fokker F-27 Friendship MK. The company has scheduled flights to 34 foreign and 21 domestic destinations.

FINANCE AND BANKING

CURRENCY. Since 1860, Finland has had its own monetary system. From 1877 until 1914 the country was on the gold standard, and returned to it in 1926. In 1931, the Central Bank's duty to redeem bank notes in gold was suspended and at the end of 1962 was entirely cancelled. The monetary unit is the markka (plural: markkaa), which is divided into 100 penniä (singular: penni). The abbreviation used for the markka is FIM. The last par value of the markka was set on Oct. 12, 1967 and was 0.21159 grams of fine gold per markka (equivalent, at the time, to 4.20 markkaa per U.S. dollar). Since Nov. 1, 1977 the external value of the markka has been officially expressed in terms of a currency index. This index is tradeweighted and as from Jan. 1, 1984 indicates the average change in the convertible currencies which are important in Finnish foreign trade. The present currency weights are SEK 20.1, DEM 19.5, GBP 14.4, USD 8.9, other currencies 37.1. The permissible range of fluctuation is about 2.25 per cent on either side of the theoretical arithmetic mean. The fluctuation limits are 106.0 and 101.3.

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

OTHER CREDIT INSTITUTIONS (Dec. 31, 1985). There are two big and eight small commercial banks with in all 967 offices, 254 savings banks, 370 co-operative banks, six mortgage banks, Postpankki and three development credit institutions. The co-operative stores accept deposits from their members. The Social Insurance Institution and 48 private insurance companies also grant credits.

RATES OF INTEREST (May 19, 1986). The Bank of Finland's base rate is 7%. The interest rates for domestic lending other than bank financing by the Bank of Finland vary between 4 ½% and 9 ½%. Other credit institutions: time deposits 2% %; 6 month deposits 4% %; 12 month deposits 5% %; 24 month deposits 7% %.

MAIN TRENDS IN FINNISH ECONOMIC DEVELOPMENT IN 1860—1985

by Riitta Hjerpe, Dr. Pol. Sc
Ministry of Finance

In the course of the past 125 years, Finland has been transformed from a poor agricultural country into an industrial and service economy with a high standard of living. Although Finland had contacts with European trading centres in the first half of the 19th century through her exports of tar and timber and imports of luxury goods, in the main a meagre living was eked out in a subsistence economy based on agriculture. Today, Finland belongs to the group of the world's wealthiest nations.

From 1809 to 1917, Finland was an autonomous Grand Duchy in the Russian empire. In the previous centuries, under Swedish rule, a Swedish administrative system had been established in the country. Even during the period of Russian rule, social development largely continued on this Nordic basis. Although the Russian government later attempted to restrict Finland's autonomy, the country was hardly russianized at all.

In 1917, Finland declared independence. The republican form of government and parliamentary democracy adopted at that time have endured the domestic political crises of the early years of independence as well as defeat in the Second World War and the heavy burden of ceded territories and war reparations.

Today, Finland is a neutral country between East and West, enjoying good relations with both. Finland is a western market economy, in which, as is usual in a modern welfare state, the government plays a significant role in economic development. Social security is highly advanced, as, too, is public health and education.

This article presents some of the key findings of a forthcoming final report on the long-term development of the Finnish economy¹. It examines growth, structural change and human and material resources. Finland's participation in the international division of labour is also discussed.

ACCELERATING GROWTH OF GROSS DOMESTIC PRODUCT¹

Rapid and sustained real economic growth, as measured in per capita terms, is historically a relatively recent phenomenon. In Great Britain, industrial growth started in the latter half of the 18th century, but in most industrial countries rapid growth is not considered to have started until the 19th century. Among the countries that followed in Britain's footsteps in the first half of the 19th century were France, Belgium, Switzerland and the United States.

In the period 1860—1985, Finland's gross domestic product grew at an annual average rate of 3.0 per cent in real terms. Expressed in per capita terms, growth amounted on average to 2.2 per cent per annum (Table 1, Chart 1). Compared internationally, this represents particularly rapid growth.

¹ An extensive research project on Finnish economic growth has been going on since 1960 under the direction of the Bank of Finland's Growth Studies Committee. The aim of the project is to examine economic development using historical national accounts calculations. So far, twelve separate studies on economic development by economic activity since 1860 have been published in the Bank of Finland's Growth Studies Series. The thirteenth publication, currently under preparation, will be a final report presenting output by economic activity, the balance of total supply and demand in current and fixed prices and employment.

TABLE 1. GROWTH OF REAL GDP AT FACTOR COST, LABOUR INPUT AND LABOUR PRODUCTIVITY IN DIFFERENT PERIODS IN 1860–1985, PER CENT PER YEAR

	GDP growth	Growth of labour input	Growth of labour input productivity
1860–1890	2.2	1.2	0.9
1890–1913	2.9	1.2	1.7
1913–1920	-1.4	0.6	-2.0
1920–1938	4.4	1.5	2.8
1938–1946	0.5	0.7	-0.2
1946–1960	4.9	1.3	3.5
1960–1974	4.5	-0.1	4.6
1974–1985	2.9	-0.5	3.4
1860–1985	3.0	0.9	2.1

It is estimated that in 1860 Finland's standard of living was a quarter below the European average. However, the European average level was reached just before the outbreak of the First World War. In the 1980s, Finland has occupied 7th to 10th place in Europe, as measured by GDP per capita. The ranking varies according to whether one uses GDP per capita calculated on the basis of official exchange rates or purchasing power parities.

The growth of gross domestic product has not been even. Rather, the two world wars and depressions have at times brought growth to a halt. The disruption in per capita GDP growth caused by the First World War lasted as long as 10 years. During the Second World War, GDP per capita remained below the pre-war level for six years. The worst peacetime depressions were the famine of 1867–1868 following the 1867 crop failure, the Long Depression, which in Finland started in 1877 – GDP

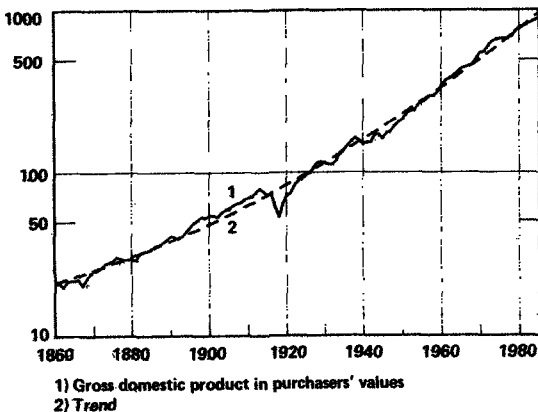
per capita fell and remained below the level prior to the depression up to 1886 – and the Great Depression in 1930–1933.

Since the Second World War, gross domestic product has not declined once. In recessions, the rate of growth has slowed down or growth has halted on a few occasions. The worst recession occurred in 1975–1977, when gross domestic product did not grow for three years running.

A significant new finding is the fact that the growth of gross domestic product or GDP per capita has not been even on average. Rather, it has accelerated slightly. After wars or depressions, the economy has risen to a new, faster growth path. According to its logarithmic trend, growth has accelerated by 0.022 per cent per year. Viewed in a long-term perspective, the slower growth of the last ten or so years is hardly any worse than certain other growth standstills of a cyclical nature.

This kind of initially slow but gradually accelerating growth has recently also been observed in certain other industrial countries, when the results of growth studies carried out there have been re-examined (e.g. the United Kingdom and Sweden). The acceleration of growth is due to the fact that new technology and new methods of production improving productivity are first introduced in narrow branches of the economy. Growth in the traditional main sectors continues at a slow pace so that total growth remains slow in the initial stages. Gradually, however, the modern branches expand thanks to rapid growth, resources are transferred to them and the pace of innovation speeds up. As the share of the new branches increases, the growth of the entire economy accelerates.

