



BANK OF FINLAND

Monthly Bulletin

Incomes policy agreements in 1986

Public finance

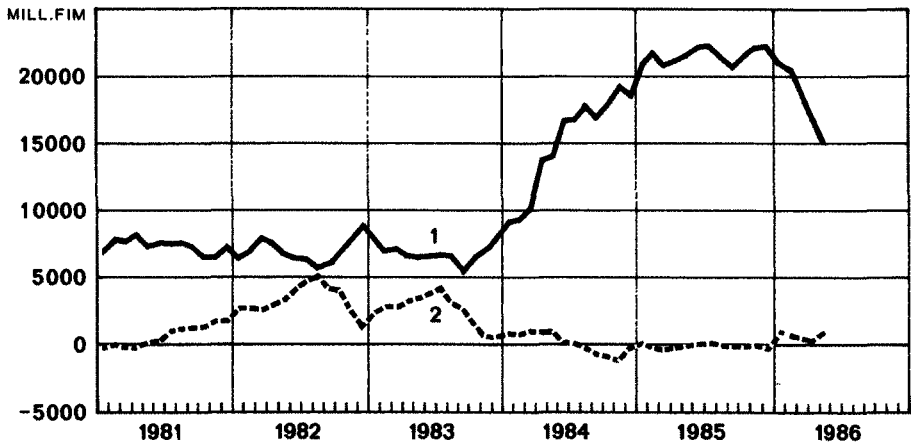
Monetary and foreign exchange policy
measures from August 1985 to June 1986

Publications of the Bank of Finland

JUNE—JULY 1986

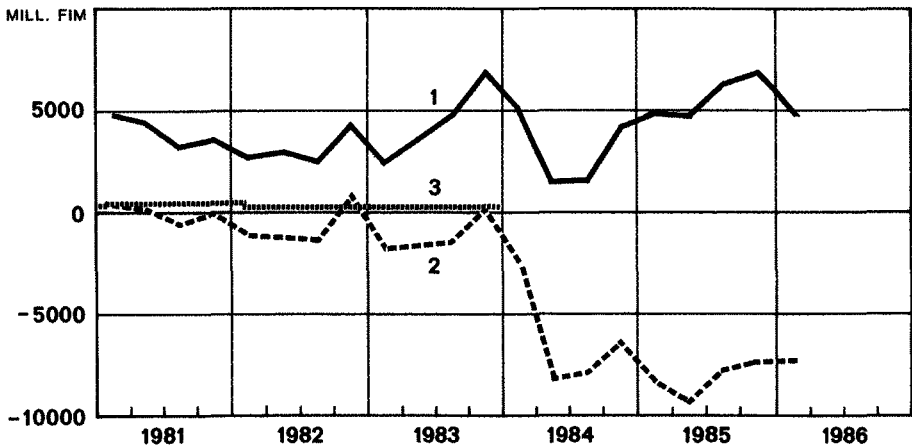
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BANK OF FINLAND'S CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, 1981-86



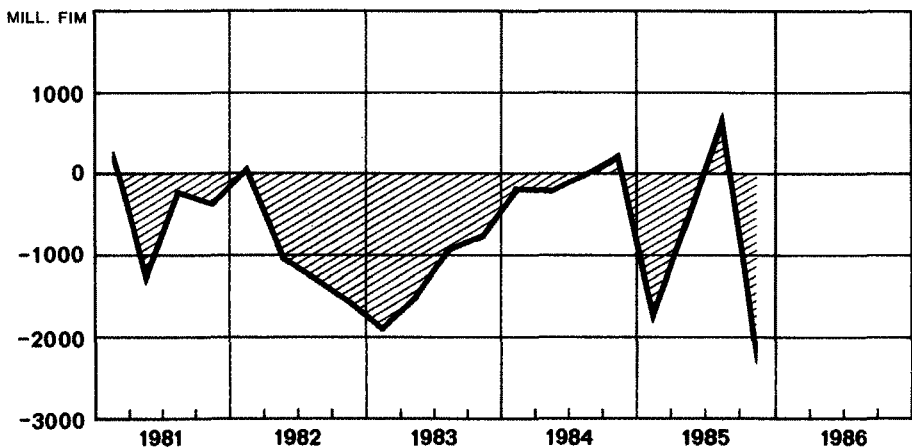
- 1. Gold and convertible currencies
- 2. Tied currencies

DEPOSIT BANKS' CENTRAL BANK POSITION, 1981-86



- 1. Gross central bank debt
 - 2. Net central bank debt
 - 3. Quotas
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BALANCE OF PAYMENTS CURRENT ACCOUNT SURPLUS/DEFICIT, 1981-86



Seasonally adjusted quarterly figures

INCOMES POLICY AGREEMENTS IN 1986

by Harry Hendunen, Head of Bureau
Economics Department of the Ministry of
Finance

The two-year comprehensive incomes policy agreement concluded in March 1984 was in force until the end of February 1986.¹ Under the agreement, wages and salaries were to be raised in two stages totalling 7.4 per cent on average over the two-year period. However, most collective agreements provided for general pay increases exceeding this amount, in a number of sectors by a considerable margin. All in all, earnings rose by about 16 per cent during the agreement period, with negotiated increases accounting for slightly more than 10 per cent and wage drift for some five per cent. The index clause incorporated in the settlements did not give rise to any additional increases.

Curbing inflation has been the major aim of economic policy. In fact, the 12-month change in the consumer price index decelerated from 8.6 per cent at the end of 1983 to 5.0 per cent in December 1985. Nevertheless, the rate of inflation continued to exceed that in competitor countries, so that industry's price competitiveness weakened. Moreover, the growth of total output, which for the year as a whole averaged 3 per cent for the fourth year in succession, decelerated during the second half of 1985. The annual growth of real GDP is estimated to reach some two per cent both this year and next, with unemployment increasing slightly. Against this background, there was very little scope for nominal pay increases on expiry of the 1984 agreement. However, substantial pressures had built up in the labour market for restoring relative pay levels, for raising wage levels in low-wage sectors, for adjustments to compensate for general wage drift and, in particular, for shortening working hours.

The government paved the way for the conclusion of moderate incomes agreements by easing the personal income tax burden by substantially more than the projected rise in prices in 1986. The corporate income tax rate was also reduced. Insured persons' social security contribution rates were lowered by 0.25 percentage point and employers' contribution rates raised by approximately 0.5 percentage point from their 1985 levels. Increases in other public charges and tariffs were generally limited, at most, to the estimated rise in prices.

By mid-March 1986, a fairly uniform framework had been established in the labour market for incomes policy over the ensuing two years, despite the fact that it had been achieved on the basis of two comprehensive agreements. The first agreement concerned white-collar workers and civil servants. The largest employee organization representing manual workers and the lowest-grade civil servants, remained outside the agreement and, after a short strike, attained small additional pay increases and substantial extra benefits as regards shorter working hours. The indexation and earnings-guarantee clauses contained in these agreements are the same. The agreements will be in force until the end of February 1988.

The first agreement, the so-called white-collar workers agreement, provides for an immediate increase equivalent to 2 per cent of each sector's total wage bill and a further 2.25 per cent increase at the beginning of March 1987. The parties to the collective agreements will decide how the amount available for pay increases is to be distributed within individual sectors.

The other agreement, the so-called blue-collar workers agreement, provides for wage in-

¹ See the front article in the May 1984 issue of the Bulletin.

creases of 55 pennies per hour at the beginning of the agreement period, however, not less than 1.5 per cent, and 64 pennies per hour, however, not less than 1.7 per cent, at the beginning of March 1987. In addition, in both years an extra 0.3 per cent of the wage bill is to be used for the resolution of specific problems at industry level. A low-pay increase was also agreed upon, which varies according to the sector concerned but which will average 0.3 per cent in each of the two years. All in all, the blue-collar workers agreement is estimated to raise average earnings by 2.4 per cent in the first year and by 2.6 per cent in the second year. The pay increases provided for under the white-collar workers agreement were also revised upwards to correspond to these figures.

The purpose of the earnings guarantee is to provide for subsequent adjustments to pay in sectors where wage drift is insignificant. Earnings developments in different sectors are to be reviewed at the beginning of next year, and again at the beginning of 1988. Should the growth of earnings in some sectors turn out to be smaller than the overall rise, the central organizations will agree upon possible extra increases to be implemented in these sectors. However, the increase must be at least 0.3 per cent to be payable.

The index clause included in the two comprehensive agreements is based on the consumer price index. Since the use of index clauses in agreements is still formally restricted, the legislation was amended to permit the inclusion of the indexation provisions of the comprehensive agreement in collective agreements. Should the index rise by more than 2.1 per cent between February and December 1986 and by more than 3.4 per cent between December 1986 and December 1987, full compensation will be paid for the amount by which the threshold is exceeded. Compensation will take the form of percentage pay increases in March 1987 and March 1988. Given the prospects for cost and price developments in the near term, it seems unlikely that the index thresholds will be breached.

Employers were prepared to concede no more than minor reductions in working hours, in addition to which they demanded increased flexibility in working time in return. Under the white-collar workers agreement, annual working hours are to be shortened, without any reduction in earnings, by 8 hours in 1987 and by the same amount in 1988. These reductions apply to those employees whose normal working week was 40 hours before the reduction in working time implemented from the beginning of 1986. Under the blue-collar workers agreements, annual working hours will — likewise without any reduction in earnings — be progressively shortened by a total of 68 hours between 1987 and 1990, when the normal working week will be about 37.5 hours on average; the unions had demanded a working week of 35 hours. A reduction in working hours in accordance with the latter agreement may also be applied with respect to similar groups of wage earners not covered by the agreement. The white-collar workers agreement allows for the possibility of some increase in the flexibility of working hours, provided that it is agreed upon in advance at the place of work. By contrast, in the blue-collar workers agreement it was agreed only to study the matter further and to experiment with ways of developing working hour arrangements.

To further facilitate the achievement of an incomes agreement, the Government decided upon a package of supporting measures totalling FIM 2.4 billion (the ordinary state budget for 1986 amounts to FIM 101 billion), of which the major part will be included in the 1987 budget. The measures apply mainly to income taxation, including a full adjustment for inflation next year and possible cuts in marginal tax rates.

Also contributing to the conclusion of incomes agreements was the Government's proposal for revising energy taxation as from the beginning of July this year. The sharp fall in oil prices makes it possible for those types of energy which have hitherto been less heavily

(Continued on page 35)

	1985		1986			
	May 31	Dec. 31	May 8	May 15	May 23	May 30
Assets						
Gold and foreign currency claims	21 931	22 650	16 855	15 189	16 281	16 173
Gold	1 732	2 081	2 081	2 081	2 081	2 081
Special drawing rights	963	931	945	956	983	989
IMF reserve tranche	842	775	785	810	832	838
Convertible currencies	18 183	18 608	12 389	10 598	11 471	11 160
Tied currencies	211	255	655	744	914	1 105
Other foreign claims	2 828	2 645	2 623	2 600	2 600	2 600
Markka subscription to Finland's IMF quota	2 828	2 645	2 623	2 600	2 600	2 600
Claims on financial institutions	7 026	9 256	10 244	11 374	11 285	10 158
Banks' cheque accounts	88	—	—	—	—	—
Call money advances	3 611	5 219	5 876	7 107	7 295	6 070
Till-money credits	1 373	1 925	2 108	2 006	1 729	1 842
Bonds	1 915	2 065	2 160	2 155	2 150	2 150
Other claims on financial institutions	39	47	100	106	111	96
Claims on the public sector	1 819	1 023	980	981	983	984
Government promissory notes	790	—	—	—	—	—
Bonds	156	118	72	73	75	75
Total coinage	860	891	904	905	905	906
Other claims on the public sector	13	14	4	3	3	3
Claims on corporations	4 917	4 679	4 924	4 890	4 896	4 940
Financing of exports	1 760	1 601	1 594	1 563	1 578	1 632
Financing of domestic deliveries	2 984	2 924	3 034	3 032	3 023	3 012
Bonds	92	81	75	75	75	74
Other claims on corporations	81	73	221	220	220	222
Other assets	144	146	147	148	148	148
Total	38 665	40 399	35 773	35 182	36 193	35 003
Liabilities						
Foreign currency liabilities	204	576	180	152	152	151
Convertible accounts	55	36	63	35	37	35
Tied currencies	149	540	117	117	115	116
Other foreign liabilities	3 735	3 494	3 459	3 438	3 461	3 466
IMF markka accounts	2 828	2 645	2 623	2 600	2 600	2 600
Allocations of special drawing rights	907	849	836	838	861	866
Notes and coin in circulation	7 322	8 072	8 082	8 101	8 023	8 046
Notes	6 609	7 304	7 317	7 335	7 257	7 280
Coin	713	768	765	766	766	766
Liabilities to financial institutions	15 182	12 153	10 906	10 724	11 530	10 174
Banks' cheque accounts	41	0	1	0	0	0
Call money deposits	4 785	1 205	1 329	1 138	1 884	477
Cash reserve deposits	9 577	10 222	8 846	8 846	8 846	8 862
Capital import deposits	686	639	629	634	667	676
Other liabilities to financial institutions	93	87	101	106	133	159
Liabilities to the public sector	1 200	4 300	1 100	1 101	1 101	1 101
Cheque accounts	1	0	0	1	1	1
Government deposit account	1 100	4 300	1 100	1 100	1 100	1 100
Export deposits	99	—	—	—	—	—
Capital import deposits	—	—	—	—	—	—
Other liabilities to the public sector	0	0	0	0	0	0
Liabilities to corporations	3 410	4 267	4 772	4 334	4 298	4 363
Deposits for investment and ship purchase	2 668	3 841	3 865	3 866	3 874	3 938
Capital import deposits	739	424	898	459	421	424
Other liabilities to corporations	3	2	9	9	3	1
Other liabilities	16	14	20	15	15	17
Valuation account and reserves	1 267	1 639	1 370	1 433	1 729	1 801
SITRA's capital	400	400	400	400	400	400
Capital accounts	5 929	5 484	5 484	5 484	5 484	5 484
Primary capital	5 000	5 000	5 000	5 000	5 000	5 000
Reserve fund	764	764	484	484	484	484
Undisposed profits	126	—	—	—	—	—
Net earnings	39	-280	—	—	—	—
Total	38 665	40 399	35 773	35 182	36 193	35 003

