



# BANK OF FINLAND

## *Monthly Bulletin*

Investment activity

Public finance and fiscal policy

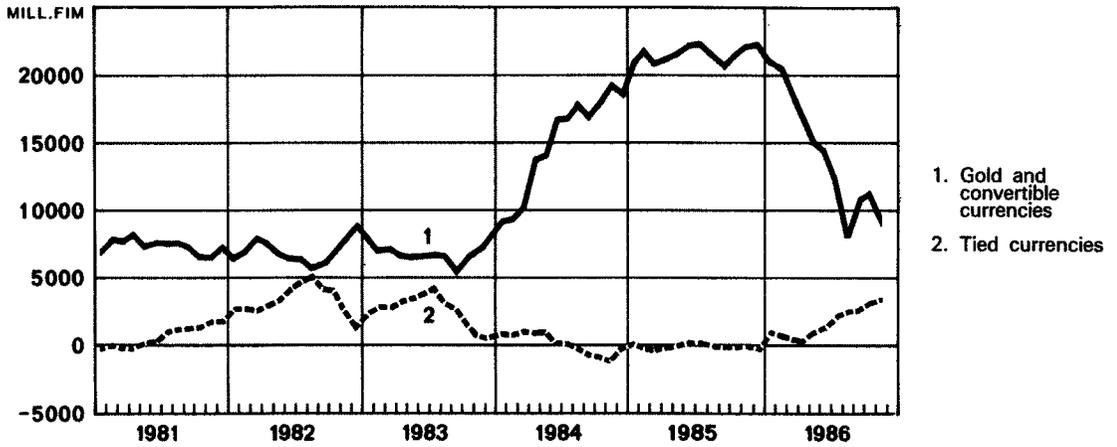
Monetary and foreign exchange policy  
measures from February 1986 to  
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The closing of the accounts of the Bank of  
Finland for 1986

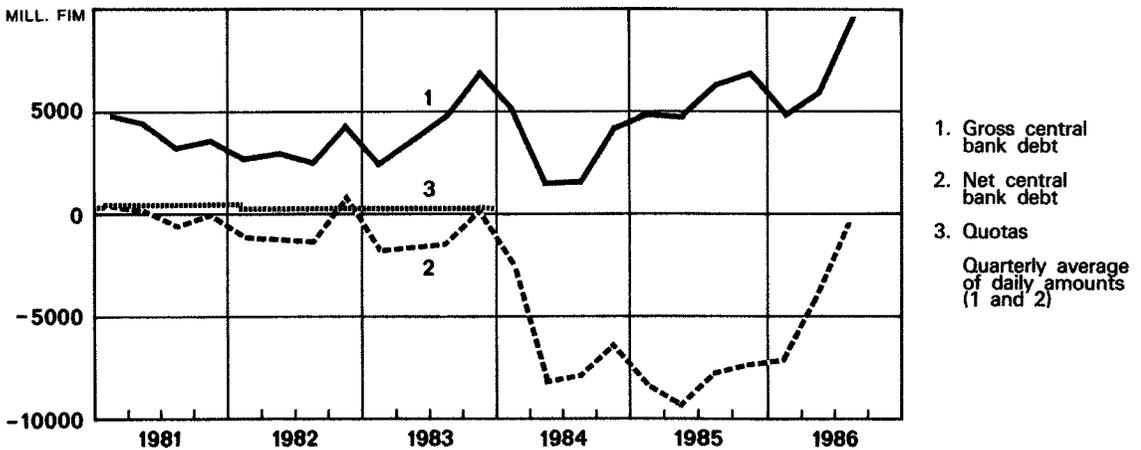
Revision of the cash reserve agreement

Changes in the statistical section

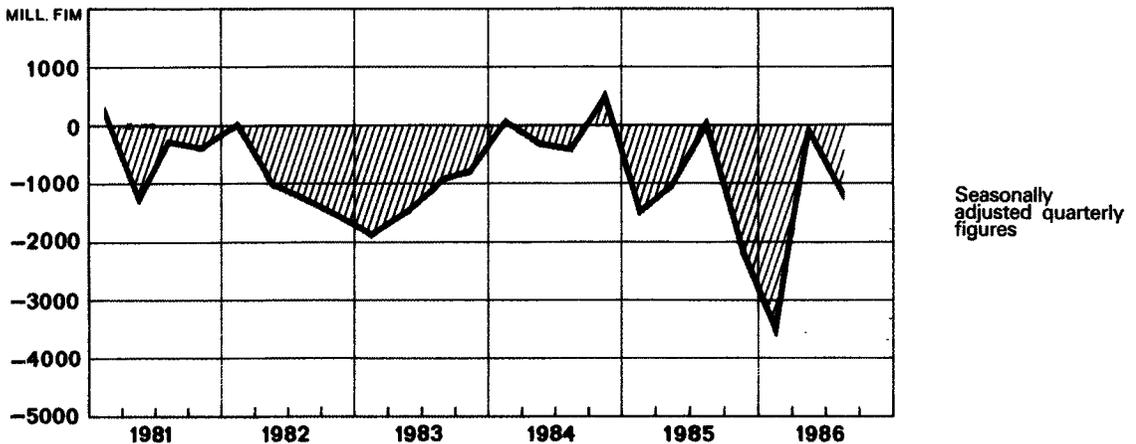
**BANK OF FINLAND'S CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, 1981-86**



**DEPOSIT BANKS' CENTRAL BANK POSITION, 1981-86**



**BALANCE OF PAYMENTS CURRENT ACCOUNT SURPLUS/DEFICIT, 1981-86**



# INVESTMENT ACTIVITY

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After a poor performance during the first half of 1986, the Finnish economy has started to recover. The anticipated rebound in output following strike-induced losses last spring has been boosted by rapid growth of total demand. In exports, the turnaround is largely attributable to increased demand in western markets, but the outlook for exports to the Soviet Union is also now somewhat brighter than in the immediate aftermath of the collapse in oil prices. The volume of private consumption expenditure continues to grow steadily at an annual rate of 3 to 4 per cent, the impetus coming from increases in real wages and salaries. Investment also picked up during the latter half of the year, and thus the volume of fixed investment in 1986 maintained the level of the previous year.