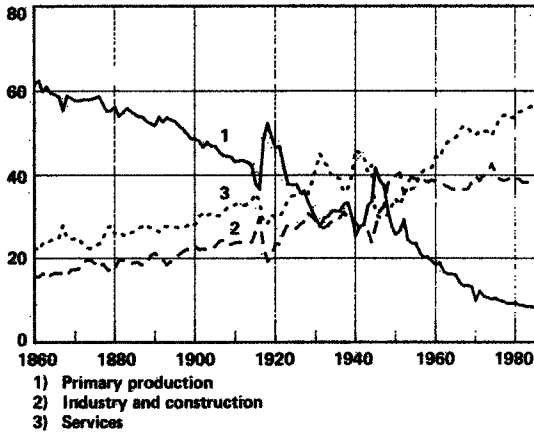
CHART 1. VOLUME INDEX OF GROSS DOMESTIC PRODUCT IN 1960–1985, 1926 = 100



STRUCTURAL CHANGE

Radical structural change in the economy has been associated with industrialization and economic growth in all countries. The main features of structural change – a falling share

CHART 2. DISTRIBUTION OF GROSS DOMESTIC PRODUCT IN 1860—1985, PER CENT



of primary production and a rising share of industry and services — has been the same in Finland as in other industrialized countries (Chart 2). This is due to changes in demand and productivity as well as to economies of scale brought about by exports, all of which give rise to changes in relative prices and thereby a re-allocation of resources. In Finland, structural change has generally been rapid during periods of favourable economic development and has come to a halt or even been reversed in times of depression and crisis.

In the 19th century, structural change was slow in comparison with western Europe. It was not until the 1920s that the fall in the share of primary production accelerated, but it was still high compared with western Europe even after the Second World War. Despite its rapid decline in subsequent decades, the share of primary production has still not fallen to the level of other highly developed countries. This is partly due to the important position occupied by forestry in Finland.

The share of industrial activities passed that of primary production in Finland in the 1940s, and rose to nearly 40 per cent in the 1950s. In Finland, as in other countries which were late to industrialize, the share of the secondary sector has never been as large as it has been in the first industrialized countries, for instance the United Kingdom and Belgium, where at its highest it accounted for roughly half of GDP.

In the 1980s, the share of secondary production in Finland has remained at a high level by international standards, as the recent decline in the share of industry has been smaller than in other industrialized countries.

Somewhat surprisingly, the findings of the recent growth studies emphasize the high share which services already had in total output both in Finland as elsewhere in the pre-industrial era. Services became the largest sector as early as the 1920s. Their share was exceptionally low after the Second World War, when all available resources were channelled to industry and construction both in Finland and in other countries that had been involved in the war. In Finland, efforts concentrated on war reparations production, reconstruction, resettlement of the population from the ceded territories and the production of industrial and agricultural goods. Thus, the rapid rise in the share of the service sector in the 1950s in fact meant regaining the position that had prevailed before the war and the post-war situation. It was only in the early 1960s that the pre-war level was again reached. Subsequently, services have made the most significant contribution to GDP growth. However, change has not been as radical as indicated by the descriptions available so far, which start from the Second World War.

GROWTH FACTORS

Population. Finland is a country with a small population but a large land area. Population growth was rapid in the last decades of the 19th century and in the early 20th century, since the death rate started to fall before the birth rate turned down. Emigration, especially to the United States, was considerable both before and after the turn of the century. With the exception of the baby boom following the Second World War, population growth has been slowing down since the First World War. The rate of growth fell to 0.3–0.4 per cent in the 1970s and the first half of the 1980s. By and large, this corresponds to developments in western Europe.

TABLE 2. SIZE OF POPULATION AND POPULATION GROWTH IN 1860–1985

	Size of population, millions	Population growth, per cent per year
1860	1.7	
1890	2.4	1.0
1913	3.0	1.1
1938	3.6	0.8
1960	4.4	0.9
1985	4.9	0.4

The share of the working-age population in the total population increased from 60 per cent in the 1860s to 68 per cent in 1980. The share of employed persons in the population rose from one-third to almost a half and the share of the employed among working-age persons from 54 to 70 per cent. Today, the labour force participation rate is very high both historically and internationally.

Natural resources. Forests are Finland's only abundant national resource, 65 per cent of the total land area being covered by forests. The dominant species, pine, spruce and birch, are very suitable for industrial use. Indeed the abundance of forests has been a major factor shaping the productive structure of the country. Thus Finland is one of world's leading exporters of forest industry products along with the Soviet Union, Canada, the United States and Sweden. Western Europe is the world's most important international market for forest industry products, and the transportation distance from Finland to continental Europe is relatively short.

Finland has fairly limited mineral resources. The basic metals industry nevertheless relies mainly on domestic raw materials. The important iron industry of the 19th century used Swedish ore or domestic lake and bog ores as its raw material. The Outokumpu mine, which was started in the 1920s but is now depleted, was at the time the most important copper deposit in Europe, also yielding iron and pyrite. Other ore deposits have subsequently been exploited.

Lacking oil and coal, water power and firewood were the most important energy sources in Finland up to the end of the 1950s. Today,

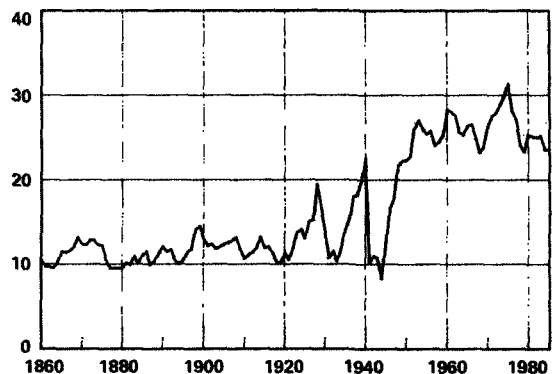
the most important energy sources are imported oil and electricity generated by nuclear and water power.

Investment. The investment rate, that is the ratio of gross fixed capital formation to gross domestic product, was just over 10 per cent in the latter part of the 19th century. In the period between the two world wars, it rose to an average level of 15 per cent. In the course of the 1950s, the investment rate rose to as high as 25–30 per cent, at which level it has subsequently remained on average (Chart 3).

The emphasis in capital formation has been on construction, both building investment and land and waterway construction. Owing to natural conditions — long distances, the demands placed on construction by a land surface dissected by lakes and rivers and the expensive building investment necessitated by the cold climate — infrastructural investment has claimed a substantial part of the capacity that elsewhere could have been used directly for raising the standard of living. The late start in the construction of population centres, roads, water and sewage systems etc has also contributed to the high level of construction activity. In addition, land and waterway construction has for long been used as a policy measure for evening out fluctuations in business cycles.

Investment in machinery and equipment accounted for just under one-fifth of all invest-

CHART 3. INVESTMENT RATE (INVESTMENT AS A PERCENTAGE OF GROSS DOMESTIC PRODUCT IN PURCHASERS' VALUES) IN 1860–1985



ment at the beginning of the period studied. In the 20th century its share has risen to between 30 and 40 per cent. Towards the end of the 19th century, machinery and equipment were predominantly imported goods, but the domestic engineering industry, which grew up at the end of the 19th century, has been able to produce substitutes for imports to an increasing degree.

Productivity. Industrialization has traditionally been explained as resulting from technological progress and the growth of productivity. Productivity (output divided by labour input) did in fact increase by an average of 2 per cent per annum in 1860 - 1985, which is a fairly rapid rate (Table 1). It can be assumed that productivity growth in the traditional society was modest if not non-existent.

Productivity has grown at an accelerating rate throughout the period examined, with the exception of the last ten-year period. Even then the growth of productivity was clearly faster than during the preceding one hundred years. Productivity improved relatively slowly in the latter decades of the 19th century. Growth of output was thus for the most part based on increased labour inputs. This was due to the fact that in the early stages of economic growth technological innovations improving productivity were still confined to relatively narrow sectors. The growth of productivity surpassed that of labour inputs as a growth factor in the period 1920—1938. However, it is only since the Second World War that the growth of labour productivity has been significantly faster than the growth of labour inputs. In fact, since the middle of the 1960s, labour inputs have been slowly decreasing.

Economic growth also reflects the combined effect of structural change and productivity growth. Productivity increases as resources shift from industries with low productivity to industries with high productivity. A quarter of productivity growth is estimated to have been generated by structural shifts. Change was fastest around the turn of the century but

Finland is one of the countries in which, owing to the lateness of structural change, productivity has continued to rise faster than in other western European countries in the period since the Second World War.