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	Certificates of deposit and deposit account	Other liabilities	Net liabilities (8 - 7 + 9)
	1	2	3	4	5	6	7	8	9	10
1982	2 444	6 561	9 005	1 525	-1 447	9 083	1 040	1 700	50	710
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
1985										
May	3 537	18 128	21 665	62	-907	20 820	1 819	1 100	100	-619
June	3 547	18 743	22 290	253	-901	21 642	1 817	800	58	-959
July	3 498	18 842	22 340	269	-889	21 720	1 580	1 600	58	78
Aug.	3 468	18 032	21 500	-159	-873	20 468	1 575	1 500	58	-17
Sept.	3 463	17 391	20 854	-269	-865	19 720	1 297	1 500	58	261
Oct.	3 462	18 174	21 636	-283	-859	20 494	1 269	1 500	59	290
Nov.	3 447	18 811	22 258	-166	-853	21 239	1 320	4 400	0	3 080
Dec.	3 787	18 572	22 359	-285	-849	21 225	1 023	4 300	0	3 277
1986										
Jan.	3 797	17 353	21 150	1 090	-849	21 391	1 036	1 000	14	-22
Feb.	3 748	16 865	20 613	740	-833	20 520	972	1 500	0	528
March	3 837	14 581	18 418	500	-848	18 070	976	1 100	0	124
April	3 800	13 017	16 817	421	-830	16 408	978	1 100	0	122
May	3 908	11 125	15 033	989	-866	15 156	984	1 100	1	117

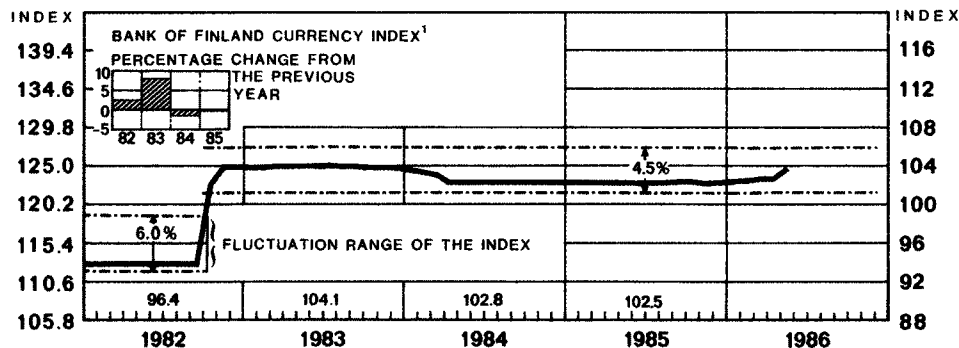
OFFICIAL FOREIGN EXCHANGE RESERVES

Mill. FIM

	Dec. 31, 1985	Feb. 28, 1986	March 27, 1986	April 30, 1986	May 30, 1986
Gold	2 081	2 081	2 081	2 081	2 081
SDRs	931	916	959	939	989
IMF reserve tranche	775	751	797	780	838
Convertible currencies, net	18 572	16 865	14 581	13 017	11 125
Total convertible reserves, net	22 359	20 613	18 418	16 817	15 033
Tied currencies, net	-285	740	500	421	989
Total reserves, net	22 074	21 353	18 918	17 238	16 022

End of year or month	Domestic financial sector						Corporate sector				Notes and coin in circulation
	Till-money credits	Claims on cheque accounts, net	Demand for call money by deposit banks	Supply of call money by deposit banks	Cash reserve deposits	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
1982	889	163	3 126	1 470	3 132	-1 042	618	4 302	999	3 303	6 062
1983	942	443	5 785	610	5 039	-1 555	3 076	4 529	1 282	3 247	6 574
1984	1 563	383	5 018	2 216	8 696	-1 235	-2 713	4 646	2 614	2 032	7 442
1985	1 925	0	5 219	1 205	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1985											
May	1 373	47	3 611	4 785	9 577	-1 175	-8 156	4 744	3 237	1 507	7 322
June	1 384	0	3 845	5 120	9 686	-1 163	-8 414	4 754	3 899	855	7 553
July	1 533	64	4 391	4 981	9 878	-1 203	-7 668	4 758	4 223	535	7 376
Aug.	1 371	52	5 553	4 692	9 928	-1 212	-6 432	4 734	4 040	694	7 342
Sept.	1 617	182	7 396	5 940	9 983	-1 352	-5 376	4 660	4 094	566	7 352
Oct.	1 567	-28	5 950	5 381	10 019	-1 384	-6 527	4 789	4 111	678	7 322
Nov.	1 450	-8	5 901	3 881	10 097	-1 992	-4 643	4 707	4 094	613	7 442
Dec.	1 925	0	5 219	1 205	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1986											
Jan.	1 558	0	1 852	1 734	9 828	-1 454	-6 698	4 654	4 434	220	7 455
Feb.	1 531	0	3 174	2 221	9 556	-1 530	-5 542	4 654	4 282	372	7 499
March	1 657	0	3 806	1 102	8 942	-1 494	-3 087	4 691	4 299	392	7 840
April	1 984	0	5 285	1 204	8 846	-1 541	-1 240	4 665	4 513	152	8 094
May	1 842	0	6 070	477	8 862	-1 411	-16	4 644	4 067	577	8 046

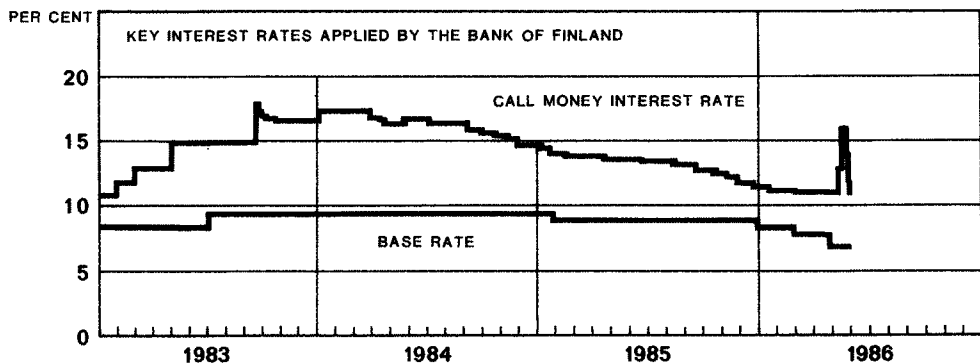
The left-hand scale depicts movements in the external value of the markka under the index in use until December 31, 1983 (1974 = 100), and the right-hand scale movements in the external value of the markka under the revised index introduced on January 1, 1984 (1982 = 100).



MONETARY POLICY INDICATORS

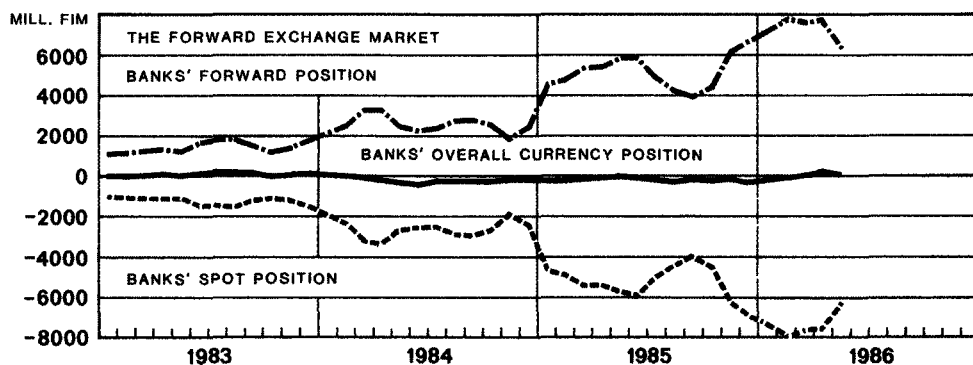
Average for period	Gross central bank debt of the deposit banks mill. FIM	Net central bank debt of the deposit banks mill. FIM	Cash reserve deposits of the deposit banks mill. FIM	Cash reserve requirement %	Call money credit extended by the Bank of Finland	Call money interest rate %	Average cost of gross central bank debt %	Base rate ¹ %	Average lending rate of the commercial banks ¹ %
	1	2	3	4	5	6	7	8	9
1981	4 095	-33	2 795	3.5	2 161	11.48	11.61	9.25	9.84
1982	3 201	-783	2 778	3.1	1 571	11.64	11.99	8.81	9.33
1983	4 539	-1 213	4 345	4.3	2 724	15.37	15.14	9.00	9.56
1984	3 176	-6 365	6 325	5.4	-39	16.53	16.53	9.50	10.49
1985	5 812	-8 293	9 578	5.6	1 285	13.37	13.37	9.04	10.41
1985									
March	5 727	-8 143	9 262	5.6	1 119	14.00	14.00	9.00	10.36
April	5 483	-8 902	9 453	5.6	552	13.96	13.96	9.00	10.38
May	4 691	-9 268	9 504	5.6	236	13.80	13.80	9.00	10.37
June	4 337	-10 150	9 588	5.6	-562	13.77	13.77	9.00	10.37
July	5 444	-8 711	9 695	5.6	984	13.60	13.60	9.00	10.40
Aug.	6 153	-7 843	9 881	5.6	2 038	13.43	13.43	9.00	10.43
Sept.	7 771	-6 928	9 930	5.6	3 002	13.11	13.11	9.00	10.42
Oct.	7 516	-7 079	9 982	5.6	2 904	12.78	12.78	9.00	10.43
Nov.	6 407	-8 485	10 024	5.6	1 539	12.37	12.37	9.00	10.40
Dec.	7 084	-6 784	10 101	5.6	3 317	11.96	11.96	9.00	10.37
1986									
Jan.	5 280	-7 742	10 210	5.3	2 467	11.64	11.64	8.50	9.90
Feb.	4 242	-8 187	9 818	5.0	1 631	11.40	11.40	8.50	9.90
March	5 146	-5 927	9 457	4.7	3 530	11.21	11.21	8.00	9.49
April	5 034	-5 565	8 939	4.7	3 374	11.20	11.20	8.00	9.49
May	6 645	-3 566	8 847	4.7	5 281	12.02	12.02	7.00	..

¹End of period.



FORWARD EXCHANGE MARKETS IN FINLAND

Period	Banks' forward positions in mill. FIM with						Banks' forward selling rates for USD		
	Domestic firms			Foreign banks	Bank of Finland	Overall	Deviation from spot rate, per cent per annum		
	Assets	Liabilities	Net	Net	Net	Net	1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
1984	22 921	1 394	21 527	2 002	-19 962	3 746	5.6	5.5	5.1
1985	16 982	1 733	15 249	708	-9 005	6 876	3.3	3.2	3.1
1984									
Dec.	22 921	1 394	21 527	2 002	-19 962	3 746	5.6	5.5	5.1
1985									
Jan.	23 207	1 450	21 757	2 949	-19 394	5 420	4.5	4.4	4.1
Feb.	22 602	1 592	21 010	2 971	-18 323	5 186	4.3	4.0	3.6
March	23 344	2 247	21 097	1 048	-16 848	5 575	4.6	4.0	3.3
April	22 987	2 219	20 769	1 640	-16 768	5 753	4.8	4.3	3.8
May	22 085	2 316	19 769	1 708	-15 704	5 865	5.3	4.9	4.5
June	21 221	2 259	18 962	1 941	-15 352	5 478	6.0	5.7	5.4
July	19 534	2 250	17 284	2 418	-14 224	5 558	5.7	5.6	5.3
Aug.	18 271	2 727	15 544	1 083	-12 493	4 163	5.8	5.4	5.1
Sept.	17 755	2 889	14 866	92	-11 101	3 811	5.3	5.0	4.7
Oct.	17 666	2 795	14 871	805	-9 813	5 986	5.0	4.6	4.3
Nov.	17 510	2 014	15 496	1 200	-10 032	6 702	4.3	4.1	4.0
Dec.	16 982	1 733	15 249	708	-9 005	6 876	3.3	3.2	3.1
1986									
Jan.	17 233	1 945	15 288	543	-8 349	7 457	3.1	2.7	2.6
Feb.	16 911	1 989	14 923	0	-7 015	7 952	2.7	2.4	2.1
March	16 365	2 095	14 270	11	-6 298	8 042	3.5	3.0	2.8
April	15 350	1 713	13 638	-854	-4 742	7 956	4.6	4.2	4.1



FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange. FiM

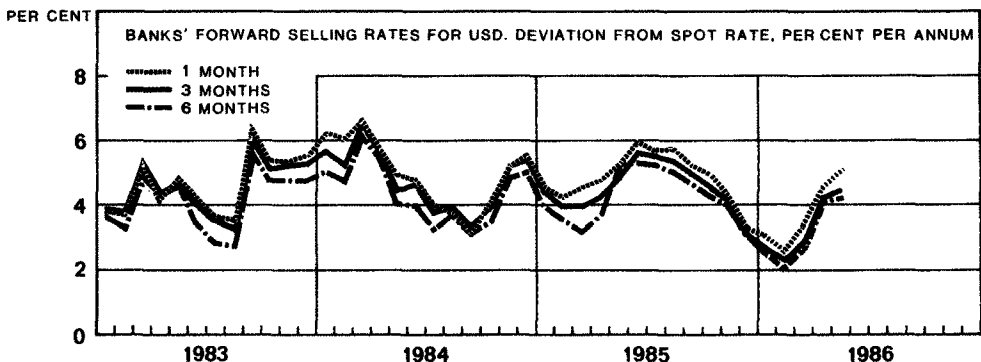
Period	New York 1 US \$ USD	Montreal 1 C \$ CAD	London 1 £ GBP	Dublin 1 ir£ IEP	Stockholm 100 Skr SEK	Oslo 100 Nkr NOK	Copenhagen 100 Dkr DKK	Frankfurt 100 DM DEM	Amsterdam 100 Hfl NLG	Brussels 100 FB BEC	BEL
	1	2	3	4	5	6	7	8	9	10	11
1981	4.315	3.602	8.731	6.976	85.74	75.54	60.96	191.31	173.43	11.688	11.095
1982	4.820	3.913	8.423	6.854	77.03	74.84	57.93	198.76	180.66	10.584	9.859
1983	5.570	4.524	8.456	6.957	72.75	76.44	61.07	218.61	195.66	10.934	10.742
1984	6.010	4.645	8.023	6.533	72.77	73.84	58.16	211.65	187.72	10.428	10.274
1985	6.206	4.554	8.000	6.590	72.22	72.31	58.71	211.42	187.45	10.483	10.421

1985

April	6.445	4.732	8.028	6.562	72.05	72.52	58.32	209.55	185.32	10.405	10.354
May	6.477	4.716	8.091	6.533	72.14	72.47	58.00	208.44	184.60	10.365	10.319
June	6.371	4.665	8.172	6.535	72.10	72.40	58.06	208.37	184.78	10.347	10.298
July	6.099	4.516	8.402	6.570	71.95	72.29	58.26	209.37	185.97	10.398	10.316
Aug.	5.942	4.387	8.253	6.653	71.70	72.30	58.93	213.31	189.63	10.547	10.425
Sept.	6.025	4.404	8.232	6.611	71.89	72.39	58.60	212.50	188.92	10.510	10.431
Oct.	5.690	4.168	8.106	6.676	71.63	72.10	59.41	215.47	191.11	10.633	10.556
Nov.	5.579	4.060	8.042	6.668	71.60	71.66	59.53	215.40	191.26	10.654	10.608
Dec.	5.487	3.941	7.952	6.737	71.57	71.85	60.23	218.51	194.03	10.722	10.666

1986

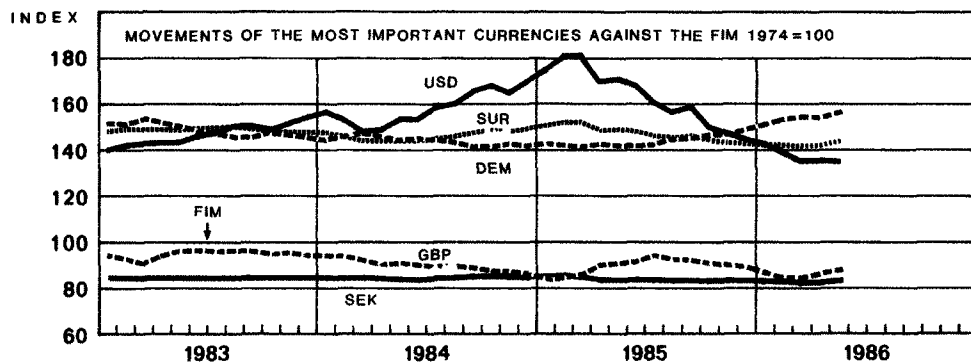
Jan.	5.419	3.860	7.747	6.772	71.49	71.90	60.64	222.15	197.11	10.875	10.733
Feb.	5.258	3.748	7.513	6.827	71.14	72.27	61.15	225.39	199.50	11.018	10.904
March	5.131	3.659	7.531	6.868	71.01	72.07	61.43	226.89	200.97	11.087	10.962
April	5.128	3.700	7.682	6.853	70.92	71.80	61.17	225.64	200.20	11.066	10.970
May	5.105	3.717	7.774	6.985	71.57	68.98	62.01	229.35	203.69	11.237	11.168



Average selling rates for foreign exchange. FIM

Zurich 100 Sfr CHF	Paris 100 FF FRF	Rome 100 Lit ITL	Vienna 100 OS ATS	Lisbon 100 Esc PTE	Reykjavik 100 Ikr ISK	Madrid 100 Ptas ESB	Tokyo 100 Y JPY	Moscow 1 Cl Rbl SUR	1 special drawing right SDR	Currency index ¹
12	13	14	15	16	17	18	19	20	2 ¹	22
220.34	79.92	0.385	27.17	7.17	60.35	4.72	1.967	5.986	5.071 40	113.1
237.79	73.65	0.358	28.31	6.13	40.79	4.41	1.943	6.624	5.305 63	115.9
265.70	73.53	0.369	31.11	5.14	23.25	3.91	2.351	7.491	5.943 25	125.1
256.42	69.07	0.344	30.13	4.14	19.39	3.75	2.534	7.357	6.147 39	102.8
253.60	69.40	0.327	30.12	3.67	15.20	3.66	2.610	7.419	6.278 77	102.5
249.89	68.78	0.329	29.85	3.77	16.02	3.76	2.568	7.487	6.380 70	102.5
247.90	68.50	0.328	29.68	3.71	15.73	3.71	2.578	7.496	6.399 94	102.5
248.20	68.49	0.328	29.67	3.69	15.52	3.67	2.564	7.455	6.344 84	102.4
252.74	68.98	0.323	29.82	3.64	15.07	3.64	2.529	7.359	6.211 68	102.5
259.72	69.98	0.319	30.40	3.63	14.77	3.64	2.509	7.319	6.131 58	102.5
258.26	69.77	0.318	30.25	3.57	14.57	3.59	2.550	7.366	6.183 31	102.6
262.81	70.80	0.320	30.69	3.52	13.85	3.54	2.653	7.262	6.051 77	102.6
262.36	70.80	0.320	30.66	3.50	13.63	3.51	2.740	7.209	6.016 47	102.4
261.01	71.57	0.322	31.12	3.48	13.36	3.54	2.710	7.183	5.971 01	102.5
262.42	72.55	0.327	31.63	3.49	13.03	3.56	2.712	7.164	5.940 24	102.6
269.08	73.58	0.332	32.10	3.50	12.80	3.59	2.850	7.161	5.926 58	102.7
269.37	73.91	0.335	32.36	3.48	12.67	3.62	2.876	7.131	5.888 85	102.8
269.68	71.33	0.331	32.17	3.46	12.61	3.58	2.931	7.148	5.886 47	102.7
275.83	72.13	0.335	32.65	3.46	12.74	3.62	3.062	7.230	5.954 02	103.8

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

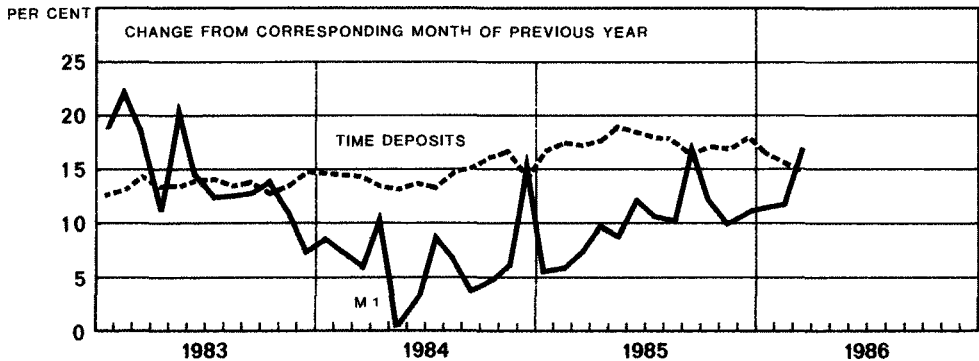
End of year and month	Demand deposits				Time deposits					Total (4 + 9)
	Commercial banks	Savings banks & Co-op. banks	Posti-pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	All deposit banks (5 to 8)	
	1	2	3	4	5	6	7	8	9	10
1982	7 155	3 874	3 049	14 078	29 465	25 883	21 040	8 665	85 054	99 132
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

1985*

Feb.	7 340	4 255	4 445	16 041	41 866	34 729	29 275	11 806	117 677	133 717
March	6 579	4 273	4 663	15 515	42 639	34 658	29 180	11 692	118 170	133 685
April	7 660	4 505	4 786	16 950	42 772	34 904	29 368	11 726	118 770	135 720
May	7 463	4 733	4 364	16 559	43 804	35 347	29 838	11 893	120 881	137 440
June	7 621	4 755	5 168	17 544	44 443	36 047	30 500	11 768	122 758	140 302
July	7 927	4 874	5 283	18 084	44 294	36 219	30 455	11 799	122 767	140 851
Aug.	7 222	4 917	5 739	17 878	44 796	36 551	30 741	12 083	124 171	142 049
Sept.	8 081	5 072	6 243	19 397	44 770	36 469	30 658	11 973	123 870	143 267
Oct.	8 281	5 194	5 547	19 022	45 896	36 825	30 892	12 366	125 979	145 001
Nov.	7 654	5 038	5 057	17 749	46 887	37 016	31 155	12 220	127 278	145 027
Dec.	9 382	5 988	5 027	20 397	49 240	38 167	32 133	12 671	132 210	152 607

1986*

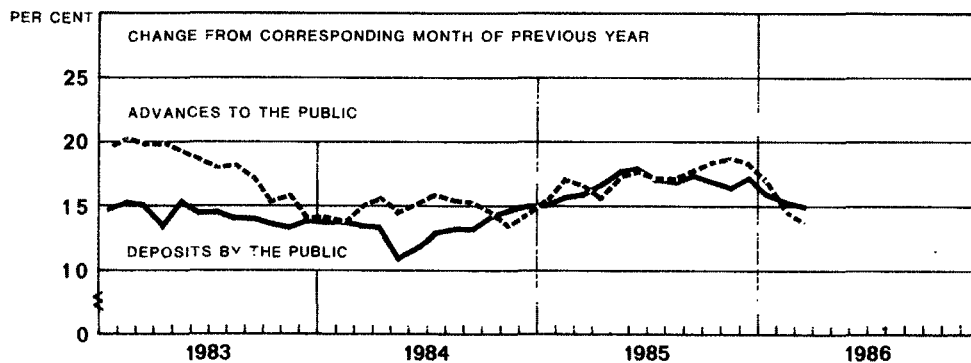
Jan.	8 239	5 350	5 210	18 798	49 624	38 550	32 842	12 867	133 883	152 681
Feb.	7 854	5 028	5 133	18 015	50 700	39 154	33 413	12 983	136 250	154 265



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
1982	48 620	25 682	23 601	12 684	93 014	3 468	14 105	110 587	19 917	107 549
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
1985*										
Feb.	71 757	33 384	31 707	15 328	121 848	6 099	24 228	152 175	22 617	145 403
March	72 453	33 564	31 988	15 565	123 188	6 305	24 077	153 570	22 152	145 638
April	73 567	33 860	32 184	15 484	124 351	6 320	24 425	155 095	23 595	147 783
May	75 015	34 172	32 621	15 883	126 022	6 365	25 304	157 691	23 423	149 700
June	77 246	34 390	32 983	15 959	127 596	6 279	26 703	160 579	24 750	153 455
July	77 104	34 848	33 378	16 074	128 886	6 242	26 275	161 403	24 902	154 118
Aug.	77 677	35 276	33 824	16 082	130 846	6 333	25 680	162 859	24 783	155 013
Sept.	79 367	35 764	34 411	16 376	133 113	6 637	26 167	165 917	26 092	156 195
Oct.	80 304	36 141	34 826	16 442	134 924	6 333	26 456	167 712	25 607	158 054
Nov.	81 573	36 467	35 216	16 727	136 739	6 373	26 872	169 984	24 691	157 772
Dec.	81 669	36 991	35 751	16 745	140 139	6 313	24 704	171 155	27 694	166 652
1986*										
Jan.	83 252	37 502	36 049	17 168	142 071	7 148	24 751	173 971	26 029	167 354
Feb.	83 136	37 729	36 388	17 140	143 206	7 294	23 893	174 393	25 304	168 731



STATE FINANCES

Mill. FIM

Revenue	Jan.-Nov.		Expenditure	Jan.-Nov.	
	1984	1985		1984	1985
Income and wealth tax (net)	21 207	24 149	Wages, salaries, pensions etc.	12 070	13 228
Gross receipts	52 640	59 671	Repair and maintenance	1 501	1 682
Refunds & local authorities	-31 434	-35 522	Other consumption expenditure	6 621	7 734
Other taxes on income and wealth	567	552	Total consumption expenditure	20 192	22 644
Employers' child allowance payments	223	669	State aid to local authorities	16 728	19 262
Sales tax	19 736	22 419	State aid to industries	8 483	8 797
Customs duties and import charges and levies	1 568	1 492	of which: agric. price subsidies	3 934	4 598
Excise duties	9 968	10 587	Child allowances	2 340	2 473
Excise duty on alcoholic bevs.	3 669	3 804	Share in national pensions and sickness insurance schemes	2 138	2 041
Excise duty on tobacco	1 479	1 523	Deficit of State enterprises	1 105	1 084
Excise duty on liquid fuel	3 495	3 628	Other transfer expenditure	9 928	11 278
Other excise duties	1 325	1 633	Total transfer expenditure	40 722	44 936
Tax on autom. and motor-cycles	2 407	2 589	Machinery and equipment	1 643	1 826
Stamp duties	2 059	2 422	Construction of buildings	1 164	1 018
Special diesel etc. vehicles tax	317	351	Land and waterway construction	2 117	2 173
Other taxes and similar revenue	1 900	1 934	Total real investment	4 923	5 018
Total taxes	59 951	67 166	Interest on State debt	3 654	4 364
Miscellaneous revenue	4 909	5 247	Other expenditure	18	26
Interest, dividends etc.	1 499	1 981	Total other expenditure	3 672	4 390
Surplus of state enterprises	1 808	1 925	Increase in inventories	-50	161
Redemptions of loans granted	1 377	1 541	Lending	3 766	3 793
Total revenue	69 544	77 859	Other financial investment	639	790
Foreign borrowing	4 633	3 374	Total expenditure	73 864	81 732
Domestic borrowing	5 297	7 000	Redemption of foreign loans	1 840	1 334
Total borrowing	9 930	10 374	Redemption of domestic loans	3 609	5 059
Deficit (+) or surplus (-)	-160	-107	Total redemptions	5 449	6 393
Total	79 314	88 125	Total	79 314	88 125