According to the Bank of Finland investment inquiry carried out in November, the volume of fixed investment in manufacturing industries and energy production grew by 5 per cent in 1986. The fastest investment growth was recorded in metal and engineering industries. In forest industries, the volume of investment declined after two consecutive years of growth.

The growth of industrial investment in recent years can be largely attributed to the expansion of state-owned companies. In 1986, these companies increased their investment outlays by about 20 per cent. In the previous year, the increase had been almost 60 per cent. Privately-owned firms reported a slight decrease in volume outlays. However, if investment growth is considered in terms of the size of firms, the fastest growth was recorded among small firms, the vast majority of which are privately owned.

**TABLE. ANNUAL PERCENTAGE CHANGES IN THE VOLUME OF INDUSTRIAL FIXED INVESTMENT IN 1985 AND 1986 AND PLANNED CHANGES FOR 1987, ACCORDING TO THE BANK OF FINLAND INVESTMENT INQUIRY OF NOVEMBER 1986.**

	1985	1986	1987
By industrial sector			
Forest industries	2	-9	13
Metal and engineering industries	9	19	-10
Other manufacturing	2	5	25
Total manufacturing	4	5	10
Electricity, gas and water	23	7	-9
Total industry (incl. quarrying)	8	4	5
By type of investment			
Building investment	5	-4	-2
investment in machinery and equipment	9	7	17

In industry, as well as in the economy as a whole, investment activity last year focussed on machinery and equipment. Volume outlays in industry increased by 7 per cent, according to the investment inquiry. Investment in machinery and equipment also increased in the service sector.

Aggregate building investment declined in 1986. During the first half of the year, construction was hit by a series of labour market disputes. The effects were particularly severe in the Greater Helsinki area, where a shortage of skilled labour has delayed some starts and the completion of existing projects. At the aggregate level, however, the effect of strikes on the volume of construction output is estimated to have been only of the order of 1 to 2 per cent.

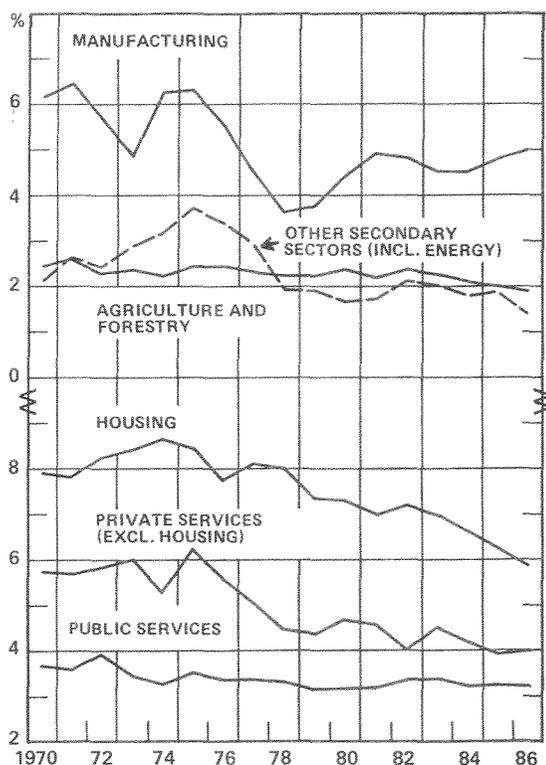
Residential building declined more than other construction. Preliminary estimates indicate a decrease of 5 per cent in the volume of residential investment. In two years, the number of housing starts has fallen from more than 53 000 in 1984 to 41–42 000 in 1986. Recent developments in financial markets, especially the introduction of new financial assets designed for household savers, and the high level of interest rates have contributed to the weakening in the demand for dwellings. However, the underlying declining trend is natural in the light of demographic factors.

Certain policy measures have contributed to maintaining the level of aggregate investment. In 1986, the Government released the major part of investment reserves, the utilization period of which is to expire at the end of 1987. It also raised the special investment allowance from 3 to 6 per cent outside the Greater Helsinki area. The main effect of these measures has not yet been felt, but the decline in investment deposits at the Bank of Finland during the last quarter of 1986 indicates that the utilization of investment reserves has already started. Investment demand may also be indirectly boosted by the reform of energy taxation. This has cut industry's tax burden by some FIM 1 billion a year, and hence enhanced profitability, especially in energy intensive branches.

A deficit in the balance of payments in convertible currencies and the associated pressure on the foreign exchange reserves has forced the Bank of Finland to keep interest rates in the money market high. Rates of interest on new long-term loans to firms have also risen, especially in real terms, although the effects of rising domestic financial costs have been mitigated by the removal of restrictions on long-term foreign borrowing.

Higher real rates of interest are bound to reduce capital formation as a result of the pruning of less profitable investment projects. In conditions of slow economic growth, a particular concern has been a potential curtailment of industrial investment. The November

**CHART. INVESTMENT RATIO: FIXED INVESTMENT AS A PERCENTAGE OF GDP (1980 PRICES)**



investment inquiry suggests, however, that the effect of high domestic real interest rates on investment activity has so far been moderate. The ratio of investment to GDP has fallen slightly, but this has mainly been due to the declining trend in residential construction (see Chart).

In manufacturing industries, investment activity has kept well in pace with GDP in recent years. Moreover, outlays on research and development have grown faster than conventional types of investment, estimates pointing to annual volume growth of 10 to 20 per cent. According to the investment inquiry the favourable trend in industrial investment is likely to be maintained in 1987. The growth in the volume of investment is expected to accelerate to 10 per cent in the manufacturing sector, compared with an estimated growth rate of 5 per cent for industry as a whole.