FOREIGN TRADE

Participation in the international division of labour has offered Finland opportunities for growth. On the other hand, because of the large share of foreign trade, the susceptibility to international cyclical fluctuations has been great. Though Finland has accounted for but a minor proportion of total European trade, her large exports of wood and paper industry products have ensured that she has not merely had to adjust to given developments.

International trade barriers were partially removed in the 1860s, and already in the 1870s the share of exports rose to approximately one-fifth of gross domestic product, while that of imports amounted to about a quarter (Chart 4). In peacetime, the shares of exports and imports remained on average at this high level up until the Second World War. During the war, the share of foreign trade fell, and it was not until the early 1970s that it regained this average level.

With the exception of the interwar period, the value of merchandise imports has generally exceeded that of merchandise exports. The services account has generally been in surplus. In a situation of an import surplus, economic

CHART 4. SHARES OF MERCHANDISE EXPORTS AND IMPORTS IN GROSS DOMESTIC PRODUCT IN PURCHASERS' VALUES IN 1860—1985, PER CENT

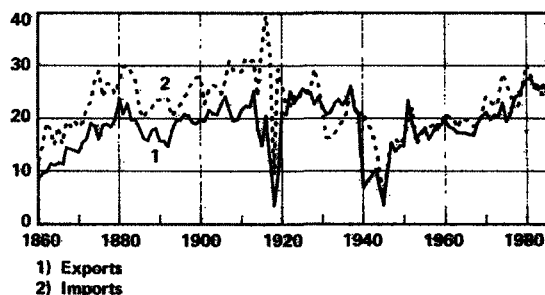
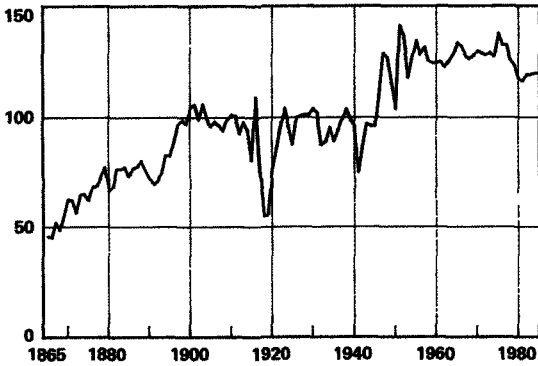


CHART 5. TERMS OF TRADE IN 1865–1985, 1926 = 100



growth has been financed with foreign borrowing. As the funds raised have been used for the expansion of productivity and the construction of infrastructure, repayment — often facilitated by international inflation — has not presented any problem.

The differing growth rates of imports and exports have been possible partly because the terms of trade, i.e. the ratio of export prices to import prices, have improved by approximately 80 per cent from the 1860s to the 1980s (Chart 5). This has both alleviated the pressure for increasing external indebtedness and promoted the rise in living standards.

In the latter half of the 19th century, Finland's exports to western Europe largely consisted of raw materials and products with a low degree of processing — roundwood and sawngoods. Thanks to favourable customs treatment, Finland's exports to Russia were made up of more diversified and more highly processed industrial and handicraft products. Between one-half and one-third of total exports went to Russia. In the early stages of industrialization, the Russian market offered Finland's infant industry better potential for growth than the small domestic market.

After the First World War, the composition of exports became rather one-sided, being dominated by shipments of forest industry products to western Europe and the United States. Some 85 per cent of Finnish exports

consisted of timber, pulp and paper, and Finland was the world's largest exporter of sawngoods and plywood. Finland's exports did well because the demand for pulp and paper increased rapidly, despite the fact that world trade in the interwar period was protectionist and developments in the world economy were unstable.

The foreign trade regulations in force during the Second World War and the exceptional conditions after the war were finally removed in the course of the 1950s. Subsequently, Finland has complied with trade liberalization measures in Europe. The GATT agreement was signed in 1949, although a somewhat delayed schedule was applied. Finland became an associate member of EFTA in 1961 and a full member in 1986. A free trade agreement with the EEC was concluded in 1973. After the war reparations deliveries had been completed, trade with the Soviet Union began to be conducted on the basis of bilateral agreements from the beginning of the 1950s. Trade agreements were entered into with other CMEA member countries in the 1970s.

The expansion of trade since the Second World War to embrace increasingly more countries and regional groupings has entailed a renewed diversification of Finnish exports. Exports to the Soviet Union have comprised ships and other engineering industry products. Products of the Finnish pulp and paper industry and textile and clothing industry have also become important in bilateral exports, which on average have accounted for one-fifth of Finland's total exports. Forest industry products still make up the main part of western exports. The composition of western exports nevertheless changed in the course of the 1970s, with the share of the forest industry declining to under a half for the first time. Metal and engineering products have also become a major group in western exports, as, too, have clothing industry products. A new development in exports since the 1970s has been the growth of project exports, the implementation of entire construction projects in the Soviet Union and Middle East countries.

The major changes in the commodity and regional composition of Finnish exports are indicative of the great adaptability of the economy. The commodity composition of exports has been more diversified whenever it has been possible to export to both East and West.

CONCLUDING REMARKS

GDP growth which has started slowly but has then gradually accelerated is one of the new findings of the growth studies project. It has not, however, been possible to determine exactly when the take-off stage was reached, as per capita income had already been increasing since at least the 1820s.

The industries providing the main impetus to economic growth have varied in the course of time. Agriculture and forestry were the principal industries during the latter part of the era when Finland was as an autonomous Grand Duchy in the Russian empire, while manufac-

turing was the key industry in the period between the two world wars and immediately afterwards. Services, though they have been important throughout the period studied, have been the most important growth sector since the 1960s. The relatively high share of foreign trade in total output in the 19th century indicates that Finland was already a fairly open economy at that time. It also reflects the freedom of international trade in that period; in relative terms, world trade was at almost the same level as today.

In studies on long-term economic growth in Finland, export-led growth has traditionally been emphasized. Relatively little weight has been assigned to supply factors or developments in natural resources, labour, knowhow and fixed capital formation. The labour force grew relatively steadily until the 1960s and has been slowly declining ever since. The acceleration in the rate of growth of gross domestic product implies that growth has increasingly been due to factors raising productivity.

STRUCTURAL CHANGE IN FINNISH MANUFACTURING

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MACROLEVEL STRUCTURAL CHANGE: FINNISH MANUFACTURING IN AN INTERNATIONAL PERSPECTIVE

Since the end of the 1960s, the growth of manufacturing output has been clearly faster in Finland than in the industrialized countries on average (Chart 1). Moreover, the rate of growth of Finnish manufacturing production exceeded that of total output in the period following the recession in the mid-1970s when in most other industrialized nations the process of deindustrialization started, part of manufacturing capacity was scrapped and the manufacturing labour force declined rapidly. The international "crisis" industries of the late 1970s – such as steel, shipbuilding, and textiles and clothing – fared comparatively well in Finland. Indeed, structural change between the main manufacturing subsectors during the past ten years has been less pronounced than in most other advanced industrialized nations.

CHART 1. VOLUME OF MANUFACTURING OUTPUT IN SELECTED COUNTRIES IN 1950–1986, 1950 = 100

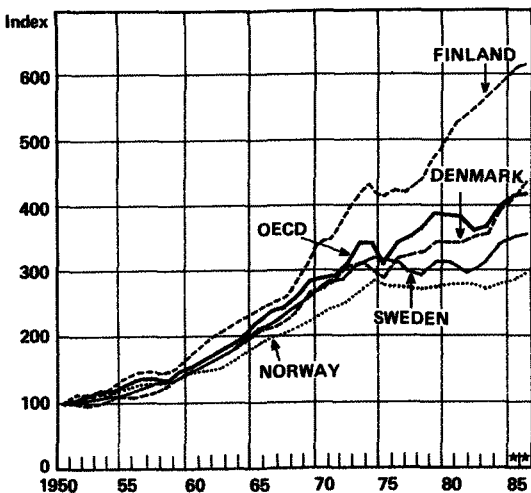
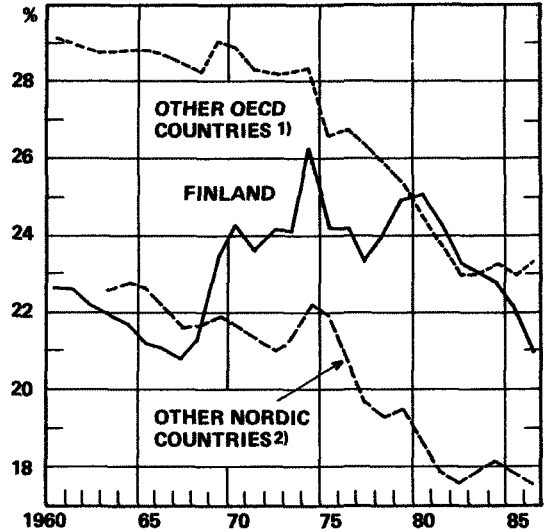


CHART 2. SHARE OF MANUFACTURING OUTPUT IN GDP IN SELECTED COUNTRIES IN 1960–1986



1) Average of Austria, Australia, Belgium, Canada, France, Federal Republic of Germany, Greece, Italy, Japan, Netherlands, Portugal, Spain, Turkey, United Kingdom and United States.