State debt	1983	1984	1985			
	Dec.	Dec.	Sept.	Oct.	Nov.	Dec.
Foreign debt	21 723	24 946	25 787	26 205	26 027	25 677
Long-term debt	16 383	19 057	20 196	20 603	20 902	20 872
Short-term credit	18	266	314	314	314	432
Domestic debt	16 401	19 323	20 510	20 917	21 216	21 304
Total State debt	38 124	44 269	46 297	47 122	47 243	46 981
Total debt mill. \$	6 506	6 855	7 684	8 282	8 468	8 562

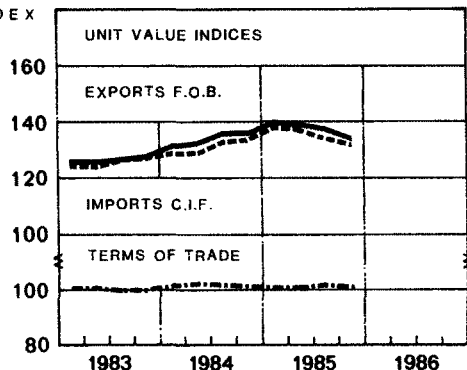
FOREIGN TRADE

Mill. FIM

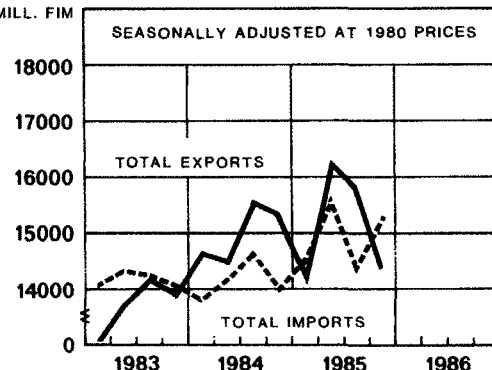
Period	Value, mill. FIM		
	Exports f.o.b.	Imports c.i.f.	Surplus of exports (+) or imports (-)
	1	2	3
1981	60 308	61 269	-961
1982	63 026	64 751	-1 725
1983	69 692	71 528	-1 836
1984	80 904	74 682	+6 222
1985	84 028	81 520	+2 508
1985			
June	6 842	7 063	-221
July	7 109	6 734	+375
Aug.	6 659	5 789	+870
Sept.	6 902	7 035	-133
Oct.	7 467	8 155	-688
Nov.	6 727	6 641	+86
Dec.	6 556	7 011	-455
1986*			
Jan.	6 793	7 466	-673
Feb.	6 937	6 308	+629
Jan.-Feb.			
1985	13 492	11 914	+1 578
1986*	13 731	13 774	-43

Period	Indices of exports and imports 1980 = 100				
	Volume		Unit value		Terms of trade
	Exports	Imports	Exports	Imports	
	1	2	3	4	5
1981	103	94	111	112	99
1982	100	95	119	117	101
1983	104	98	127	125	101
1984	114	98	134	131	102
1985	115	104	138	135	102
1983					
Oct.-Dec.	115	108	128	128	100
1984					
Jan.-March	114	90	132	129	102
Apr.-June	113	99	133	130	103
July-Sept.	108	99	137	133	102
Oct.-Dec.	121	101	137	134	102
1985					
Jan.-March	108	93	141	139	101
Apr.-June	122	106	139	138	101
July-Sept.	113	100	138	135	102
Oct.-Dec.	117	113	135	133	102

INDEX



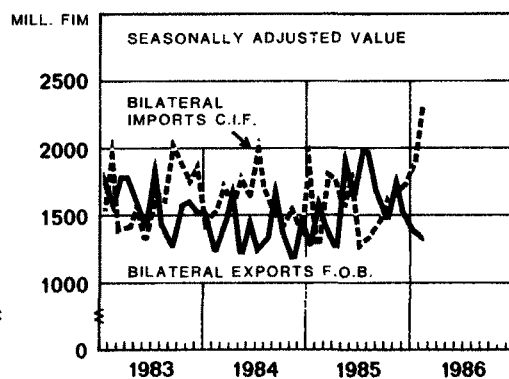
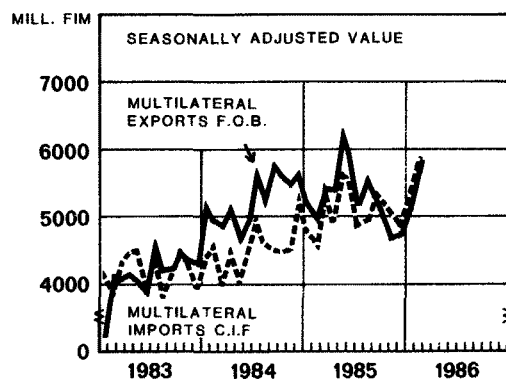
MILL. FIM



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	
1981	2 036	6 852	17 127	14 858	19 435	39 156	5 115	8 877	8 015	106
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
1985										
June	211	680	1 856	2 004	2 092	4 529	601	1 018	912	3
July	151	505	2 212	2 269	1 971	4 179	637	891	997	30
Aug.	143	506	2 250	1 832	1 928	3 434	492	833	1 020	10
Sept.	156	503	2 097	2 019	2 127	4 448	458	939	1 186	5
Oct.	185	629	2 162	1 964	2 526	4 987	742	1 169	1 250	5
Nov.	155	588	1 885	2 175	1 924	3 895	557	1 074	1 105	9
Dec.	128	538	1 797	2 114	1 979	4 539	441	1 027	996	8
1986*										
Jan.	274	490	1 855	2 202	1 973	4 866	475	1 038	1 080	7
Feb.	350	486	1 842	1 940	2 319	3 726	316	888	1 369	8
Jan.-Feb.										
1985	674	1 104	4 041	3 694	3 979	7 520	491	1 668	2 038	197
1986*	624	976	3 697	4 141	4 292	8 593	791	1 926	2 449	14



FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January-February				January-February			
	1985		1986*		1985		1986*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
OECD countries in Europe	55.2	7 447	62.3	8 548	58.2	6 934	56.2	7 746
Austria	0.7	89	0.9	120	1.1	135	1.1	155
Belgium and Luxembourg	1.6	211	1.8	241	2.1	250	2.0	278
Denmark	4.0	534	5.1	706	2.3	279	2.4	334
France	4.7	637	4.3	588	3.6	424	3.6	492
Federal Republic of Germany	8.9	1 207	9.9	1 361	14.7	1 751	15.6	2 145
Italy	2.1	286	2.2	303	3.2	379	3.5	479
Netherlands	3.0	405	3.7	504	2.7	320	2.9	395
Norway	3.3	447	4.7	649	4.5	542	3.0	409
Portugal	0.3	36	0.3	40	0.8	92	0.8	110
Spain	0.7	93	0.8	114	1.0	117	1.4	199
Sweden	12.3	1 664	14.8	2 031	12.4	1 478	12.2	1 686
Switzerland	1.5	197	1.8	241	1.6	194	1.6	217
United Kingdom	10.7	1 447	10.6	1 454	7.4	878	5.5	757
Other	1.4	194	1.4	196	0.8	95	0.7	90
OECD countries outside Europe	12.2	1 641	9.7	1 328	12.2	1 453	12.5	1 725
Canada	1.6	217	1.2	164	0.8	92	0.5	67
Japan	2.1	284	1.4	195	5.9	697	6.6	904
United States	7.1	951	5.9	812	5.4	638	5.0	695
Other	1.4	189	1.2	158	0.2	26	0.4	59
CMEA countries	21.7	2 924	18.9	2 595	21.3	2 540	20.4	2 810
Czechoslovakia	0.4	52	0.5	68	0.4	52	0.5	66
German Democratic Republic	0.7	95	0.4	61	0.5	55	0.5	75
Poland	0.7	88	0.3	40	1.7	204	1.0	136
Soviet Union	19.2	2 597	16.6	2 284	18.0	2 141	17.7	2 444
Other	0.7	92	1.0	142	0.7	88	0.7	90
Latin America	1.1	150	1.6	217	2.5	300	2.4	329
Argentina	0.1	10	0.1	12	0.1	13	0.1	12
Brazil	0.1	16	0.2	24	1.0	117	0.9	120
Colombia	0.2	24	0.1	16	0.4	48	0.5	75
Other	0.7	100	1.2	164	1.0	122	0.9	122
Other	9.9	1 330	7.6	1 043	5.8	687	8.5	1 164
GRAND TOTAL	100.0	13 492	100.0	13 731	100.0	11 914	100.0	13 774
of which								
EFTA countries	18.3	2 465	22.3	3 057	20.7	2 462	18.0	2 484
EEC countries	36.1	4 869	39.6	5 437	36.5	4 348	38.1	5 254
OECD countries	67.4	9 088	71.9	9 876	70.4	8 387	68.8	9 471

BALANCE OF PAYMENTS

Period	Exports f.o.b.	Imports c...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	1*
1982	62 867	65 147	-2 280	+2 856	-277	+1 732	+2 031	-5 447	-643	+161	-3 898
1983	69 368	72 139	-2 771	+3 200	-748	+1 610	+1 291	-5 817	-797	+96	-5 227
1984*	80 608	75 099	+5 508	+3 909	-1 212	-393	+7 812	-6 781	-1 037	-244	-250
1985*	83 900	81900	+2 000	+3 800	-1 600	-500	+3 700	-6 200	-1 150	-350	-4 000

1983

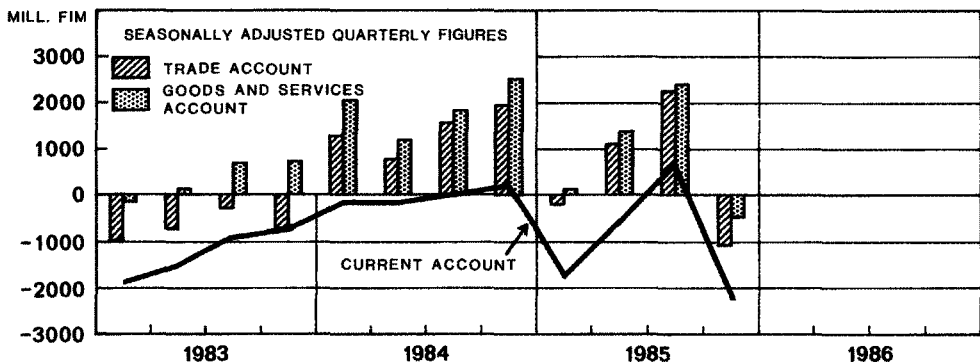
Jan.-March	16 740	16 469	+271	+744	-292	+142	+865	-1 557	-243	+5	-930
Apr.-June	17 098	17 538	-440	+753	-229	-288	+372	-1 492	-176	+42	-1 254
July-Sept.	16 180	17 970	-1 790	+888	+45	-487	-370	-1 463	-174	+53	-1 954
Oct.-Dec.	19 350	20 162	-812	+815	-272	+693	+424	-1 305	-204	-4	-1 089

1984*

Jan.-March	19 678	17 067	+2 612	+967	-370	-61	+3 148	-2 010	-272	-72	+794
Apr.-June	19 700	18 845	+855	+985	-326	-181	+1 332	-1 219	-190	-45	-121
July-Sept.	19 395	19 324	+71	+1 105	-123	-104	+949	-1 593	-267	-52	-963
Oct.-Dec.	21 834	19 863	+1 971	+853	-393	-47	+2 384	-1 959	-309	-76	+40

1985*

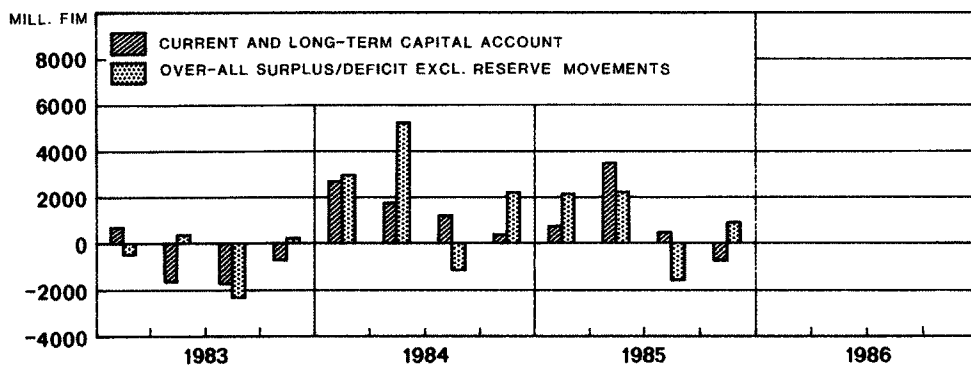
Jan.-March	20 064	18 942	+1 123	+889	-490	-254	+1 268	-1 585	-349	-131	-798
Apr.-June	22 479	21 411	+1 068	+970	-444	-187	+1 406	-1 707	-289	-56	-646
July-Sept.	20 645	19 654	+991	+994	-247	-26	+1 712	-1 408	-222	-63	+19
Oct.-Dec.	20 712	21 893	-1 181	+948	-419	-34	-687	-1 500	-289	-100	-2 576