(Continued on page 39)

## BANK OF FINLAND

Mill. FIM

	1985	1986			
	Dec. 31	Dec. 8	Dec. 15	Dec. 23	Dec. 31
<b>Assets</b>					
Gold and foreign currency claims	22 650	12 778	14 044	13 668	14 088
Gold	2 081	2 081	2 081	2 081	2 081
Special drawing rights	931	991	993	986	983
IMF reserve tranche	775	800	802	796	794
Convertible currencies	18 608	5 351	6 660	6 735	6 795
Tied currencies	255	3 555	3 508	3 070	3 435
Other foreign claims	2 645	2 566	2 566	2 566	2 585
Markka subscription to Finland's IMF quota	2 645	2 566	2 566	2 566	2 585
Claims on financial institutions	9 256	14 648	13 837	14 579	14 074
Banks' cheque accounts	—	—	—	—	—
Call money credits	5 219	9 173	7 773	7 758	6 818
Term assets	—	741	1 471	2 131	2 381
Till-money credits	1 925	2 096	2 008	2 111	2 305
Bonds	2 065	2 121	2 121	2 121	2 111
Other claims on financial institutions	47	517	464	458	459
Claims on the public sector	1 023	1 008	1 008	1 001	1 002
Bonds	118	74	74	59	59
Total coinage	891	934	934	935	935
Other claims on the public sector	14	0	—	7	8
Claims on corporations	4 679	4 932	4 912	4 925	4 844
Financing of exports	1 601	1 776	1 777	1 812	1 749
Financing of domestic deliveries	2 924	2 885	2 865	2 851	2 833
Bonds	81	65	65	65	65
Other claims on corporations	73	206	205	197	197
Other assets	146	149	149	149	149
<b>Total</b>	<b>40 399</b>	<b>36 081</b>	<b>36 516</b>	<b>36 888</b>	<b>36 742</b>
<b>Liabilities</b>					
Foreign currency liabilities	576	43	41	40	31
Convertible currencies	36	24	20	16	17
Tied currencies	540	19	21	24	14
Other foreign liabilities	3 494	3 411	3 413	3 407	3 423
IMF markka accounts	2 645	2 566	2 566	2 566	2 585
Allocations of special drawing rights	849	845	847	841	838
Notes and coin in circulation	8 072	8 355	8 474	9 027	8 667
Notes	7 304	7 565	7 678	8 216	7 856
Coin	768	790	796	811	811
Liabilities to financial institutions	12 153	9 307	9 635	9 515	9 729
Banks' cheque accounts	0	0	0	0	0
Call money deposits	1 205	20	110	6	131
Cash reserve deposits	10 222	9 180	9 180	9 180	9 270
Capital import deposits	639	20	262	259	254
Other liabilities to financial institutions	87	87	83	70	74
Liabilities to the public sector	4 300	2 001	2 001	2 001	2 001
Cheque accounts	0	1	1	1	1
Government deposit account	4 300	2 000	2 000	2 000	2 000
Capital import deposits	—	—	—	—	—
Other liabilities to the public sector	0	0	0	0	0
Liabilities to corporations	4 267	5 042	5 014	4 997	5 019
Deposits for investment and ship purchase	3 841	4 701	4 666	4 649	4 671
Capital import deposits	424	339	339	339	336
Other liabilities to corporations	2	2	9	9	12
Other liabilities	14	30	24	23	23
Valuation account and reserves	1 639	2 008	2 030	1 994	1 920
SITRA's capital	400	400	400	400	400
Capital accounts	5 484	5 484	5 484	5 484	5 529
Primary capital	5 000	5 000	5 000	5 000	5 000
Reserve fund	764	484	484	484	485
Undisposed profits	—	—	—	—	—
Net earnings	-280	—	—	—	44
<b>Total</b>	<b>40 399</b>	<b>36 081</b>	<b>36 516</b>	<b>36 888</b>	<b>36 742</b>

## BANK OF FINLAND

Mill. FIM

End of year or month	Foreign sector					Public sector				
	Gold. SDRs. IMF reserve tranche	Convertible currencies, net	Total convertible reserves (1+2)	Tied currencies, net	Other claims, net	Net claims (3 to 5)	Claims	Government deposit account	Other liabilities	Net liabilities (8-7+9)
	1	2	3	4	5	6	7	8	9	10
1983	2 360	5 835	8 195	550	-794	7 951	2 178	3 000	0	822
1984	3 527	15 303	18 830	-337	-917	17 576	1 951	4 200	77	2 326
1985	3 787	18 572	22 359	-285	-849	21 225	1 023	4 300	0	3 277
1986	3 858	6 778	10 636	3 421	-838	13 219	1 002	2 000	1	999
1985										
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
June	3 875	10 603	14 478	1 433	-859	15 052	993	1 250	1	258
July	3 874	8 588	12 462	2 209	-859	13 812	982	1 350	1	369
Aug.	3 883	4 475	8 358	2 576	-846	10 088	984	1 500	1	517
Sept.	3 870	6 989	10 859	2 654	-849	12 664	1 004	890	0	-114
Oct.	3 865	7 490	11 355	3 225	-846	13 734	1 002	1 000	1	-1
Nov.	3 869	5 713	9 582	3 497	-844	12 235	1 008	800	1	-207
Dec.	3 858	6 778	10 636	3 421	-838	13 219	1 002	2 000	1	999

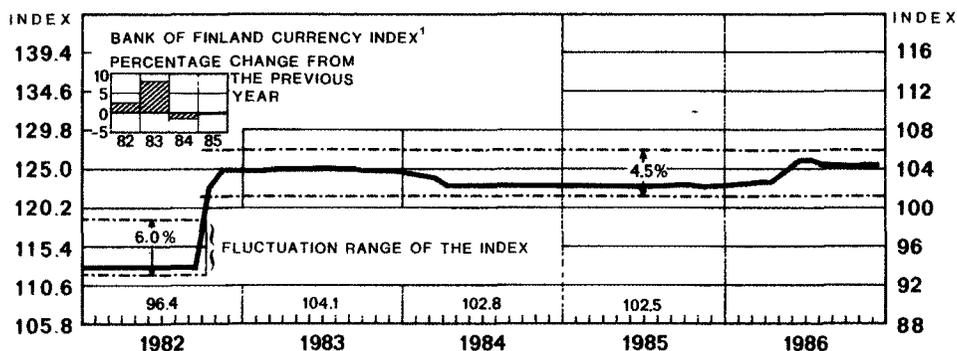
## OFFICIAL FOREIGN EXCHANGE RESERVES

Mill. FIM

	Dec. 31. 1985	Sept. 30. 1986	Oct. 31. 1986	Nov. 28. 1986	Dec. 31. 1986
Gold	2 081	2 081	2 081	2 081	2 081
SDRs	931	986	983	989	983
IMF reserve tranche	775	803	801	799	794
Convertible currencies, net	18 572	6 989	7 490	5 713	6 778
Total convertible reserves, net	22 359	10 859	11 355	9 582	10 636
Tied currencies, net	-285	2 654	3 225	3 497	3 421
Total reserves, net	22 074	13 513	14 580	13 079	14 057