2) Average of Denmark, Norway and Sweden.

Despite the fact that the growth of manufacturing output exceeded that of real GDP, the fall in relative prices in manufacturing kept the share of manufacturing in GDP fairly stable in the 1970s. The share is currently close to the average level for the industrialized economies (Chart 2). However, when examining long-term trends in manufacturing's share in total output, it should be noted that it did not attain the average level of the OECD area in the 1960s.

With the exception of the recession in the mid-1970s, manufacturing employment in Finland remained on a rising trend up to the early 1980s, and did not start to decline sharply until two or three years ago. Thus, as regards

employment, it is only in the last few years that Finnish manufacturing has entered a phase of structural change similar in some respects to that which other European OECD countries experienced some 10 to 15 years earlier.

There are several factors behind this "delayed structural change". First, Finland embarked upon the industrialization process relatively late, and in the early 1950s almost 50 per cent of the labour force was still engaged in primary production. Secondly, the investment ratio in Finnish manufacturing has been notably higher than in the industrialized countries as a whole. Capital formation has been supported by strongly growth-oriented economic and industrial policies. Thirdly, the high level of investment activity has been associated with efficient technology transfer and the development of its own applications by Finnish manufacturing. Facilitating this has been the relatively high level of education and training of the labour force. The growth of manufacturing production in the 1970s was still to a large degree extensive growth based on an increase in the volume of inputs, while in western Europe many mature industries were in decline.

Finland's bilateral trade with the Soviet Union has also had a major impact on structural developments in manufacturing in the periods following the oil crises. Since Finland's imports from the Soviet Union consist primarily of energy products, the oil price rises acted in the way of a built-in stabilizer: while export demand weakened in western markets, exports to the Soviet Union expanded reflecting the need to balance bilateral trade. As a result, the level of capacity utilization has remained relatively high and stable. In addition, many branches which were in decline in other western industrialized nations were able to expand their output in the late 1970s and early 1980s thanks to the strong growth of bilateral exports.

All in all, the pressures for structural change in Finnish manufacturing since the mid-1970s have been somewhat less pronounced than in

many other industrialized economies, and so far it has been possible to carry out structural adjustment in conditions of comparatively rapid and stable growth. During the past two years or so, however, the situation has clearly changed as regards both supply and demand factors. Major structural shifts have taken place and are taking place in the demand for manufacturing labour, in the structure of investment and the capital stock, and in the product and country composition of exports.

STRUCTURAL CHANGE IN OUTPUT AND THE USE OF INPUTS IN MANUFACTURING

Over the long term, major changes have occurred in the structure of manufacturing output. One of the most striking changes during the postwar period has been the decline in the share of the forest industries in manufacturing value added from about 25 per cent to just over 15 per cent. At the same time, the output of this subsector has diversified considerably. The output share of the consumer goods industries has also fallen sharply, and the real growth sectors have been the metal and engineering industries and the chemical industry (Table 1).

TABLE 1. MANUFACTURING OUTPUT BY INDUSTRY IN 1960-1986

Industry	1986* FIM Bill.	1986* Per- cent- age	Average annual change in vol- ume, per cent		
			1960-1973- at 1985 prices	1973-1981	1981-1986
Food manufacturing industries	9.5	12.6	5.1	2.5	1.6
Textile, wearing apparel and leather industries	4.9	6.5	3.9	2.8	-1.9
Total forest industries	13.5	18.0	5.8	0.9	2.1
- wood industry	3.7	5.0	4.1	-0.3	0.4
- paper and pulp industry	9.8	13.0	7.0	1.6	2.8
Chemical industries	7.8	10.4	13.1	2.8	2.6
Metal and engineering industries	27.7	36.9	7.1	5.8	4.3
- basic metal industries	3.2	4.3	10.4	6.3	4.8
- manufacture of fabricated metal products, machinery and equipment	24.5	32.6	6.7	5.7	4.3
Other manufacturing industries	11.7	15.6	6.5	3.7	2.9
Total manufacturing	75.1	100.0	6.6	3.3	2.7

In the 1980s, structural shifts within individual industries have been more marked than inter-industry changes in output shares. The product composition of different industries has diversified and the share of high-tech products in Finnish manufacturing output and exports has expanded rapidly since the mid-1970s. The share of these products in manufacturing output is nevertheless still low by international standards and the major part of productive capacity in Finnish manufacturing is still in areas where demand is growing slowly or at most at a moderate pace. Even in these areas, however, specialization has enabled fairly rapid growth to be achieved in some product groups, for example, in the paper industry and the metal and engineering industries.

Structural changes in manufacturing output together with favourable developments in the growth of productivity have meant a sharp decline in manufacturing employment over the last few years. From 1981 to 1986, manufacturing employment fell by approximately 50 000. The decline in employment has been most prominent in the textiles and clothing industries, the forest industries and the manufacture of machinery (Chart 3).

CHART 3. EMPLOYMENT IN SELECTED MANUFACTURING INDUSTRIES IN 1970-1986

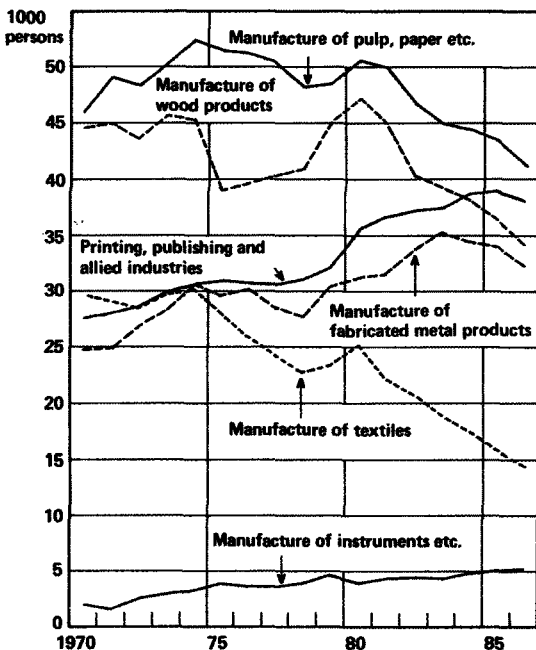
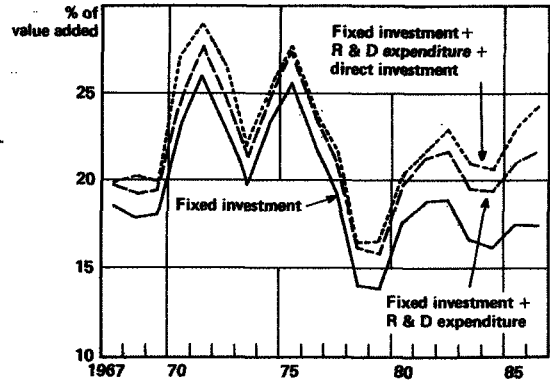


CHART 4. MANUFACTURING INVESTMENT RATIO IN 1967-1986



The structure of the demand for labour has also changed along with the rise in level of education and professional skills. The 1970s saw a rapid increase in the proportion of white-collar employees in the manufacturing labour force. In 1986, the number of white-collar employees was 50 per cent higher than in 1970, whereas the number of manual workers had declined by about 6 per cent over the same period. A number of branches suffer from a constant shortage of skilled and, increasingly, highly-skilled labour, even though the unemployment rate has remained around the 5 per cent mark.