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
+10 213	-4 721	-1 239	-3 642	+611	-3 287	-914	-771	+1 493	+1 811	-126	+126
+10 112	-7 273	+423	-1 388	+1 874	-3 353	+3 273	-3 380	+1 266	+32	-2 162	+2 162
+14 087	-7 538	-1 682	+1 428	+6 295	+6 045	+695	-3 308	+2 086	-2 859	-9 275	-9 275
+13 009	-8 179	+1 354	+1 813	+7 997	+3 997	+2 000	-7 053	+4 800	0	+3 744	-3 744
+2 985	-1 271	+100	-182	-1 632	+702	-115	+654	-1 220	-503	-482	+482
+2 435	-2 895	+273	-204	-391	-1 645	+1 261	-343	+699	+425	+397	-397
-1 479	-1 269	+142	-129	+223	-1 731	+1 197	-1 662	-593	+476	-2 313	+2 313
+3 213	-1 838	-92	-873	+410	-679	+930	-2 029	+2 380	-366	-236	-236
+4 075	-1 887	-235	-47	-1 906	+2 700	-1 002	+1 135	+2 443	-2 290	+2 986	-2 986
+3 858	-2 351	+89	+276	+1 872	-1 751	-1 087	+161	+2 531	-308	+5 222	-5 222
+2 495	-1 185	-603	+1 475	+2 182	+1 219	+332	+6	-2 186	-511	-1 140	+1 140
+3 659	-2 115	-933	-276	+335	+375	+278	+2 005	-702	+251	-2 208	-2 208
+2 977	-1 738	+336	-49	+1 526	+728	+533	-1 027	+1 924	-6	+2 153	-2 153
+3 355	-2 709	+369	+3 111	+4 126	+3 480	-862	-1 693	+1 582	-2 003	+2 228	-2 228
+2 460	-1 621	+263	-627	+475	-494	-56	-965	-1 540	+501	-1 566	+1 566
+4 217	-2 111	+386	-622	-1 870	-706	+661	-3 368	+2 835	+1 509	+930	-930

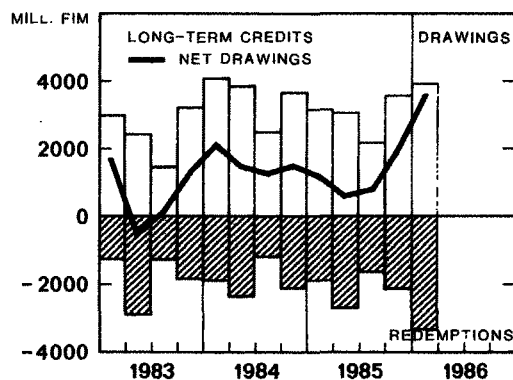
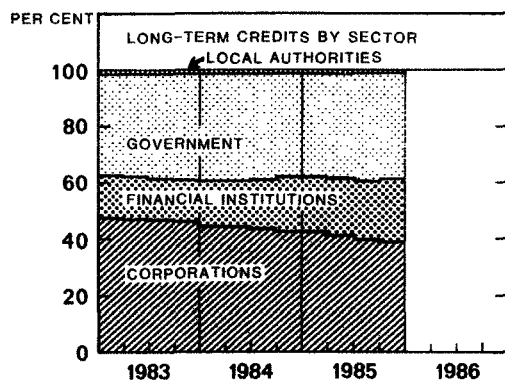
Assets: increase -, decrease +. Liabilities: increase +, decrease -

¹ Including allocations of special drawing rights totalling FIM 131 million.

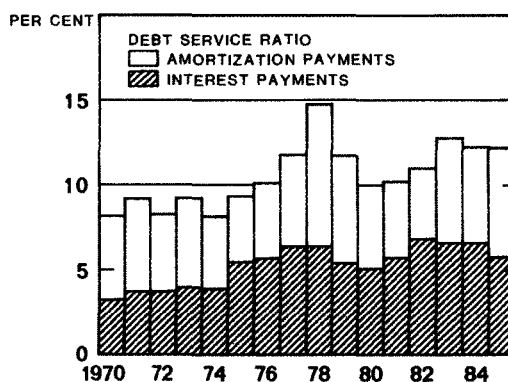
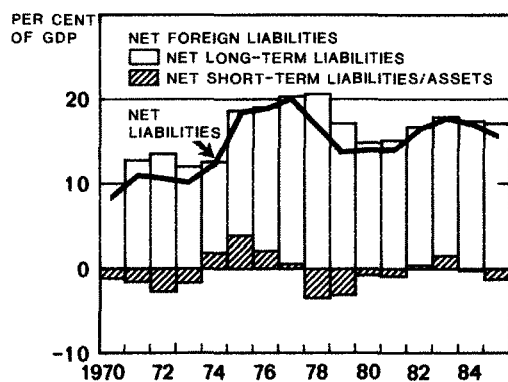


FINLAND'S FOREIGN ASSETS AND LIABILITIES

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
1982	6 628	4 626	3 796	15 050	47 547	4 608	2 223	..	752	55 130	40 080
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	2 646	2 013	805	73 287	53 763
1985*	6 566	10 553	2 787	19 906	64 598	2 927	3 010	6 277	1 065	77 877	57 971
1983											
March	6 672	5 003	3 892	15 567	49 897	4 759	2 288	..	846	57 790	42 223
June	6 458	4 998	3 956	15 412	49 921	4 462	2 306	..	812	57 501	42 089
Sept.	6 411	5 392	3 935	15 738	50 705	4 566	2 303	..	798	58 372	42 634
Dec.	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1984*											
March	6 658	6 687	3 539	16 884	54 014	4 225	2 354	987	731	62 311	45 427
June	6 827	7 435	3 230	17 492	57 198	3 937	2 393	1 640	729	65 897	48 405
Sept.	7 767	7 834	1 839	17 440	60 497	3 951	2 410	1 957	834	69 649	52 209
Dec.	8 920	8 689	1 915	19 524	63 958	3 865	2 646	2 013	805	73 287	53 763
1985*											
March	8 504	9 408	2 071	19 983	64 798	3 616	2 631	2 900	778	74 723	54 740
June	8 034	9 824	2 195	20 053	65 273	3 350	2 763	6 317	873	78 576	58 523
Sept.	7 200	10 290	2 179	19 669	64 060	3 080	2 809	6 210	867	77 026	57 357
Dec.	6 566	10 553	2 787	19 906	64 598	2 927	3 010	6 277	1 065	77 877	57 971



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)				
'2	'3	'4	'5	'6	'7	'8	'9	'20	'21	'22	'23
12 737	22 899	13 858	49 494	5 348	31 331	13 782	50 461	967	41 047	9 069	3 464
11 842	29 263	15 915	57 020	5 705	39 443	16 180	61 328	4 308	49 116	11 591	5 621
22 912	43 319	12 491	78 722	4 562	55 695	17 922	78 179	-543	53 220	12 878	5 896
25 183	43 990	16 854	86 027	4 070	60 506	16 980	81 556	-4 471	53 500	13 293	6 951
12 365	22 166	14 580	49 111	4 637	29 530	15 112	49 279	168	42 391	2 535	942
12 905	23 008	14 878	50 791	4 705	31 137	16 563	52 405	1 614	43 703	3 788	2 243
10 556	23 605	15 681	49 842	4 737	31 289	16 805	52 831	2 989	45 623	2 542	1 049
11 842	29 263	15 915	57 020	5 705	39 443	16 180	61 328	4 308	49 116	2 726	1 387
14 740	25 724	15 522	55 986	3 657	37 966	15 617	57 240	1 254	46 681	3 523	1 452
20 705	31 935	15 083	67 723	3 775	47 084	16 884	67 743	20	48 425	3 260	1 987
21 064	34 621	14 700	70 385	4 815	47 882	17 388	70 085	-300	51 909	2 448	821
22 912	43 319	12 491	78 722	4 562	55 695	17 922	78 179	-543	53 220	3 647	1 636
24 785	44 984	13 492	83 261	4 535	59 101	18 298	81 935	-1 327	53 413	3 301	1 688
26 208	46 661	14 605	87 473	3 729	62 282	18 558	84 570	-2 904	55 619	3 894	2 110
24 770	44 927	14 477	84 174	4 240	58 729	17 207	80 176	-3 999	53 358	2 976	1 542
25 183	43 990	16 854	86 027	4 070	60 506	16 980	81 556	-4 471	53 500	3 122	1 611



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	
1984	1 261	134.5	136.0	130.0	132.6	137.5	135.8	136.5	133.7	136.1
1985	1 324	140.5	143.1	132.8	137.5	145.8	142.4	144.3	144.4	142.8
1985										
Sept.	1 326	140.8	143.6	132.3	137.0	146.7	143.9	145.8	146.2	144.2
Oct.	1 319	140.0	143.3	129.8	135.4	146.7	144.2	145.9	146.4	144.3
Nov.	1 314	139.5	143.1	128.7	134.5	146.8	144.6	146.1	146.0	144.7
Dec.	1 316	139.5	143.1	128.7	134.3	147.2	144.6	146.4	146.2	145.0
1986										
Jan.	1 312	139.0	143.2	126.2	133.2	147.4	144.9	148.4	150.8	146.1
Feb.	1 297	137.0	142.9	119.2	129.1	147.3	146.1	148.5	151.0	146.6
March	1 279	135.0	141.6	115.2	125.5	146.7	147.0	148.8	151.0	146.7
April	1 265	133.6	140.5	112.5	123.0	146.2	147.3	149.3	151.5	147.3

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
1984	127.1	129.1	132.5	119.5	124.5	123.0	145.2	125.4	126.4	130.8
1985	134.6	139.1	140.3	126.1	130.9	129.7	155.7	130.4	132.5	140.4
1985										
Sept.	135.8	140.0	141.4	128.0	132.8	131.1	157.2	130.1	134.0	142.1
Oct.	136.0	140.0	141.4	129.7	132.9	131.8	158.3	129.7	134.4	142.2
Nov.	136.1	140.0	141.4	130.2	133.0	132.0	159.0	129.4	134.9	142.7
Dec.	136.2	139.8	141.4	130.3	133.0	132.1	159.0	130.1	135.0	142.8
1986										
Jan.	137.2	141.4	144.7	126.6	133.2	132.6	162.5	130.1	136.0	146.1
Feb.	137.8	142.1	144.7	128.4	133.7	133.3	162.6	130.9	136.1	147.2
March	138.1	143.2	144.7	130.8	133.6	133.6	162.6	129.9	136.2	147.4
April	138.6	144.2	144.9	131.3	133.6	134.2	162.8	130.4	137.6	147.6

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	
1983	132.1	137.3	138.2	138.8	137.3	140.0	137.3	138.4	136.9	137.8
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	165.0	158.9	166.1	163.5	164.1	162.2	163.4
1985*										
Jan.-March	150.6	156.8	164.3	160.5	154.7	162.5	157.4	158.5	157.1	158.0
Apr.-June	163.2	162.8	168.6	166.2	160.3	167.0	164.9	165.3	163.6	164.7
July-Sept.	161.9	162.0	168.2	166.5	160.1	167.2	164.7	165.7	162.6	164.6
Oct.-Dec.	166.7	163.1	174.1	167.0	160.6	167.7	167.1	166.9	165.3	166.3
1986*										
Jan.-March	170.1	165.3	178.1	173.2	166.9	174.6	169.3	171.2	167.7	170.0

PRODUCTION

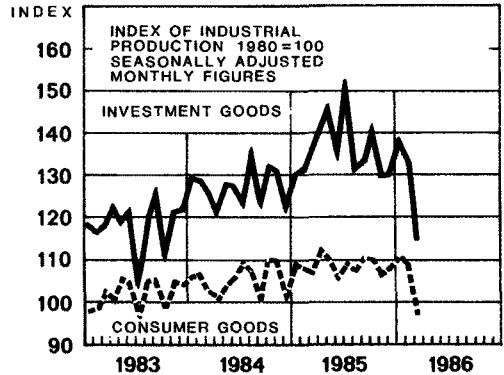
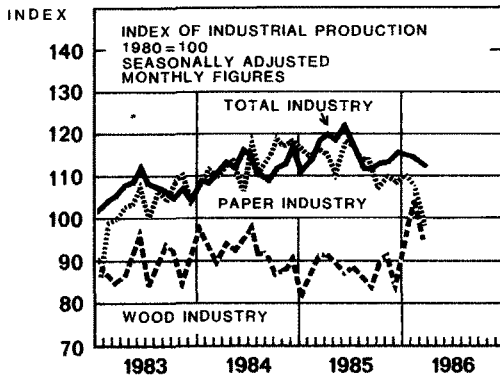
Volume indices of production 1980 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communication	Commerce	Public sector services	Others
1983										
Oct.-Dec.	117	116	88	101	148	104	121	117	114	121
1984*										
Jan.-March	104	110	76	89	82	93	103	98	114	113
Apr.-June	109	114	84	90	84	104	109	108	114	121
July-Sept.	110	102	203	45	114	104	107	110	115	119
Oct.-Dec.	121	123	96	118	141	106	121	119	117	127
1985*										
Jan.-March	108	111	76	101	82	91	107	100	117	117
Apr.-June	114	120	81	107	86	106	112	112	117	127
July-Sept.	112	106	186	37	111	106	112	113	118	125
Oct.-Dec.	124	123	89	107	143	107	127	124	120	133