End of year or month	Domestic financial sector						Corporate sector				
	Till-money credits	Term credits of deposit banks	Demand for call money by deposit banks	Supply of call money by deposit banks	Cash reserve deposits of deposit banks	Other liabilities, net	Net claims (1+2+3-4-5-6)	Permanent special financing schemes	Liabilities, net	Net claims (8-9)	Notes and coin in circulation
	1	2	3	4	5	6	7	8	9	10	11
1983	942	—	5 785	610	5 039	-1 998	3 076	4 529	1 282	3 247	6 574
1984	1 563	—	5 018	2 216	8 696	-1 618	-2 713	4 646	2 614	2 032	7 442
1985	1 925	—	5 219	1 205	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1986	2 305	2 381	6 818	131	9 270	-2 242	4 345	4 582	4 757	-175	8 667
1985											
Dec.	1 925	—	5 219	1 205	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1986											
Jan.	1 558	—	1 852	1 734	9 828	-1 454	-6 698	4 654	4 434	220	7 455
Feb.	1 531	—	3 174	2 221	9 556	-1 530	-5 542	4 654	4 282	372	7 499
March	1 657	—	3 806	1 102	8 942	-1 494	-3 087	4 691	4 299	392	7 840
April	1 984	—	5 285	1 204	8 846	-1 541	-1 240	4 665	4 513	152	8 094
May	1 842	—	6 070	477	8 862	-1 411	-16	4 644	4 067	577	8 046
June	1 875	—	7 939	2 098	8 891	-2 022	847	4 552	4 585	-33	8 156
July	1 844	—	7 936	612	9 030	-2 070	2 208	4 552	4 669	-117	8 086
Aug.	1 650	—	11 525	252	9 023	-2 119	6 019	4 550	4 718	-168	7 969
Sept.	1 847	—	9 761	1 886	8 954	-2 129	2 897	4 552	4 750	-198	7 903
Oct.	1 755	—	7 128	88	9 052	-2 557	2 300	4 650	4 863	-213	7 973
Nov.	1 709	—	9 181	931	9 180	-2 542	3 321	4 659	4 786	-127	8 024
Dec.	2 305	2 381	6 818	131	9 270	-2 242	4 345	4 582	4 757	-175	8 667

<sup>1</sup> 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).



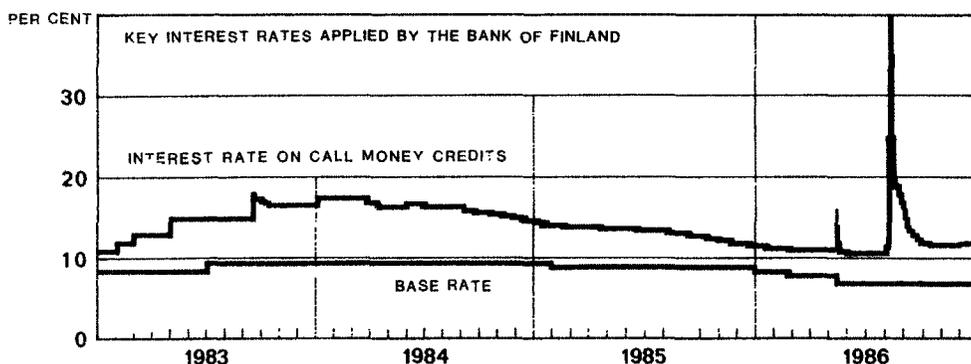
# MONETARY POLICY INDICATORS

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	Interest rate on call money credits %	Interest rate on term credits %	Base rate <sup>1</sup> %	Average lending rate of the commercial banks <sup>2</sup> %
	1	2	3	4	5	6	7	8	9
1982	3 201	-783	2 778	3.1	1 571	11.64	-	8.81	9.33
1983	4 539	-1 213	4 345	4.3	2 724	15.37	-	9.00	9.56
1984	3 176	-6 365	6 325	5.4	-39	16.53	-	9.50	10.49
1985	5 812	-8 293	9 578	5.6	1 285	13.37	-	9.04	10.41
1986	7 237	-3 208	9 189	4.8	5 861	13.43	12.48 <sup>3</sup>	7.42	..
1985									
Oct.	7 516	-7 079	9 982	5.6	2 904	12.78	-	9.00	10.43
Nov.	6 407	-8 485	10 024	5.6	1 539	12.37	-	9.00	10.40
Dec.	7 084	-6 784	10 101	5.6	3 317	11.96	-	9.00	10.37
1986									
Jan.	5 280	-7 742	10 210	5.3	2 467	11.64	-	8.50	9.90
Feb.	4 242	-8 187	9 818	5.0	1 631	11.40	-	8.50	9.90
March	5 146	-5 927	9 457	4.7	3 530	11.21	-	8.00	9.49
April	5 034	-5 565	8 939	4.7	3 374	11.20	-	8.00	9.49
May	6 645	-3 566	8 847	4.7	5 281	12.02	-	7.00	8.78
June	6 393	-3 409	8 863	4.7	5 454	10.83	-	7.00	8.82
July	7 556	-2 677	8 895	4.7	6 218	10.80	-	7.00	8.76
Aug.	11 014	1 239	9 030	4.7	10 269	24.17	-	7.00	8.79
Sept.	10 290	68	9 021	4.7	9 088	13.86	-	7.00	8.77
Oct.	7 846	-1 524	8 960	4.7	7 436	11.93	-	7.00	8.75
Nov.	7 616	-1 784	9 047	4.7	7 263	11.80	-	7.00	8.74
Dec.	9 785	580	9 183	4.7	8 321	11.97	12.48	7.00	..