The use of capital inputs has also undergone major structural change since the mid-1970s. The manufacturing investment ratio has fallen, even if it is still somewhat higher than in the OECD countries on average. The volume of fixed investment is only slightly higher than what it was ten years ago but there is now a far greater emphasis on investment in machinery and equipment. At the same time, the significance of alternative investments has increased substantially, and the volume of both outlays on research and development (R&D) and companies' direct investments abroad has increased rapidly (Chart 4).

During the past ten years, the volume of R&D spending in manufacturing has almost tripled. In both the 1970s and the 1980s, the growth of expenditure has been clearly faster than in the OECD countries on average. Even so, the

research intensity, that is, R&D spending in relation to output, is still less than half the corresponding level in Sweden and the US, for example. Research activity is heavily concentrated on the metal and engineering industries and the chemical industry, their combined share of manufacturing R&D outlays being about 80 per cent (Table 2). Their share of manufacturing output is notably smaller than this, approximately 50 per cent, while their share of fixed investment is only just over 40 per cent.

TABLE 2. MANUFACTURING FIXED INVESTMENT AND R&D EXPENDITURE BY INDUSTRY IN 1975 AND 1985

	Fixed investment		R&D expenditure			
	Share in total manufacturing		Average annual change in volume		Share in total manufacturing	
	1975	1985	1975-85	1975	1985	1975-85
Food manufacturing industries	8.9	10.0	0.8	4.2	5.0	10.7
Textile, wearing apparel and leather industries	3.8	2.1	-5.9	0.8	0.7	6.8
Forest industries	33.0	34.2	0.8	15.4	8.5	2.6
Chemical industries	14.0	12.6	-0.7	18.9	20.4	9.7
Metal and engineering industries	34.8	29.7	-2.2	58.2	61.7	9.5
Other manufacturing industries	5.5	11.5	7.4	2.4	3.8	13.7
Total manufacturing	100	100	0.1	100	100	9.8

¹ R&D expenditure has been deflated by the implicit GDP deflator.

The significance of other intangible investments has also grown in recent years. In 1985, intangible investments amounted to about half the value of fixed investment. Just over 40 per cent of outlays on intangible investment went to R&D, 30 per cent to marketing and the rest to training and firms' other long-term development activities.

Reflecting the trends described above, the growth of Finnish manufacturing output since the latter half of the 1970s has no longer been based to any significant extent on an increase in the volume of labour and capital inputs, but primarily on the growth of total factor productivity (Table 3). Hence the growth of manufacturing output has derived mainly from

technological progress, organizational improvements and qualitative changes in products and inputs.

TABLE 3. GROWTH OF MANUFACTURING OUTPUT AND CONTRIBUTION OF LABOUR AND CAPITAL INPUTS AND TOTAL FACTOR PRODUCTIVITY (TFP)¹ IN 1960-1973 AND 1973-1986

Industry	Output growth	Contribution of labour	Contribution of capital	Contribution of TFP
Food manufacturing industries				
1960-1973	5.0	0.7	2.2	2.1
1973-1986	2.2	-0.8	0.9	2.0
Textile, wearing apparel and leather industries				
1960-1973	3.8	-0.8	1.0	3.6
1973-1986	1.0	-2.6	0.3	3.2
Wood industry				
1960-1973	4.0	-0.7	1.4	3.3
1973-1986	-0.1	-2.5	0.7	1.7
Paper and pulp industry				
1960-1973	6.8	0.6	2.2	3.9
1973-1986	2.1	-1.6	0.6	3.1
Chemical industries				
1960-1973	12.3	2.2	5.6	4.5
1973-1986	2.7	-0.5	1.4	1.8
Basic metal industries				
1960-1973	9.9	2.1	3.5	4.2
1973-1986	5.6	-0.3	1.1	4.8
Manufacture of fabricated metal products, machinery and equipment				
1960-1973	6.5	1.5	1.4	3.6
1973-1986	5.0	0.1	1.3	3.6
Total manufacturing				
1960-1973	6.3	0.7	2.2	3.4
1973-1986	3.0	-0.8	1.0	2.8

¹The changes in total factor productivity (\hat{T}) have been calculated as follows: $\hat{T} = \hat{Q} - w_L \hat{X}_L - w_K \hat{X}_K$, where \hat{Q} is the relative change in the volume of output, \hat{X}_L and \hat{X}_K are the relative changes in labour and capital input, w_L and w_K are the averages of the value-added shares of remunerations to labour and capital in the respective years. Labour input is defined as hours worked and capital input as the volume of net capital stock.

EXPORTS AND INTERNATIONALIZATION

Sectoral shifts in the structure of manufacturing exports have clearly exceeded those in manufacturing output. The greatest changes occurred in the 1960s and 1970s (Chart 5). In the early 1960s, the share of forest industry products in total merchandise exports was still about 70 per cent, whereas at present its share is about 38 per cent. Over the same period, the export share of the metal and engineering industries has risen from approximately 15 per cent to just under 40 per cent. These shares

CHART 5. MERCHANDISE EXPORTS BY INDUSTRY IN 1960–1986, PERCENTAGE SHARE IN TOTAL MERCHANDISE EXPORTS

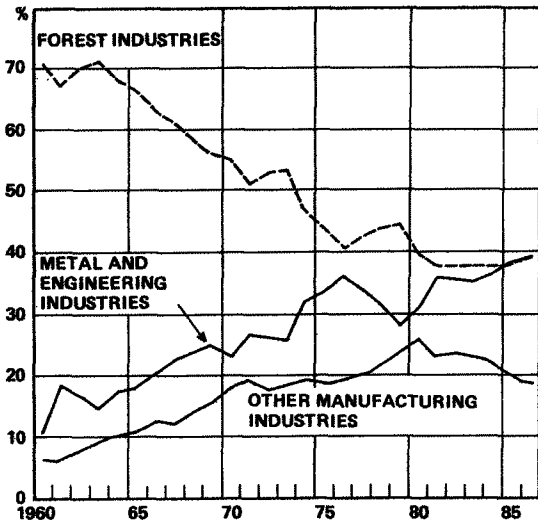


TABLE 4. SHARE OF SELECTED CATEGORIES OF FINNISH FOREST INDUSTRY EXPORTS IN CORRESPONDING EUROPEAN IMPORTS (EXCL. THE SOVIET UNION) IN 1980 AND 1985, PER CENT

	1980	1985
Pulp	13	10
Paper and paperboard	19	21
Printing and writing paper	23	30

Exports of high-tech products, mainly representing the metal and engineering industries and the chemical industry, have also grown somewhat faster than total exports and imports of corresponding goods (according to the OECD's definition of high technology).

TABLE 5. FINNISH FOREIGN TRADE IN HIGH-TECH PRODUCTS IN 1973, 1980 AND 1985

	1973	1980	1985
Share of high-tech products in total merchandise exports, %	2.6	5.0	5.7
Ratio of high-tech exports to high-tech imports	0.18	0.38	0.48

have remained broadly unchanged during the past five years.

Finland's merchandise exports have traditionally been dominated by raw-material based products with a relatively low R&D intensity, the demand for which has grown slower than the average. Finnish manufactured goods have nevertheless performed fairly well in the markets for these products. Calculations based on constant-market-share analysis indicate that both the country and commodity composition of exports have had an adverse impact on export performance over the past 15 years. Nevertheless the market shares trend adjusted for country composition and product pattern has been rising since the end of the 1970s. Examined in this way, export competitiveness has been fairly good.

Apart from cost competitiveness, which has been maintained by the rapid rise in productivity, the growth of manufacturing exports in the 1980s has also been affected by structural change within individual branches and product groups. The share of new products and varieties of products in exports has increased. Forest industry companies have rapidly adapted their product ranges towards high-quality grades (Table 4).

However, the share of high-tech products in Finnish manufacturing exports is still rather low compared with many other industrialized countries; for example, it is about half the corresponding share for Sweden and about one-third of that for the OECD area as a whole. The technology intensity of Finnish exports is approximately the same as that of the other Nordic countries, i.e. Norway and Denmark.¹

The internationalization of industrial firms has been one of the most important factors behind the changed structure and operations of manufacturing in the 1980s. The internationalization of business in the form of foreign direct investment started comparatively late, strictly speaking not until the end of the 1970s. The process has nevertheless been rapid. From 1980 to 1986, the number of Finnish-owned foreign firms almost doubled and the volume of direct investment abroad by manufacturing enterprises more than tripled. The share of

¹ The definition of high-tech products and international comparisons made on the basis thereof are problematic, however. For example, part of the new printing and writing paper products could – contrary to the classification adhered to by the OECD – be included in the high-tech product category because of the large research and knowhow input required in their development and manufacture.

foreign direct investment in the domestic capital formation of the manufacturing industry is currently just under 10 per cent. However, this is only about one-third of, for example, the corresponding share in Sweden.