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
1983	107.1	119.0	102.6	107.1	108.9	89.9	103.5	106.2	115.0	114.5	107.1
1984*	112.4	127.8	106.0	112.5	110.1	92.4	114.3	110.8	109.2	121.6	112.7
1985*	115.8	137.0	109.0	115.0	109.4	87.8	113.9	115.0	112.9	130.1	116.2
1985*											
March	122.3	149.6	113.6	121.5	105.5	98.0	123.3	125.7	113.1	138.2	118.9
April	120.1	147.7	112.0	119.0	106.7	107.6	105.4	129.8	103.9	138.8	121.2
May	128.7	175.4	117.5	125.6	114.1	115.9	108.2	126.8	125.3	160.3	119.2
June	115.2	153.1	103.3	114.0	102.8	93.7	106.7	108.2	115.5	138.0	122.8
July	80.9	66.7	71.7	87.7	102.5	40.2	127.5	76.7	71.6	67.8	118.5
Aug.	115.1	127.6	108.5	115.8	112.5	81.9	119.7	121.1	132.3	123.4	112.3
Sept.	118.2	134.0	111.9	118.1	107.8	94.5	112.9	121.7	137.1	132.2	112.1
Oct.	129.4	157.5	124.5	126.5	136.6	108.1	113.0	126.2	138.5	150.4	113.5
Nov.	123.1	142.9	120.0	120.7	128.0	95.4	117.7	116.0	121.1	139.0	113.8
Dec.	106.8	126.8	102.5	105.1	103.0	62.0	103.6	108.3	99.1	121.4	115.8
1986*											
Jan.	122.0	143.3	118.1	119.8	103.7	92.1	112.0	120.8	103.8	139.0	115.0
Feb.	110.3	129.7	107.1	108.2	91.2	80.9	103.0	110.0	84.5	124.2	114.5
March	107.4	126.0	102.7	106.1	92.0	82.5	96.8	121.3	86.2	121.6	112.8



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
1984*	3 700	2 572	2 414	159	6.2	41 288	109	109
1985*	3 710	2 600	2 437	163	6.3	43 349	114	109
1985*								
Feb.	3 707	2 534	2 363	171	6.7	4 581	98	96
March	3 706	2 528	2 355	173	6.8	6 031	108	109
April	3 707	2 565	2 394	171	6.6	5 882	110	111
May	3 709	2 611	2 461	150	5.7	4 598	121	115
June	3 708	2 761	2 594	167	6.1	2 407	115	102
July	3 708	2 780	2 621	159	5.7	1 121	120	95
Aug.	3 712	2 631	2 481	150	5.7	1 212	117	108
Sept.	3 714	2 563	2 405	158	6.2	1 951	111	113
Oct.	3 714	2 556	2 396	160	6.3	2 962	118	124
Nov.	3 714	2 580	2 409	171	6.6	3 768	116	117
Dec.	3 714	2 563	2 406	157	6.1	4 729	134	119
1986*								
Jan.	3 714	2 553	2 360	193	7.6	4 232
Feb.	3 715	2 540	2 346	195	7.7	4 596
March	3 716	2 551	2 365	186	7.3	4 709

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
1984*	49.69	19.93	5.65	17.45	3.14	44.24	17.65	5.13	15.76	2.83	52.13
1985*	47.51	17.91	6.67	16.21	3.40	42.58	16.62	4.65	15.19	3.24	50.24
1984*											
July-Sept.	12.91	4.85	1.28	4.68	1.04	9.70	3.66	1.67	2.74	0.90	55.86
Oct.-Dec.	10.28	3.44	0.81	4.65	0.72	14.40	5.84	1.96	5.00	0.65	52.13
1985*											
Jan.-March	9.15	3.44	1.10	3.17	0.86	8.46	3.77	0.55	2.87	0.73	48.36
Apr.-June	17.09	7.24	3.08	4.80	0.75	9.82	3.96	0.70	3.39	1.02	52.99
July-Sept.	11.82	4.37	1.60	4.00	0.93	9.27	3.51	1.63	2.78	0.71	56.74
Oct.-Dec.	9.45	2.86	0.89	4.24	0.86	15.03	5.38	1.77	6.15	0.78	50.24

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 = The commercial banks' and Postipankki's cheque account overdrafts + Call money credit. Prior to January 1984 the average monthly amount of cheque account overdrafts at base rate was restricted by the quota granted to each bank. The banks could obtain central bank credit in excess of the quota by borrowing on the Bank of Finland's call money market. As from January 1984, the quotas were abolished and the only source of central bank debt is now the call money market. There is no longer any absolute ceiling on call money credit. However, banks' borrowing is monitored and a bank whose borrowing exceeds a certain limit comes under the special surveillance of the central bank. The interest charged on call money credit, the call money rate, is adjusted by the central bank in line with monetary policy objectives at the time.

Net central bank debt of the deposit banks = Gross central bank debt of the deposit banks - The commercial banks' and Postipankki's deposits on the call money market - 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 March 8, 1983. 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 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 advances and a slightly 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 advances.

Average cost of gross central bank debt = Costs of borrowing paid to the Bank of Finland by the deposit banks, as a percentage of their gross central bank debt, per annum.

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. *Currency index* is annual and monthly average 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, excl. amortisation payments 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. Debt service does not include amortisation of the Bank of Finland's reserve and oil credits.

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, ◊ 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 1 155 to 1 809 Finians formed a part of the kingdom of Sweden. Connected from 1 809 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 1983 is as follows: Social Democratic Party of Finland 57, National Coalition Party 44, Centre Party 38, Democratic League of the People of Finland 27, Finnish Rural Party 17, Swedish People's Party 11, Christian League of Finland 3, The Greens 2 and Finnish People's Constitutional Party 1.

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 (1984): 4.9 million. Sweden 8.3, Switzerland 6.5, Denmark 5.1, and Norway 4.1 million.

DENSITY OF POPULATION (1984): In South Finland 47.7, 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 (1984): 40 % of the population inhabit the rural areas, 60 % towns. The largest towns are: Helsinki (Helsingfors), the capital, 484 263 inhabitants, Tampere (Tammerfors) 168 150, Turku (Åbo) 162 282.

EMPLOYMENT (1985): 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 (1984): Finnish speaking 93.6 %, Swedish speaking 6.1 %, others 0.3 %.

EDUCATION (1986): 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 (1984): births 13.3 ‰, deaths 9.2 ‰, change - 5.0 ‰, net immigration + 0.8 ‰. Deaths in France 9.8 ‰ and Great Britain 11.4 ‰.

TRADE AND TRANSPORT

NATIONAL INCOME (1984), in million FIM: Gross domestic product at factor cost by industrial origin: agriculture and fishing 12 849 (5 %), forestry 10 004 (4 %), manufacturing 82 263 (30 %), construction 21 786 (8 %), trade, restaurants and hotels 30 337 (11 %), transport and communication 21 419 (8 %), banking and insurance 11 676 (4 %), ownership of dwellings 17 688 (6 %), other services 65 583 (24 %), total 273 605. Index of real domestic product 1980 = 100.

FOREST RESOURCES (1983). The growing stock comprised of 1 660 million m³ (solid volume with bark) of which 46 % 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 49.4 million m³.

AGRICULTURE (1983). Cultivated land 2.4 million hectares. Number of holdings 208 229 of which 146 465 are of more than 5 ha. Measure of self-sufficiency in bread cereals 93 %.

INDUSTRY (1983). Gross value of industrial production FIM 222 602 mill., number of workers 398 066, salaried employees 146 503, motive power 8.3 mill. kW. Index of industrial production 107.1 for 1983 (1980 = 100).

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

MERCHANT FLEET (Dec. 31, 1985): Passenger vessels 161 (246 112 gross reg. tons), tankers 36 (784 471 gross reg. tons), dry cargo vessels 139 (597 967 gross reg. tons), other vessels 103 (21 137 gross reg. tons), total 439 (1 649 687 gross reg. tons).

AUTOMOBILES (Dec. 31, 1985): Passenger cars 1 546 094, lorries and vans 179 637, buses 9 017, other automobiles 11 867, total 1 746 615.

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 trade-weighted 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 19.8, DEM 19.0, GBP 15.1, USD 9.9, other currencies 36.20. 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, 1984). There are two big and eight small commercial banks with in all 942 offices, 263 savings banks, 370 co-operative banks, five mortgage banks, Postipankki 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 ½ %; 6 month deposits 4 %; 12 month deposits 5 %; 24 month deposits 7 %.

PUBLIC FINANCE

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ECONOMIC ENVIRONMENT

In 1985, economic developments in Finland continued fairly favourable in many respects, with real GDP growing by close to 3 per cent for the fourth consecutive year. Employment experienced further steady growth, even though the unemployment rate stayed broadly unchanged at just over 6 per cent. However, the impetus to growth came entirely from domestic demand, while exports stagnated at the previous year's level. As a result the current account shifted into a deficit equivalent to 1.2 per cent of GDP. But, owing to the weakening of the US dollar, net foreign debt actually decreased in relation to GDP. Inflation decelerated on all fronts. During the 12-month period to December 1985 consumer prices rose by 5.0 per cent. Since, however, domestic costs continued to increase more rapidly than in Finland's main competitor countries, the inflation differential narrowed only slightly.

Contrary to developments in most industrialized countries, the prospects for the Finnish economy point to a slowdown in GDP growth in the near term. The collapse of oil prices and the fall of the U.S. dollar have caused a sharp reduction in the value of Finland's energy imports from Soviet Union, thereby weakening Finland's bilateral exports. In western markets, the outlook is brighter, although exporters of forest products may lose market shares to North-American producers, who are benefit-

ting from the falling dollar. The improvement in the terms of trade will boost domestic demand, especially private consumption. Overall, the changes in the international environment are likely to delay the recovery of total output in Finland.

FISCAL POLICY

In recent years, economic policy has been conducted within the framework of a medium-term strategy. For fiscal policies major constraints have been the ceiling set for the gross tax burden and the limits placed on the growth rate of public expenditure. In the spring of 1984, the Government announced that the ratio of total taxes to GDP should be kept at approximately its 1984 level until the end of the decade. Since, moreover, it was also sought to prevent any further rise in the ratio of central government debt to GDP, the target implied average annual growth of about 2 per cent in the volume of public expenditure. It should be noted, however, that this calculation allows for a larger increase in the implicit price deflator of public expenditure than in the GDP price deflator. Notwithstanding this medium-term policy setting, the requirements imposed by short-term fluctuations in cyclical conditions play an important role in economic policies. Consequently, some variation in the parameters mentioned above is allowed.

After the expansionary economic policies pursued during the last international recession, a tighter stance was adopted in late 1983 and maintained until the end of 1985. The tightening of stance was motivated by the need to forestall the erosion of price competitiveness as the recovery gained momentum. It was also considered important to strengthen the State's financial position as a counter-cyclical measure to create scope for future policy action.

TABLE 1. ECONOMIC PERFORMANCE IN 1983—1986

	1983	1984	1985*	1986 ¹
	per cent			
GDP, volume growth	2.9	3.0	2.8	2 ½
Unemployment rate	6.1	6.2	6.3	6 ½
Change in consumer prices	8.4	7.1	5.9	3 ½
Current account in relation to GDP	-1.3	-0.1	-1.2	-0

¹ Forecast for 1986, Ministry of Finance.

Part of central government expenditures in 1984 were either cut or deferred until the following year. Among the discretionary measures imposed in 1984 and aimed at the corporate sector were the collection of export deposits on sawnwood and pulp, and temporary increases in electricity tax and employers' social security contribution rates. In addition, firms were induced to postpone investment projects by increasing incentives to make transfers to investment reserves. In the household sector, restraint came in the form of an increase in progressive income taxation and higher social security contribution rates for insured persons.

The slower rate of economic expansion since the second half of 1985 has complicated the task of formulating fiscal policies for 1986. Curbing inflation is still a major goal but at the same time support for demand is felt to be necessary for employment reasons. Efforts have been made to reconcile these conflicting targets by implementing measures alleviating taxation, thereby seeking to reduce costs of production both directly and indirectly. The adjustment of income tax scales for 1986 by clearly more than the projected increase in consumer prices and the reduction in insured persons' social security contribution rates were designed to promote conditions conducive to wage moderation. The reform of business income taxation and the Government's proposal for energy tax reform both seek to permanently enhance the corporate sector's operating conditions. As a counter-cyclical measure, investment reserves have been made available for utilization by firms. On the basis of the decisions taken, the overall stance of fiscal policy is estimated to be expansionary in 1986.

CENTRAL GOVERNMENT

Central government expenditure including redemptions of public debt averaged 28.5 per cent of GDP in 1983 - 85. The share has increased by about 2 percentage points since 1975.

Central government budgets for 1984 and 1985 were framed with a view to sustaining overall economic balance and to strengthening central government finances. In 1983, the central government budget deficit exceeded 3 per cent of GDP as measured by the net borrowing requirement. In the Government's budget proposal for 1985, submitted to Parliament in the autumn of 1984, the central government net borrowing requirement was projected to fall to 1.0 per cent of GDP, as against 1.8 per cent of GDP estimated at that time for 1984. Some new measures increasing tax revenues were introduced. For instance, the inflation adjustment of income tax scales for 1985 was smaller than the consumer price increase. In addition, the temporary tax increases implemented in the second supplementary budget in mid-1984 were retained.