<sup>1</sup> End of period for monthly figures.

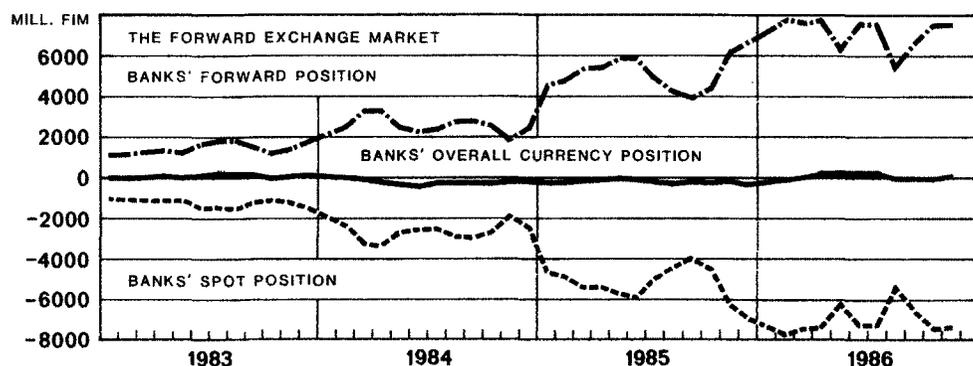
<sup>2</sup> End of period.

<sup>3</sup> Dec. 1986 figure.



# FORWARD EXCHANGE MARKETS IN FINLAND

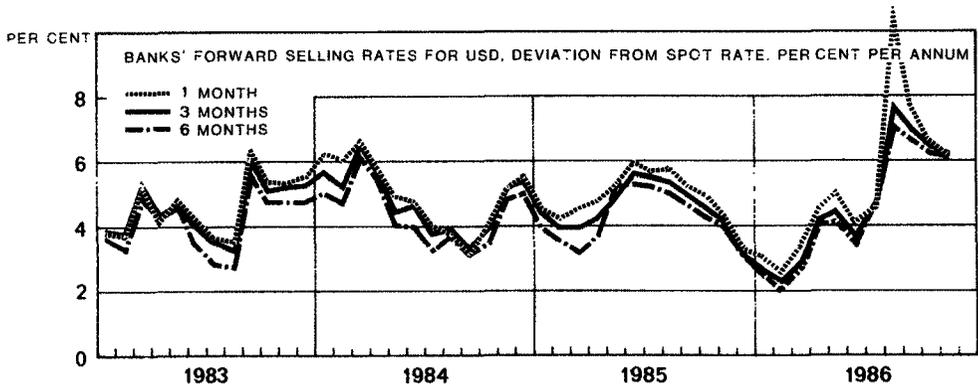
Period	Banks' forward positions in mill. FIM with						Banks' forward selling rates for USD		
	Domestic firms			Foreign banks	Bank of Finland	Overall	Deviation from spot rate, per cent per annum		
	Assets	Liabilities	Net	Net	Net	Net	1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
1984	22 921	1 394	21 527	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
1985									
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
May	15 231	2 505	12 726	-1 642	-3 956	6 957	5.1	4.5	4.2
June	13 094	1 665	11 429	-575	-2 619	8 068	4.2	3.8	3.6
July	12 032	1 518	10 514	-1 170	-1 949	7 619	4.6	4.7	4.8
Aug.	12 351	2 393	9 958	-2 263	-1 559	6 006	12.5	7.8	7.1
Sept.	13 762	2 179	11 583	-1 981	-1 291	8 116	7.8	7.1	6.7
Oct.	13 147	2 047	11 100	-1 464	-996	8 388	6.6	6.5	6.3
Nov.	12 049	1 843	10 205	-2 224	-423	7 590	6.2	6.3	6.2



# FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange, FIM

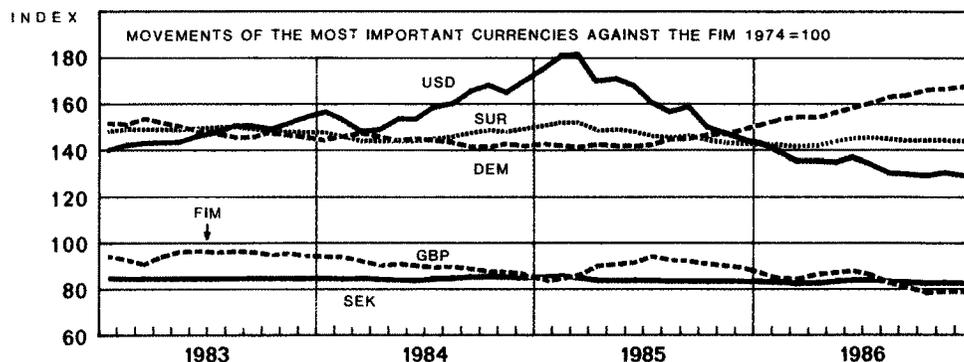
Period	New York 1 US \$ USC	Montreal 1 C \$ CAD	London 1 £ GBP	Dublin 1 Ir£ IEP	Stockholm 100 Skr SEK	Oslo 100 Nkr NOK	Copenhagen 100 Dkr DKK	Frankfurt 100 DM DEM	Amsterdam 100 Hfl NLG	Brussels 100 FB BEC	BEL
	1	2	3	4	5	6	7	8	9	10	11
1982	4.820	3.913	8.423	6.854	77.03	74.84	57.93	198.76	180.66	10.584	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
1986	5.078	3.659	7.459	6.816	71.38	68.82	62.90	234.54	207.89	11.399	11.299
1985											
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
June	5.195	3.745	7.840	7.055	72.17	68.34	62.77	232.54	206.54	11.389	11.307
July	5.074	3.681	7.671	7.067	71.93	68.03	63.06	235.78	209.25	11.460	11.372
Aug.	4.940	3.564	7.356	6.665	71.41	67.31	63.72	239.66	212.56	11.580	11.465
Sept.	4.918	3.552	7.256	6.632	71.27	67.17	63.77	241.14	213.60	11.646	11.525
Oct.	4.896	3.532	7.005	6.669	71.26	66.74	64.89	244.46	216.31	11.780	11.692
Nov.	4.959	3.583	7.072	6.685	71.33	65.99	64.95	245.00	216.85	11.795	11.725
Dec.	4.907	3.562	7.055	6.712	71.11	65.29	65.23	246.49	218.09	11.853	11.760