Roughly one-third of all the direct investments made abroad by Finnish companies in the 1980s have gone to other Nordic countries; in 1986 the share was more than 50 per cent. The most important host country has been Sweden, which has received about 80 per cent of all direct investments made by Finnish companies in Scandinavia. In fact, structural change in Finnish manufacturing is closely linked to the process of structural change going on throughout the Nordic region. Through the reorganization of Nordic enterprises, branch rationalization and technology transfer, companies seek to minimize the drawbacks of small domestic markets and to gain competitive advantages in markets outside the Nordic area.

CHANGES IN THE BUSINESS STRUCTURE

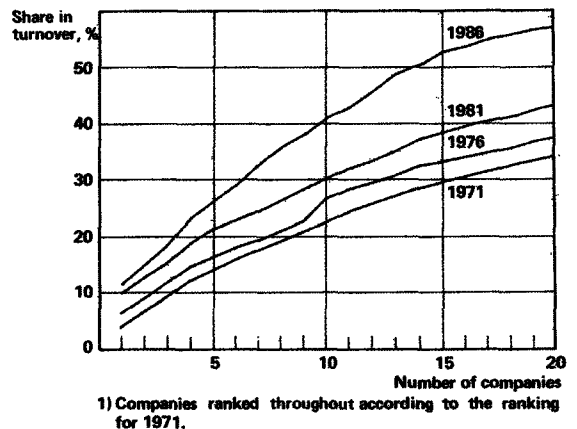
Developments in the structure of manufacturing firms have entered a new, dynamic phase in the past 10 years. Entries and exits of firms have increased sharply, i.e. the rate of renewal of the outstanding stock of businesses has accelerated. The number of bankruptcies has almost quadrupled in the 1980s. Notwithstanding this, the number of manufacturing companies has increased, so that notably more new enterprises have been set up than before. The vast majority of these have been small and medium-sized companies.

The business structure has also been strongly influenced in the 1980s by a rapid rise in the number of takeovers and mergers. There was a particularly large number of these in 1984 and 1985, more than one and half times more than at the beginning of the decade. Most of the acquisitions have been small companies, but the past two or three years have seen some exceptionally large takeovers and mergers in both the forest industries and the metal and engineering industries. Whereas in the 1970s it

was common for big firms to try to spread their risks through diversification, there has been a clear move away from this strategy in the current decade. Now companies seek to enhance efficiency by maximizing the size of operating units and by specialising in fields where they have the strongest competitive edge. This has been perceived to be important not only because of the smallness of domestic markets but also because of the economies of scale to be obtained in R&D, financing and international marketing.

As a result of takeovers and mergers, increased internationalization and rapid technological progress, the significance of large companies in manufacturing has grown further. From 1971 to 1986, the share of the 20 biggest manufacturing companies in total manufacturing turnover increased from 34 per cent to 57 per cent and their share of total manufacturing employment from 34 per cent to 47 per cent (Chart 6). The last-mentioned figure is very close to the corresponding figure for the share of Sweden's 20 largest companies in manufacturing employment in 1983. On the other hand, the 10 biggest companies in Sweden are far larger in relative terms than their Finnish counterparts. Exports and other international operations as well as research activity are more heavily concentrated than production in the largest companies of all. In 1986, the share of the 10 largest companies in

CHART 6. CUMULATIVE SHARES OF THE LARGEST MANUFACTURING COMPANIES IN TOTAL MANUFACTURING TURNOVER IN 1971, 1976, 1981 AND 1986, PER CENT¹



total manufacturing exports was 42 per cent and their share in the manufacturing industry's outlays on R&D 62 per cent, while their output share was 36 per cent.

SUMMARY AND OUTLOOK

In contrast to many other industrialized nations, structural change in Finnish manufacturing during the past ten years has only to a minor extent taken place through the scrapping of capacity in mature industries. Structural change has been evident mainly as differences in growth rates between different industries, adjustments in the use of inputs and the transformation of the product structure. The business structure has also changed: the process of entry and exit has accelerated, while on the other hand the significance of large companies has grown, in particular because of the rapid internationalization of their activities and the heavy concentration of resources on R&D.

Manufacturing employment has nevertheless begun to decline sharply over the past two or three years. In some branches — sawmills, textiles and clothing, and shipbuilding — it has

been necessary to cut back capacity substantially and to close unprofitable plants. The pace of structural change in manufacturing is likely to quicken in the years ahead.

Over the next five years, the volume of manufacturing output is estimated to grow at the same rate as GDP, or by slightly less than 2.5 per cent a year on average. Thus, the rate of growth of manufacturing output will be somewhat slower than in the previous five years. The share of the paper and pulp industries and the metal and engineering industries in total manufacturing output is likely to rise, but the prospects for food manufacturing and the textiles and clothing industries are rather poor owing to the slow growth of demand, difficulties in bilateral trade and intensifying import competition. As a consequence of the relatively slow growth of demand and rationalization measures, the need for labour in manufacturing will decline clearly over the next few years. Despite this, shortages of skilled labour will remain a major problem. The reorganization of business operations and ownership patterns can be expected to continue both abroad and at home, implying further changes in the business structure.

MONETARY AND FOREIGN EXCHANGE POLICY MEASURES FROM FEBRUARY 1987 TO JANUARY 1988

1987

February

Call money market. The Bank of Finland implements the following changes in its call money rates:

Effective as from	Rate on call money credits	Rate on call money deposits
	Per cent	Per cent
February 2	11.8	9.0 (unchanged)
February 13	11.7	8.5
February 20	11.6	8.0

Term deposits. With effect from February 4, 1987, the Bank of Finland allows the banks entitled to central bank financing to make bids for three-month fixed-rate deposits with the Bank of Finland. This arrangement is to operate alongside the existing arrangement for three-month central bank credits.

March

Call money market. The Bank of Finland implements the following changes in its call money rates:

Effective as from	Rate on call money credits	Rate on call money deposits
	Per cent	Per cent
March 5	11.5	7.5
March 17	11.4	7.5

Banks' central bank financing. On March 17, 1987, the Bank of Finland complements the system of monetary control by introducing dealings in certificates of deposit with banks on an experimental basis alongside term

credits and term assets. At the same time, the use of call money credits is limited as from March 30, 1987. With effect from that date, each bank may daily resort to call money credit only up to an amount corresponding to 7.5 per cent of the total amount of its equity capital and cash reserve deposits. A penalty rate of interest is to be charged on credit exceeding the limit.

April

Call money market. The Bank of Finland lowers the call money credit rate from 11.4 to 11.2 per cent as from April 2 and further to 11.0 per cent as from April 29.

May

Interest rate policy. As from the beginning of May, the Bank of Finland reduces the restrictions on the use of money market rates as reference rates for bank loans. Besides the base rate, the banks may, without special approval, use some other Bank of Finland rate, the official money market rate used in market transactions or some derivative of these rates as reference rates for all lending except housing loans.

As from May 1, the Bank of Finland begins to publish daily 1, 2, 3, 6, and 12-month HELIBOR (Helsinki Interbank Offered Rate) rates, which the banks may henceforth use as reference rates in their lending. HELIBOR rates are the average bid rates for each category of certificate of deposit as quoted by the five largest banks each day at 1 p.m.

June

Revisions to the Foreign Exchange Regulations. The Bank of Finland decides on certain revisions to the Foreign Exchange Regulations that enter into force on June 15, 1987.

With certain exceptions, it is allowed to make direct investments abroad without obtaining the advance permission of the Bank of Finland up to the value of FIM 30 million. It is, however, necessary to provide the authorized bank with the information required by the Bank of Finland.

In payments of suppliers' credits for imports, credit periods exceeding six months are allowed without the special permission of the Bank of Finland up to the maximum amount of FIM 100 000.