TABLE 2. CENTRAL GOVERNMENT FINANCES IN 1983—1985, CASH FIGURES

	1983	1984	1985*
	per cent of GDP		
Revenue	24.2	25.1	25.6
of which:			
Income and wealth taxes	7.0	7.1	7.4
Other direct taxes and social security contributions	0.2	0.3	0.4
Indirect taxes	13.4	14.0	14.1
Non-tax revenue	3.7	3.8	3.7
Expenditure	28.7	28.0	28.7
of which:			
Consumption expenditure	7.6	7.2	7.3
Subsidies	3.4	3.4	3.2
Transfers to households	3.7	3.7	3.8
Transfers to other sub-sectors of general government	6.6	6.7	7.0
Interest on State debt	1.1	1.3	1.4
Fixed investment	2.0	1.8	1.7
Lending and other financial investment	1.8	1.5	1.5
Redemptions of State debt	1.4	1.8	2.3
Gross borrowing requirement	4.5	2.9	3.1
Net borrowing requirement	3.1	1.1	0.8
Net borrowing of which: from abroad	2.7	1.7	1.0
	0.9	0.9	0.5
State gross debt	13.9	14.3	13.8
of which: foreign debt	7.9	8.1	7.6

Source: Ministry of Finance.

The outturn for central government finances in 1984 showed a smaller deficit than estimated in the autumn of 1984. In real terms, the growth of central government spending decelerated to 2 1/2 per cent in 1984 and if debt servicing is excluded real outlays did not increase at all. The deficit continued to decline in 1985. However, the shift in fiscal stance from the previous year towards more restraint was smaller than originally intended. Purchases of equipment by the central government sector boosted public consumption and, together with transfers and debt service payments, contributed to an increase of nearly 5 per cent in real outlays.

With the decline in budget deficits, the central government reduced its borrowing from abroad. Abundant liquidity in domestic financial markets also contributed to the shift towards a larger share of domestic borrowing.

As mentioned above, the current year has seen a reorientation of fiscal stance in an expansionary direction. The adjustment of personal income and wealth tax scales by over 7 per cent on average clearly exceeds the increase in consumer prices and will ease the direct tax burden of the household sector. The abolition of employers' temporary child allowance contributions and a reduction in electricity tax in late 1985 will also reduce taxation this year.

Part of the measures implemented are more of a supply-side nature. Business taxation was reformed at the beginning of the year.¹ Among other things, the corporate income tax rate was lowered by 10 percentage points to 33 per cent of taxable income. Advance tax payments will, however, still be levied at the old rate of 43 per cent this year. On the other hand, the upper limit on inventory reserves allowed in taxation was lowered from 50 to 40 per cent. In addition, capital gains were made taxable income, although substantial deductions are allowed.

¹For details, see the back article in the April 1986 issue of the Bulletin.

Another major change in the tax system is the proposed reform of energy taxation, which according to the Government's bill is due to come into force from the middle of 1986. As from then, energy consumption will be subject to general sales tax. Energy used in manufacturing will, however, be exempted from taxes. The total effect of the reform on central government revenue is estimated to be neutral.

This year, the volume growth of total central government expenditure is expected to decelerate to about 3 per cent. The central government's net financing requirement is estimated to rise to over one per cent of GDP.

LOCAL GOVERNMENT

In 1985, local authorities accounted for about 43 per cent of total general government expenditure (current expenditure and capital formation excluding transfers between subsectors of general government). In addition to income tax revenue from households and firms, a substantial part of their operations is financed by transfers from the central government budget.

TABLE 3. LOCAL GOVERNMENT FINANCES IN 1983—1985

	1983	1984	1985*
	per cent of GDP		
Revenue	16.1	16.5	17.0
of which:			
Income taxes	8.6	8.8	9.0
Transfers from other subsectors of general government	5.8	6.0	6.2
Current expenditure	14.8	15.1	15.7
of which:			
Consumption expenditure	12.5	12.8	13.3
Pensions and transfers to households	1.0	1.1	1.1
Transfers to other subsectors of general government	0.5	0.5	0.5
Net saving	1.3	1.4	1.3
Gross saving incl. capital transfers	2.4	2.5	2.4
Gross capital formation incl. purchases of land	2.3	2.2	2.2
Financial surplus	0.1	0.3	0.2

Source: National accounts statistics.

The average local government tax rate has remained broadly unchanged for several years. At the same time, the sector's financial position has been fairly easy. Local authorities' tax revenues have been boosted by the fact that most general government transfers to the household sector have been made subject to income taxation. However, in connection with the reform of the unemployment insurance system in 1985 the increase in local government revenue was refunded to the social security sector by imposing an extra social security contribution on local authorities in their capacity as employers.

Local authorities' demand for goods and services expanded rapidly in 1984 and 1985. Expenditure on consumption grew by nearly 5 and 4 per cent in volume terms in 1984 and 1985, respectively. Capital outlays increased only slightly in 1984 but registered buoyant growth of 4 per cent in 1985. Local government transfers to households also continued to expand rapidly.

Displaying a procyclical pattern, the volume growth of local authorities' expenditure is estimated to decelerate somewhat in 1986 and their financial position to tighten. There are some indications of pressures for an increase in local income tax rates. On the other hand, the budgets of local authorities were based on higher estimates for cost increases than the latest projections for 1986.

SOCIAL SECURITY FUNDS

The social security funds² accounted for about 18 per cent of total public expenditure in 1985. They are financed primarily by contributions from employers and insured persons, but a sizeable share of their total revenue is defrayed by transfers from the State and local authorities. Social security contributions have

been used quite actively in recent years as a counter-cyclical and structural policy instrument. The objective of restricting the rise in these rates has, however, weakened the financial position of the social security sector and increased the need for transfers from the State budget.

Social security benefits rose rapidly in 1985, showing a clear increase in relation to GDP. Under the reform of the unemployment insurance system implemented at the beginning of the year, unemployment benefits were made taxable income and hence nominal outlays were raised. The implementation of phase III of the national pensions reform also got under way at the beginning of 1985.

In nominal terms, total transfers paid by the social security sector are expected to grow at a noticeably slower pace in 1986 than in previous years. The deceleration largely reflects the slower increase in consumer prices, to which most benefits are indexed.

TABLE 4. SOCIAL SECURITY FUNDS' FINANCES IN 1983—1985

	1983	1984	1985*
	per cent of GDP		
Revenue	6.5	6.7	7.5
of which:			
Compulsory contributions by employers	3.1	3.1	3.3
Compulsory contributions by insured persons	1.3	1.6	1.9
Transfers from other subsectors of general government	1.7	1.4	1.9
Current expenditure	6.7	6.7	7.4
of which:			
Consumption expenditure	0.6	0.6	0.6
Social security benefits and other transfers to households	5.9	5.9	6.5
Gross saving	-0.2	0.0	0.2
Gross capital formation	0.0	0.0	0.0
Financial surplus	-0.2	-0.0	0.2

Source: National accounts statistics.

IMPACT OF THE PUBLIC SECTOR

All indicators point to a clearly restrictive fiscal impact in 1984. The increase in general govern-

²The social security funds included in the public sector in Finland are the Social Insurance Institution, the Central Unemployment Fund, the Support Fund for Unemployment Funds, and the Redundancy Payments Fund.

ment revenue exceeded the growth of expenditure (excluding financial transactions) by 5.7 percentage points, the gross tax ratio increased by 1.5 percentage points to 35.5 per

TABLE 5. INDICATORS OF GENERAL GOVERNMENT FINANCES AND FISCAL POLICY

	1983	1984	1985*
Current revenue, % of GDP	37.5	39.0	40.3
Expenditure excl. financial transactions, % of GDP	40.1	39.7	40.7
Gross tax ratio	34.0	35.5	36.6
Net tax ratio	20.9	22.5	23.4
Volume of public demand, change %	4.0	2.0	3.7
Volume of consumption expenditure, change %	4.0	2.9	4.3
Volume of fixed capital formation, change %	3.9	-1.2	3.3
Gross saving, % of GDP	2.4	3.9	4.1
Financial surplus, % of GDP	-1.6	0.3	0.5
Total public debt, % of GDP	17.3	17.7	17.0
Estimated growth contribution to GDP, %			
Central government	1.1	-1.6	0.2
Local government	0.8	-1.7	-0.1
Social security funds	0.4	0.2	0.4
	-0.1	-0.1	-0.1

Sources: National accounts statistics and Ministry of Finance.

cent of GDP and the net tax ratio by 1.6 percentage points to 22.5 per cent. Net lending of the general government sector showed a surplus equivalent to 0.3 per cent of GDP in 1984 after a deficit of 1.6 per cent of GDP in 1983. Overall, general government operations are estimated to have reduced GDP growth by about 1 1/2 percentage points.

In 1985, the change in fiscal stance was small and preliminary estimates suggest a fairly neutral impact. Both the gross and net tax ratios continued to rise, but the restrictive effect on the level of activity was roughly offset by a rapid expansion in public demand and in certain other outlays. In the central government sector, discretionary measures pointed to a shift in an expansionary direction, but automatic effects still exerted fiscal drag.

According to calculations made by the Ministry of Finance, fiscal policy and overall general government budgetary operations will boost the growth of total output by about half a percentage point in 1986.

MONETARY AND FOREIGN EXCHANGE POLICY MEASURES FROM AUGUST 1985 TO JUNE 1986

1985

August

Call money market. The Bank of Finland lowers the call money rate from 13.6 to 13.3 per cent as from August 15.

September

Forward market. The Bank of Finland issues new guidelines on operations in the forward market. Under these guidelines, firms are granted the right to hedge against the foreign exchange risk arising from the difference between their foreign currency claims and liabilities. Firms and private persons may still hedge against foreign exchange risks on an individual transactions basis as before. The new guidelines are to enter into force on September 1, 1985.

Personal credit guidelines. On September 6, the Bank of Finland issues the financial institutions new guidelines on the granting of personal credits.

Call money market. The Bank of Finland lowers the call money rate from 13.3 to 12.9 per cent as from September 17.

Local government counter-cyclical deposits. On September 19, the Council of State makes a decision according to which local authorities are allowed to make counter-cyclical deposits between October 1, 1985 and May 2, 1986. The funds are to be deposited with the Bank of Finland and they can be drawn as from October 1, 1986 and by August 31, 1987 at the latest. The Bank of Finland is to pay interest on the deposits at a rate which is 2.5 percentage points below the base rate. In addition, supplementary interest at a rate of 5.5 per cent is to be paid from central government funds on deposits of more than one year.

October

Call money market. The Bank of Finland lowers the call money rate from 12.9 to 12.6 per cent as from October 18.

November

Call money market. The Bank of Finland lowers the call money rate from 12.6 to 12.4 per cent as from November 5 and further to 12.0 per cent as from November 26.

December

Call money market. The Bank of Finland lowers the call money rate from 12.0 to 11.7 per cent as from December 27.

Cash reserve requirement. The Bank of Finland lowers the cash reserve requirement from 5.6 per cent to 5.3 per cent of the total stock of deposits at the end of December.

1986

January

Interest rate policy. The Bank of Finland lowers its base rate from 9.0 to 8.5 per cent as from January 1, 1986. In the same context, the upper limit on the banks' lending rates is rescinded. The Bank of Finland requires, however, that the rates of interest applied to loans granted for the acquisition of a dwelling intended for own use are not raised in relation to the base rate.

As a result of this decision, the rates applied by the banks to existing loans and tax-free deposits are also generally presupposed to fall by 0.5 percentage point.

Regulation of average lending rates. The Bank of Finland revises its regulation of banks'

average lending rates. With effect from the beginning of 1986, the average interest rate at the end of each calendar month may at most be the Bank of Finland's base rate plus 1.75 percentage points. If the average interest rate on a bank's total markka-denominated deposits exceeds the Bank of Finland's base rate by more than 1.25 percentage points, a bank's average lending rate may at most equal the average deposit rate for the month in question plus 0.5 percentage point.

Call money market. From the beginning of 1986, the Bank of Finland revises the system applied in the call money market, so that it pays a lower rate of interest on deposits than it charges on call money advances.

The rate on call money advances remains at 11.7 per cent while the rate on call money deposits is 11.0 per cent as from January 2.

Revision of foreign exchange regulations. In connection with the renewal of the Foreign Exchange Act, which enters into force at the beginning of the year, the Bank of Finland updates and partially liberalizes the foreign exchange regulations, the revised regulations also becoming effective on January 1, 1986.

Among other things, the penalty surcharge scheme applied to short-term import credits is abolished; the maximum period for suppliers' credit which does not require the special permission of the Bank of Finland is now six months. Investments in securities quoted abroad and in the form of funds held in accounts with foreign monetary institutions are permitted up to a maximum of FIM 10 000 a year per resident. The upper limit on foreign exchange which may be acquired for the purchase of a second home abroad is raised to FIM 600 000. Authorized banks are granted the right to surrender travel exchange without upper limit on the basis of a breakdown of costs drawn up by the purchaser of travel exchange. Securities brokers are accorded the same rights as the authorized banks to act as intermediaries in securities transactions between residents and non-residents.

Cash reserve requirement. The Bank of Finland lowers the cash reserve requirement from 5.3 per cent to 5.0 per cent of the total stock of deposits at the end of January.

Payments arrangement between Finland and Czechoslovakia. In keeping with an agreement concluded between Finland and Czechoslovakia in August 1985, the practice whereby transactions are settled in convertible currencies is extended for three years from the beginning of 1986. Under the agreement, the payments arrangement is henceforth to be renewed automatically for three years at a time unless otherwise agreed upon subsequently.

Payments arrangement between Finland and Poland. In accordance with an agreement concluded in December 1985, payments between Finland and Poland in 1986 may be effected in Finnish markkaa as well as in US dollars.

Call money market. The Bank of Finland lowers the rate on call money advances from 11.7 to 11.4 per cent and the rate on call money deposits from 11.0 to 10.7 per cent as from January 24.

February

Cash reserve requirement. The Bank of Finland lowers the cash reserve requirement from 5.0 per cent to 4.7 per cent of the total stock of deposits at the end of February.