Average selling rates for foreign exchange FIM

Zurich 100 Sfr CHF	Paris 100 FF FRF	Rome 100 Lit ITL	Vienna 100 ÖS ATS	Lisbon 100 Esc PTE	Reykjavik 100 lkr ISK	Madrid 100 Ptas ESB	Tokyo 100 Y JPY	Moscow 1 Cl Rbl SUR	1 special drawing right SDR	Currency index <sup>1</sup>
12	13	14	15	16	17	18	19	20	21	22
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 79	102.5
283.49	73.55	0.343	33.39	3.43	12.59	3.64	3.028	7.228	5.944 32	103.9
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
282.20	73.11	0.340	33.12	3.47	12.81	3.65	3.099	7.301	6.039 58	105.0
290.80	73.42	0.345	33.55	3.45	12.58	3.70	3.201	7.313	6.024 88	105.0
297.48	73.68	0.350	34.09	3.41	12.40	3.69	3.209	7.278	5.960 80	104.5
297.72	73.79	0.351	34.31	3.39	12.38	3.68	3.182	7.255	5.943 98	104.5
298.52	74.81	0.355	34.81	3.37	12.36	3.69	3.139	7.252	5.922 50	104.5
294.35	75.06	0.355	34.83	3.35	12.43	3.66	3.049	7.263	5.933 16	104.6
294.43	75.24	0.357	35.05	3.33	12.31	3.66	3.025	7.242	5.910 76	104.6

<sup>1</sup>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

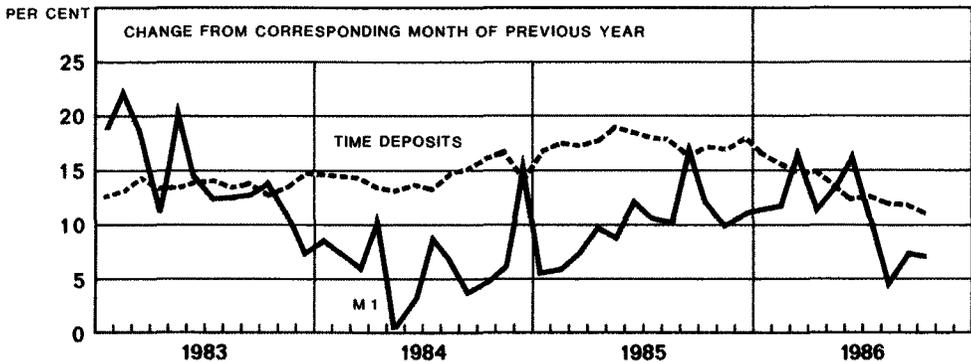
End of year and month	Demand deposits				Time deposits					Total (4 + 9)
	Commercial banks	Savings banks & Co-op. banks	Posti-pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	All deposit banks (5 to 8)	
	1	2	3	4	5	6	7	8	9	
1982	7 155	3 874	3 049	14 078	29 465	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\*

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
March	7 552	5 105	5 678	18 335	49 777	39 307	33 586	13 032	135 703	154 037
April	8 228	5 464	5 045	18 737	50 261	39 407	33 796	13 184	136 647	155 384
May	8 188	5 532	5 542	19 262	50 549	39 737	33 966	13 283	137 534	156 796
June	9 843	5 854	5 769	21 467	50 249	40 498	34 639	12 784	138 170	159 636
July	9 141	5 837	5 629	20 606	49 832	40 837	34 897	12 981	138 547	159 153
Aug.	7 368	5 661	5 873	18 902	49 962	41 026	35 073	13 209	139 270	158 172



# ADVANCES TO THE PUBLIC – MONEY SUPPLY

Mill. FIM

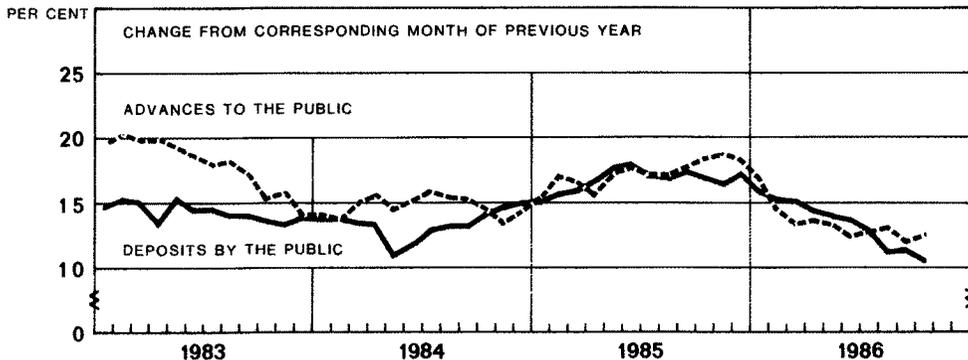
End of year and month	Advances granted by				Types of advances			Total (1 to 4) (5 to 7)	Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency		M <sub>1</sub>	M <sub>1</sub> + Quasi-Money
	1	2	3	4	5	6	7		8	9
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\*