The handling of applications for permission in respect of recreational dwellings abroad is transferred to the authorized banks. The upper limit of FIM 600 000 permitted for a purchase is not amended in this context, and for purchases exceeding this amount, the Bank of Finland grants permission on a case-by-case basis.

Investments abroad in publicly quoted securities are allowed up to the maximum amount of FIM 50 000.

Details of other minor changes and revisions to the Foreign Exchange Regulations are to be released when new pages of the Foreign Exchange Regulations are published.

July

Call money market. With the effect from July 1, 1987, the Bank of Finland supplements the conditions governing borrowing by commercial banks in the Bank of Finland's call money market (see March 1987) by stipulating that the upper limit on the right of an individual bank to resort to call money credits is, in all cases, not less than FIM 10 million.

August

Revision of foreign exchange regulations. The Bank of Finland decides to extend the right of enterprises, previously granted only to manufacturing and shipping companies, to raise foreign loans with a maturity of at least five years for the financing of their operations. As from August 1, 1987, this right also applies to other companies and cooperative societies carrying on business activity, with the exception of financial and insurance institutions and housing and real estate companies.

Cash reserve requirement. The Bank of Finland raises the cash reserve requirement from 4.7 per cent to 4.9 per cent of the total stock of deposits in August.

October

Amendments to Foreign Exchange Regulations. The Bank of Finland decides to allow authorized banks to write and purchase markka options as from October 1, 1987. At the same time, the Bank of Finland grants companies and other residents the right to purchase such options. Banks had previously been allowed to write foreign currency options but not markka options. Markka options entitle but do not oblige the holder to purchase or sell foreign currency at an agreed markka rate within an agreed period.

Banks' central bank financing. With effect from October 1, 1987, savings and cooperative banks are allowed to deal in certificates of deposit with the Bank of Finland provided that they meet with the requirements set on trading.

As from October 1, 1987, the Bank of Finland enlarges to some extent the right of banks to use call money credit which is not subject to penalty interest.

Housing loans. From October 16, 1987, the Bank of Finland ceases to issue precise guidelines to the banks concerning prior savings

required for housing loans and other personal credits.

November

Interest rate policy. On November 13, 1987, the Parliamentary Supervisory Board decides on new interest rate powers for the Board of Management of the Bank of Finland in respect of both call money rates and money and capital market operations.

The call money rate powers remain unchanged so that the upper limit on call money rates is still the base rate plus 15.0 percentage points and the lower limit the base rate.

Under the new powers, for rates of interest longer than one day the Board of Management may, at its discretion, intervene in the market to regulate movements within a range the lower limit of which is the base rate and the upper limit the base rate plus 5 percentage points. If, because of market forces, interest rates move beyond these limits, the Board of

Management may only undertake such operations that reduce the gap between market rates and these limits.

At the same time, the new powers are extended to include rates of interest longer than 6 months whereas previously they only concerned rates of interest up to 6 months.

1988

January

Housing loans. With effect from the beginning of 1988, banks are allowed to use the 3- or 5-year market rates calculated and published by the Bank of Finland as reference rates for their new long-term housing loans in addition to the base rate. The Bank of Finland commences to publish on a monthly basis 3- and 5-years market rates intended as reference rates for new long-term housing loans. Besides housing loans, these rates can also be applied to other long-term lending.

ITEMS

Supplementary budgets. In the course of the autumn, Parliament approved two supplementary budgets. The second supplementary budget of 1987, which was presented to Parliament in conjunction with the ordinary budget proposal for 1988, provides for the transfer of FIM 0.9 billion to the countercyclical fund. This sum, which is to be transferred because of greater-than-forecast tax revenue in the current year, will be entered as income in the budget for 1989 in connection with the tax reform planned for that year.

The third supplementary budget for 1987, submitted to Parliament at the end of October, provides for a net increase of FIM 3.3 billion in budgeted outlays, i.e. about 3 per cent of total expenditure in the ordinary budget for 1987. The largest increases in expenditure are in respect of statutory state grants to local authorities, mainly to cover rises in wages, salaries and other costs which have already occurred. In addition, there is an appropriation of FIM 100 million for the payment of compensation to farmers as a result of this year's crop failures. It is estimated that nearly FIM 120 million of the expenditure on servicing long-term foreign debt will be saved this year of changes in foreign exchange rates and on account repayment schedules.

The third supplementary budget for 1987 provides for a net increase in revenue of almost FIM 3.3 billion, of which taxes and other comparable receipts account for just over FIM 2 billion. The increase in revenue is largely attributable to the growth of domestic consumer demand, which has been more rapid than anticipated. An increase of about FIM 800 million has been entered under turnover taxes and an increase of nearly FIM 600 million under excise duty.

All in all, the three supplementary budgets for 1987 raise budgeted expenditure for 1987 by nearly 6 per cent to FIM 117.5 billion. This represents an increase of approximately 10 per cent on budgeted expenditure for 1986. In relation to estimated GDP, central government

expenditure is projected to rise to 30.5 per cent in 1987.

Finland's balance of payments in January—September 1987. According to the Bank of Finland's preliminary figures, the current account showed a deficit of FIM 6 807 million in January - September this year. In the corresponding period of 1986, the current account had shown a deficit of FIM 4 876 million.

The net inflow of long-term capital amounted to FIM 319 million and the net inflow of short-term capital to FIM 19 597 million in January—September 1987. Most of the short-term capital inflow consisted of imports of short-term capital by authorized banks. The Bank of Finland's foreign exchange reserves increased by FIM 13 109 million and amounted to FIM 26 527 million at the end of September.

Current account. Compiled on a balance-of-payments (SNA) basis, the trade account (incl. adjustment items) registered a surplus of FIM 1 912 million in January—September, compared with a surplus of FIM 1 682 million in the corresponding period of 1986. Commodity exports grew by 7 per cent in value and by 5 per cent in volume from January—September 1986. Export volumes grew in all industrial sectors except the textile, wearing apparel and leather industries, which experienced a fall of one-tenth from last year. The value of commodity imports was up 6 per cent and the volume of imports up 9 per cent on the January—September period last year. Import volumes of raw materials and intermediate goods increased by 7 per cent, investment goods by 10 per cent and consumer goods by 13 per cent. By contrast, import volumes of fuels and lubricants fell by 4 per cent from January—September last year.

The services account registered a deficit of FIM 642 million in January—September, as compared with a surplus of FIM 20 million in the corresponding period last year. The surplus of FIM 2 141 million on the transport account was FIM 250 million less than in January—September last year. Travel receipts grew by

13 per cent and travel expenditure by 17 per cent, giving rise to a deficit of FIM 2 154 million on the travel account. In January–September 1986, the travel account had shown a deficit of FIM 1 758 million. The "other services account" posted a deficit of FIM 629 million.

Interest payments on foreign loans amounted to FIM 8 995 million. With interest income on foreign assets of FIM 2 729 million, the investment account showed a deficit of FIM 6 266 million in January–September. This was FIM 1 075 million more than in the corresponding period last year. The unrequited transfers account registered a deficit of FIM 1 470 million.

Capital account. Drawings of long-term loans amounted to FIM 16 261 million in January–September, which was FIM 3.8 billion more than in the corresponding period last year. The central government accounted for FIM 3 871 million of the drawings. Redemptions of long-term loans totalled FIM 9 138 million. Drawings of long-term export credits granted to foreign customers reached FIM 1 245 million and repayments of outstanding export credits FIM 949 million. Finnish net direct investment abroad totalled FIM 2 137 million and net foreign direct investment in Finland FIM 358 million. The total net inflow of long-term capital amounted to FIM 319 million, which was about FIM 1.0 billion less than in the corresponding period last year.

The inflow of short-term capital (incl. errors and omissions) totalled FIM 19 597 million in January–September. Short-term liabilities related to imports grew by FIM 2 294 million. Net prepayments and receivables related to exports increased by FIM 876 million. The net short-term liability of the authorized banks grew by FIM 12 862 million.

The foreign exchange reserves of the Bank of Finland grew by FIM 13 109 million in January–September. The convertible foreign exchange reserves increased by FIM 14 997 million, while tied currency claims declined by FIM 1 888 million. At the end of September, the convertible foreign exchange reserves of

the Bank of Finland totalled FIM 26 527 million and tied currency claims FIM 1 428 million.