March

Interest rate policy. The Bank of Finland lowers its base rate from 8.5 to 8.0 per cent as from March 1, 1986. As a result of this decision, the rates applied by the banks to existing loans generally fall by 0.5 percentage point. The rates applied to tax-free deposits are lowered by the same amount.

Call money market. The Bank of Finland lowers the rate on call money advances from 11.4 to 11.2 per cent and the rate on call money deposits from 10.7 to 10.5 per cent as from March 3.

Investment reserves. On March 20, the Council of State decides to release, as from October 1, 1985, investment reserves made by companies for accounting periods ending in 1984 for use elsewhere than in the Greater Helsinki area. The utilization period is to expire on December 31, 1987.

May

Interest rate policy. The Bank of Finland lowers its base rate from 8.0 to 7.0 per cent as from May 19, 1986. At the same time, the rates applied by the banks to existing loans fall by one percentage point, whereas the rates applied to 12 and 24 month deposits fall, at most, by 0.75 percentage point. The rates applied to other tax-free deposits fall, at most, by one percentage point.

Regulation of average lending rates. The Bank of Finland raises the upper limit on the banks' average lending rate in relation to the base rate by 0.25 percentage point with effect from May 19, 1986. The new upper limit is the Bank of Finland's base rate plus 2 percentage points or 9.0 per cent. If the average interest rate on a bank's total markka-denominated deposits exceeds the Bank of Finland's base rate by more than one percentage point, the bank's average lending rate may at most equal the average deposit rate for the month in question plus one percentage point.

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

Effective as from	Rate on call money advances Per cent	Rate on call money deposits Per cent
May 13	13.0	12.5
May 14	16.0	15.3
May 16	14.0	13.3
May 20 (I)	13.0	12.3
May 20 (II)	12.0	11.3
May 22	11.0	10.3

Amendments to Foreign Exchange Regulations. The authorized banks are granted permission to use foreign credit to finance their

customers' long-term export receivables as from May 13, 1986. Similarly, exporters are, on application, granted permission to raise foreign finance in their own names in order to finance their long-term export receivables.

As from May 16, 1986, the Bank of Finland removes the upper limit on the amount of foreign financing credits for imports mediated by banks. At the same time, the Bank decides to start treating domestic foreign currency deposits received by banks as equivalent to banks' foreign borrowing; subsequent to this, banks are, in practice, no longer able to grant domestic credits denominated in foreign currency.

June

Call money market. The Bank of Finland lowers the rate on call money advances from 11.0 to 10.8 per cent and the rate on call money deposits from 10.3 to 10.1 per cent as from June 6.

Amendments to Foreign Exchange Regulations. The Bank of Finland revises the Foreign Exchange Regulations in some respects with effect from June 16, 1986. The main points of the amendments are as follows:

The prohibition concerning the sale of Finnish bonds and debentures to non-residents is rescinded on the condition that they are bought with earnings or sales proceeds from Finnish bonds and debentures acquired previously or with funds held in Finland by persons who have emigrated from Finland.

The authorized banks and other securities agents are permitted to sell foreign securities from their own portfolios to residents within the quantitative limits set in the Foreign Exchange Regulations.

In addition, the Foreign Exchange Regulations are relaxed mainly with respect to payments for goods and services, and certain quantitative limits included in the Foreign Exchange Regulations are raised.

ITEMS

Publications of the Bank of Finland. The Bank of Finland has published a study by Alexander K. Swoboda "Ongoing Changes in Finnish Financial Markets and Their Implications for Central Bank Policy" (Series A:62) in English and in Finnish, 1986, 57 pp. ISBN 951-686-117-2, ISSN 0355-6034.

Professor Swoboda puts forward his views, as an outside expert, on changes in Finnish financial markets and their implications for central bank policy. According to Professor Swoboda, financial change is proceeding at such a pace that the choice will inevitably be between more or less regulation. He regards a more active de-regulation policy as desirable. Not even a rapid removal of average lending rate controls would entail any difficulties, he contends. In this context, Professor Swoboda argues that it would be important to revise the tax treatment of deposits, although he does not view this as a necessary prerequisite for complete de-regulation of lending rates. As the markets develop, a gradual and uniform relaxation of exchange controls could be considered.

Two doctoral dissertations have been published in the Bank's series B.

Esko Aurikko: "Studies of Exchange Rate Policies and Disequilibria in the Finnish Economy", doctoral dissertation presented to the Faculty of Social Sciences of the University of Helsinki, B:39, Helsinki 1986, 153 pp. ISBN 951-686-115-6, ISSN 0357-4776.

The dissertation investigates the effects of exchange rate policies in the Finnish economy. One of the central issues is the presence of disequilibria in the goods and labour markets and, in particular, in the credit market, where credit rationing has prevailed from time to time owing to the administrative regulation of interest rates. The analysis is based on the use of fairly detailed models for exports and imports. These models are specified theoretically and then estimated, taking into account various

market disequilibria, expectations and adjustment mechanisms.

The main results stress the importance of credit market conditions for exchange rate policy. For instance, the increase in economic activity resulting from a devaluation of the markka is the greater the easier are conditions in the credit market at the time of devaluation and thereafter. In the long run, however, the effect of a change in exchange rates is transmitted almost in full to the domestic price level, more or less regardless of credit market conditions. The theoretical and empirical analysis of the models suggests that it is important to take other disequilibria in the economy into account as well.

Among other major questions addressed in the dissertation is the testing of model specifications relating to the adjustment of export prices and volumes. On the basis of this analysis, the interdependence of adjustment between export volumes and prices can be discerned. Furthermore, it is concluded that Finnish export prices do not depend only on competitors' prices but also on domestic cost factors and cyclical conditions. The study suggests that, in addition to demand factors, relative prices and demand in export markets, the volume of exports is also influenced by domestic supply factors (profitability), whereas imports are influenced by domestic demand, import prices, domestic prices and the level of capacity utilisation.

Olavi Rantala: "A Study of Housing Investment and Housing Market Behaviour", doctoral dissertation presented to the Faculty of Social Sciences of the University of Helsinki, B:40, Helsinki 1986, 117 pp., ISBN 951-686-116-4, ISSN 0357-4776.

The dissertation analyzes housing investment behaviour and the determination of housing prices, rents and residential construction. The effects of housing prices, income and wealth

on house-purchases are examined using the life-cycle theory of consumer behaviour. The life-cycle model is also used to investigate how borrowing constraints affect house-purchases and the advance saving this requires. It is found that credit constraints reduce the chances of primarily the less wealthy households of acquiring housing property. Portfolio theory is used to examine how uncertainty about housing prices, consumer prices and consumers' income affect housing investment and to analyze the suitability of home-ownership for hedging against the inflation risk affecting the real value of financial assets.

The study also examines how housing prices and rents are determined in the housing market. In particular, it discusses the reasons for variations in housing prices and housing production, which are typically greater than those in cyclical developments in general.

(Continued on page 2)

taxed to be brought under sales taxation without any significant increase in consumer prices. This revision means that energy used by industry will be exempt from tax. The resulting reduction in production costs corresponds to about two per cent of industry's annual labour costs.

The two-year agricultural income settlement concluded between the government and farmers follows, where applicable, the terms of the centralised agreements, including the earnings guarantee and the index clause. As before, the increases in agricultural income will be implemented mainly by raising target prices for agricultural products. In addition, farmers will be compensated for cost increases during the agreement period in keeping with the Act on Agricultural Income. Under the settlement, the contribution of farmers to export price subsidies for agricultural surpluses was increased and certain measures for limiting over-production were agreed upon.

Forest owner and forest industry organizations have reached a three-year agreement on

recommended prices for timber. According to the agreement, stumpage prices will fall on average by about five per cent during the first year and be linked to movements in export prices of forest industry products in the following years.

Although all the central labour market organizations signed the comprehensive agreement, the conclusion of collective agreements has proceeded more slowly than normal. Admittedly, in a number of sectors, agreements were quickly reached which were broadly in accordance with the comprehensive agreement. On the other hand, certain trade unions refused to join it. Some civil servants were on strike for six weeks from the beginning of April. There were also strikes or threats of strike action in a number of other sectors but most of these disputes had been settled by the beginning of June.

About one-fifth of all wage and salary earners are covered by agreements which are not due for renewal until next year or later. These agreements provide for pay increases of a given size as well as for adjustments in keeping with the general pay increase in the centralized agreement. Unless otherwise agreed upon, the terms of the comprehensive agreement for this year do not apply to these collective agreements other than with respect to pay increases.

Together with carry-over from previous agreements and estimated wage drift, average earnings are likely to rise by a total of 6-7 per cent in 1986. Earnings are estimated to rise by practically the same amount in 1987. Since, moreover, the shortening in working hours will increase labour costs per hour worked, industry's average price competitiveness in terms of unit labour costs could weaken somewhat. However, the measures reducing industry's production costs agreed upon in connection with the incomes agreements will broadly offset the larger increase in labour costs than in competitor countries.

June 3, 1986

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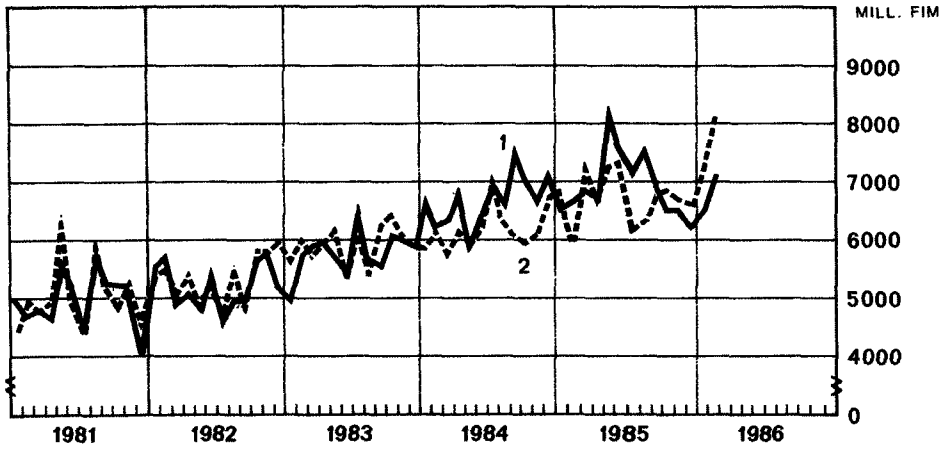
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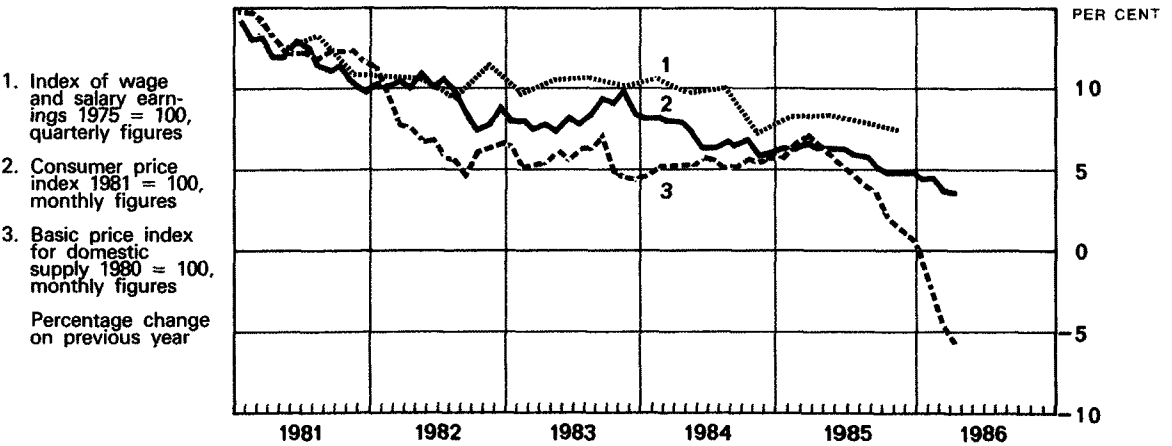
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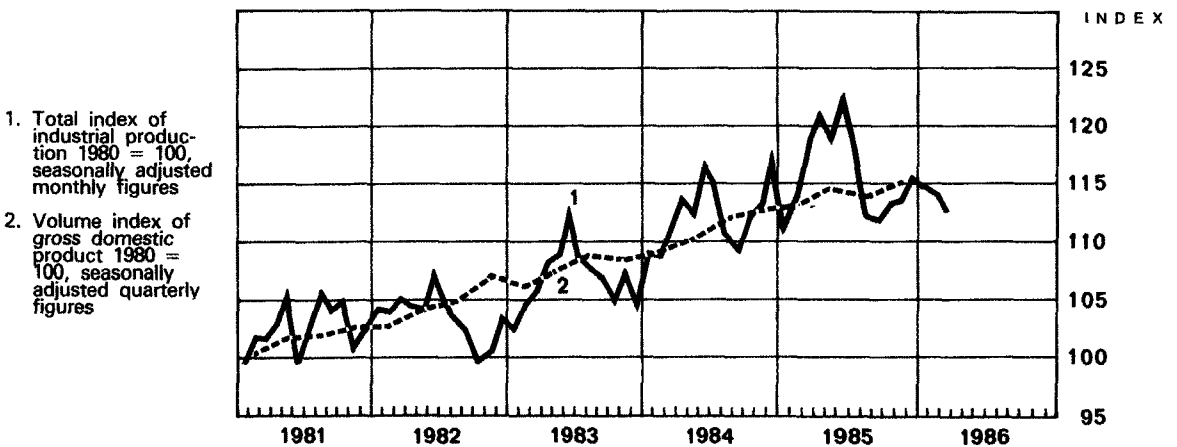
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