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
March	82 513	38 022	36 698	17 094	144 392	6 935	23 000	174 327	25 881	168 792
April	83 121	38 497	37 076	17 829	145 838	7 269	23 416	176 523	26 370	170 568
May	84 423	38 968	37 488	18 026	148 109	7 074	23 722	178 905	26 622	171 161
June	84 856	39 447	37 967	18 532	149 623	7 634	23 545	180 802	28 879	173 879
July	85 332	39 927	38 490	18 504	151 405	7 369	23 480	182 253	27 670	173 524
Aug.	86 187	40 328	38 977	18 987	153 012	8 393	23 073	184 478	26 030	172 484



# STATE FINANCES

Mill. FIM

Revenue	Jan.-Sept.		Expenditure	Jan.-Sept.	
	1985	1986		1985	1986
Income and wealth tax (net)	17 736	20 199	Wages, salaries, pensions etc.	10 863	11 532
Gross receipts	48 915	44 417	Repair and maintenance	1 412	1 447
Refunds & local authorities	-31 179	-24 218	Other consumption expenditure	6 132	6 351
Other taxes on income and wealth	463	390	<b>Total consumption expenditure</b>	<b>18 407</b>	<b>19 329</b>
Employers' child allowance payments	552	4	State aid to local authorities	15 767	17 109
Sales tax	17 611	19 664	State aid to industries	7 129	7 431
Customs duties and import charges and levies	1 160	1 247	of which: agric. price subsidies	3 816	3 525
Excise duties	8 804	9 703	Child allowances	1 837	1 291
Excise duty on alcoholic bevs.	3 070	3 375	Share in national pensions and sickness insurance schemes	1 763	1 313
Excise duty on tobacco	1 210	1 318	Deficit of State enterprises	925	1 075
Excise duty on liquid fuel	3 204	3 410	Other transfer expenditure	9 044	10 190
Other excise duties	1 320	1 600	<b>Total transfer expenditure</b>	<b>36 465</b>	<b>38 408</b>
Tax on autom. and motor-cycles	2 045	2 425	Machinery and equipment	1 443	1 715
Stamp duties	1 919	2 433	Construction of buildings	798	655
Special diesel etc. vehicles tax	301	330	Land and waterway construction	1 665	1 813
Other taxes and similar revenue	1 528	1 490	<b>Total real investment</b>	<b>3 906</b>	<b>4 183</b>
<b>Total taxes</b>	<b>52 118</b>	<b>57 885</b>	Interest on State debt	3 656	3 736
Miscellaneous revenue	4 347	5 228	Other expenditure	25	17
Interest, dividends etc.	1 530	1 744	<b>Total other expenditure</b>	<b>3 680</b>	<b>3 753</b>
Surplus of state enterprises	1 535	1 618	Increase in inventories	250	206
Redemptions of loans granted	1 196	1 364	Lending	3 055	2 839
<b>Total revenue</b>	<b>60 726</b>	<b>67 840</b>	Other financial investment	710	653
Foreign borrowing	2 646	4 546	<b>Total expenditure</b>	<b>66 474</b>	<b>69 373</b>
Domestic borrowing	5 629	6 140	Redemption of foreign loans	1 248	3 942
<b>Total borrowing</b>	<b>8 274</b>	<b>10 686</b>	Redemption of domestic loans	4 394	3 651
<b>Deficit (+) or surplus (-)</b>	<b>3 116</b>	<b>-1 561</b>	<b>Total redemptions</b>	<b>5 642</b>	<b>7 592</b>
<b>Total</b>	<b>72 116</b>	<b>76 965</b>	<b>Total</b>	<b>72 116</b>	<b>76 965</b>

State debt	1984	1985	1986			
	Dec.	Dec.	July	Aug.	Sept.	Oct.
<b>Foreign debt</b>	24 946	25 677	26 896	26 012	26 922	26 540
Long-term debt	19 057	20 872	22 648	22 974	23 048	23 836
Short-term credit	266	432	600	600	383	384
<b>Domestic debt</b>	19 323	21 304	23 248	23 574	23 431	24 220
<b>Total State debt</b>	44 269	46 981	50 144	49 586	50 353	50 760
Total debt mill. \$	6 855	8 562	9 883	10 037	10 238	10 368

# 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

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

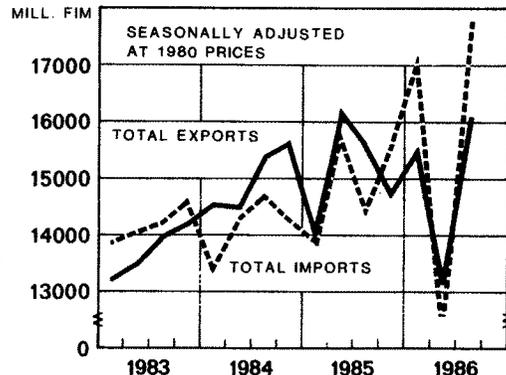
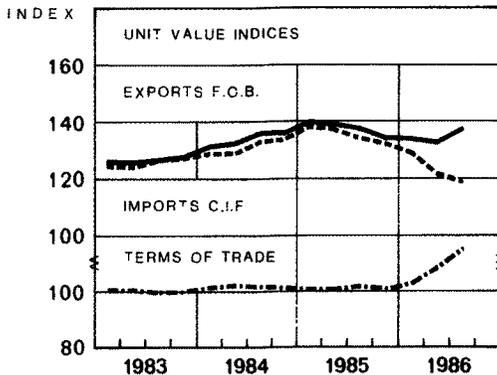
1986*			
Jan.	6 792	7 467	-675
Feb.	6 923	6 309	+614
March	6 309	6 971	-662
April	6 453	6 794	-341
May	6 306	5 145	+1 161
June	5 561	3 931	+1 630
July	6 997	6 628	+369
Aug.	6 477	6 476	+1
Sept.	7 766	7 692	+74
Oct.	7 956	6 594	+1 362

1984					
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

Jan.-Oct.			
1985	70 745	67 869	+2 876
1986*	67 540	64 007	+3 533

1986*					
Jan.-March	113	110	134	130	104
Apr.-June	104	90	133	122	109
July-Sept.	117	119	138	119	116