At the end of September, Finland's net foreign debt totalled FIM 50 934 million, of which the central government accounted for FIM 23 593 million. The net long-term debt amounted to FIM 58 041 million and net short-term claims to FIM 7 107 million.

**MAJOR BALANCE OF PAYMENTS ITEMS
JANUARY-SEPTEMBER 1987, MILLION FIM¹**

	Receipts	Expenditure	Net
Trade (exports f.o.b., imports c.i.f.)	63 452	60 980	2 472
Adjustment items	-976	-416	-560
Trade account	62 476	60 564	1 912
Transport (c.i.f.)	3 791	1 650	2 141
Travel	2 806	4 959	-2 154
Other services	3 789	4 418	-629
Services account	10 385	11 027	-642
GOODS AND SERVICES ACCOUNT	72 861	71 591	1 270
Investment income, net	2 729	8 995	-6 266
Unrequited transfers	358	1 827	-1 470
Other	2 532	2 874	-342
A. CURRENT ACCOUNT	78 480	85 288	-6 807
	Change in assets	Change in liabilities	Net
Long-term financial loans and suppliers' credits: ²			
drawings	-1 245	16 261	15 016
redemptions	949	-9 138	-8 189
Direct investment	-2 137	358	-1 779
Other long-term capital	-4 113	-616	-4 729
B. LONG-TERM CAPITAL ACCOUNT	-6 546	6 865	319
BASIC BALANCE (A + B)			-6 488
Prepayments and liabilities related to imports			2 294
Prepayments and receivables related to exports	734	142	876
Short-term capital of authorized banks			12 862
Other short-term capital			2 608
Errors and omissions			956
C. SHORT-TERM CAPITAL ACCOUNT			19 597
D. ALLOCATIONS OF SDRs			-
OVERALL BALANCE (A + B + C + D)			13 109
Change in the foreign exchange reserves of the Bank of Finland			-13 109

Assets: increase -, decrease +
Liabilities: increase +, decrease -

¹ Preliminary figures.

² Assets include export credits only.

(Continued from page 2)

tightening in 1988 is clearly less than the expansionary effect on activity in 1987 arising from the widening in the budget deficit. Owing to normal lags, the stimulative effects of fiscal policy action in the current year will continue to be felt in 1988 as well.

The budget proposal is based on the assumption of a very moderate incomes settlement next spring. Consequently, the estimate for central government revenue in 1988 may be on the conservative side. On the other hand the possibility that the current account deficit might increase by more than anticipated was considered to be one of the most serious risk factors when the budget was drawn up. In the light of subsequent developments, the

significance of this risk factor could become even more pronounced. Following the recent fall in stock market prices, uncertainty has increased in financial, capital and foreign exchange markets around the world. This will probably lead, with a lag, to a weaker trend in real economic developments. Forecasts of world economic growth have already been revised downwards. If Finnish exports turn out to be smaller than projected, this would be reflected in a greater-than-forecast current account deficit, despite the fact that the rate of growth of imports would probably also slow down. In such an event, there would be less room for a shift towards more expansionary economic policy should the need arise. Similarly, with a longer lag, weaker growth would retard the increase in central government revenue.

November 27, 1987

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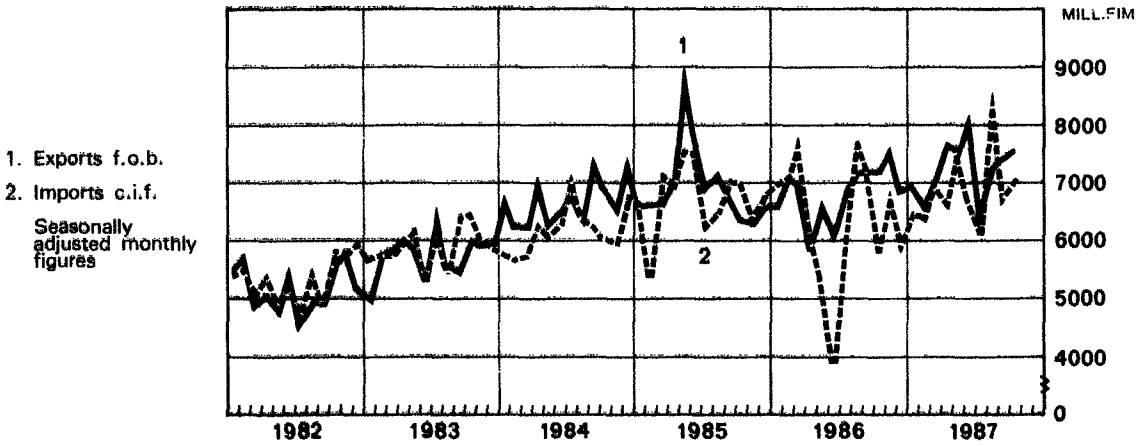
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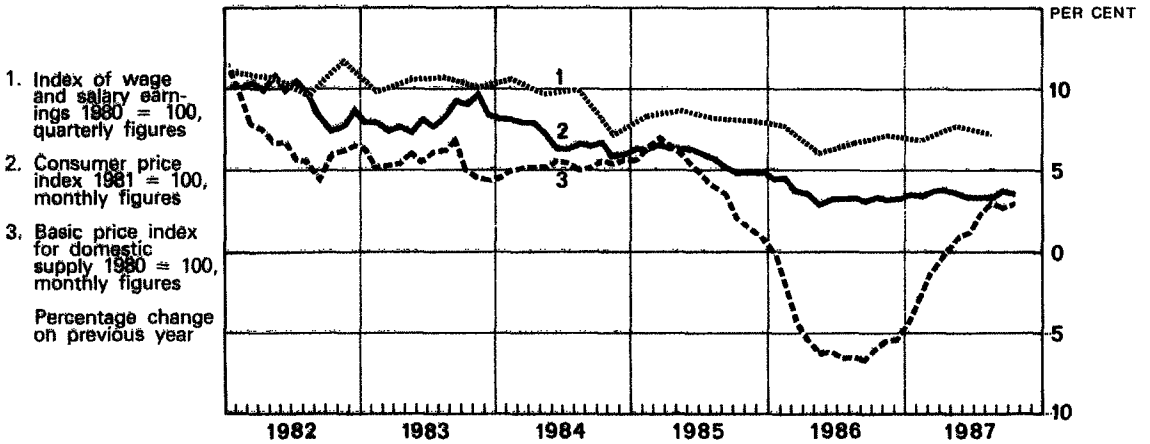
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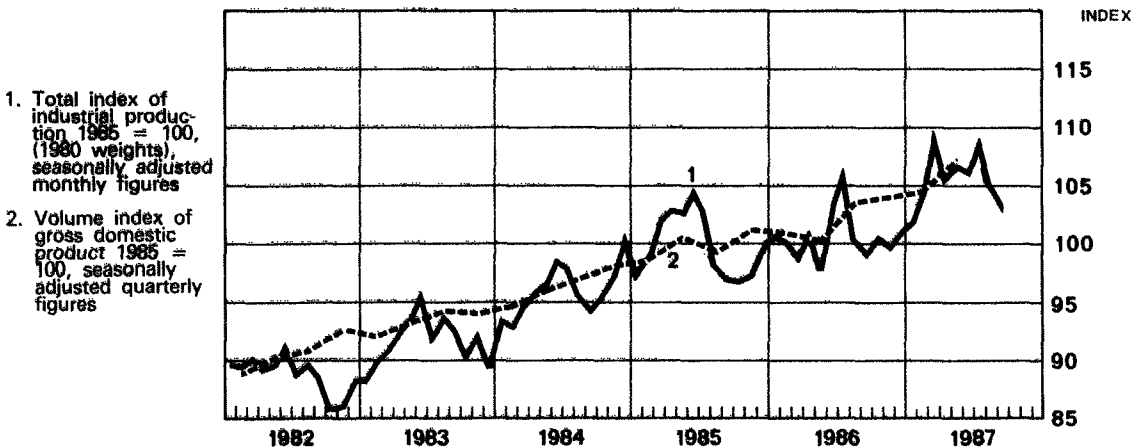
FOREIGN TRADE, 1982-87



PRICES AND WAGES, 1982-87



PRODUCTION, 1982-87



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