# FOREIGN TRADE BY MAIN GROUPS

Mill. FIM

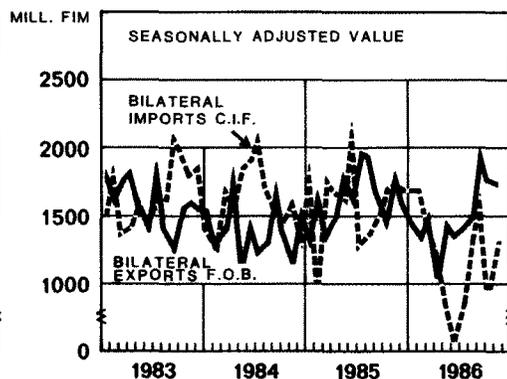
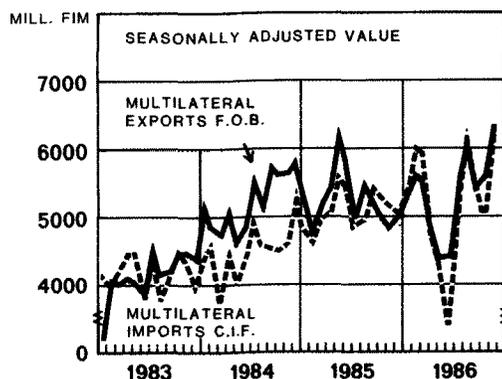
Period	Exports, f.o.b.					Imports, c.i.f.				
	Agricultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Raw materials and intermediate goods	Fuels and lubricants	Finished goods		Other goods
								Investment goods	Consumer 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

1986\*

Jan.	274	490	1 855	2 201	1 973	4 867	474	1 039	1 080	6
Feb.	350	486	1 829	1 940	2 318	3 727	316	888	1 370	8
March	319	516	1 799	1 704	1 970	4 032	218	1 193	1 504	24
April	148	583	2 051	2 103	1 568	3 867	389	1 098	1 418	22
May	128	494	1 804	2 338	1 542	3 122	231	785	990	18
June	142	506	2 012	1 411	1 490	2 342	166	682	738	2
July	263	637	2 307	2 068	1 721	3 729	425	1 228	1 240	6
Aug.	236	546	2 072	1 820	1 803	3 559	421	1 050	1 421	25
Sept.	125	607	2 250	2 730	2 054	4 578	412	1 204	1 482	16
Oct.	155	703	2 444	2 416	2 238	3 763	337	1 125	1 275	94

Jan.-Oct.

1985	2 395	5 602	21 348	20 123	21 277	42 509	4 504	9 573	10 865	418
1986*	2 140	5 566	20 422	20 731	18 681	37 588	3 388	10 291	12 518	222



## FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January–Oct.				January–Oct.			
	1985		1986*		1985		1986*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
<b>OECD countries in Europe</b>	57.1	40 363	61.4	41 488	55.9	37 906	61.8	39 577
Austria	0.7	495	0.9	637	1.1	775	1.3	844
Belgium and Luxembourg	1.4	1 019	1.7	1 149	2.0	1 371	2.4	1 552
Denmark	4.0	2 835	4.0	2 731	2.5	1 705	2.8	1 820
France	3.9	2 765	4.4	3 005	3.4	2 282	4.1	2 655
Federal Republic of Germany	9.3	6 575	9.8	6 612	14.9	10 115	16.9	10 833
Italy	2.0	1 401	2.1	1 400	3.3	2 252	4.2	2 715
Netherlands	3.3	2 352	3.6	2 420	2.9	2 000	3.0	1 929
Norway	4.2	2 997	4.7	3 144	2.5	1 698	2.2	1 437
Portugal	0.3	228	0.3	173	0.7	505	0.9	559
Spain	0.8	562	1.1	716	0.9	636	1.1	689
Sweden	13.2	9 318	14.8	9 987	11.6	7 895	13.3	8 518
Switzerland	1.5	1 040	1.7	1 122	1.6	1 119	2.0	1 287
United Kingdom	10.9	7 703	10.8	7 314	7.4	4 998	6.6	4 232
Other	1.5	1 073	1.6	1 078	0.8	556	0.8	510
<b>OECD countries outside Europe</b>	10.3	7 275	9.4	6 359	11.6	7 893	12.3	7 902
Canada	1.2	857	1.1	755	0.8	517	0.5	352
Japan	1.5	1 060	1.5	1 039	5.3	3 565	6.6	4 238
United States	6.4	4 544	5.6	3 813	5.3	3 604	4.8	3 062
Other	1.2	814	1.1	751	0.3	207	0.4	250
<b>CMEA countries</b>	22.8	16 121	21.1	14 268	24.0	16 310	18.6	11 851
Czechoslovakia	0.3	220	0.4	253	0.5	318	0.5	330
German Democratic Republic	0.5	341	0.3	232	0.5	332	0.6	366
Poland	0.4	292	0.3	182	1.5	1 034	1.3	821
Soviet Union	20.9	14 779	19.4	13 135	21.0	14 234	15.5	9 934
Other	0.7	489	0.7	466	0.6	393	0.6	401
<b>Latin America</b>	1.9	1 350	1.5	1 024	2.5	1 686	2.5	1 594
Argentina	0.8	590	0.1	62	0.2	104	0.2	100
Brazil	0.2	122	0.2	140	0.8	554	0.7	450
Colombia	0.1	106	0.1	76	0.6	411	0.8	483
Other	0.8	532	1.1	746	0.9	617	0.9	561
<b>Other</b>	8.0	5 636	6.5	4 401	6.0	4 074	4.8	3 083
<b>GRAND TOTAL</b>	100.0	70 745	100.0	67 540	100.0	67 869	100.0	64 007
of which								
<b>EFTA countries</b>	20.1	14 188	22.2	15 004	17.8	12 082	19.0	12 169
<b>EEC countries</b>	35.9	25 366	38.8	26 213	37.0	25 131	42.7	27 356
<b>OECD countries</b>	67.3	47 638	70.8	47 847	67.5	45 799	74.2	47 479

# BALANCE OF PAYMENTS

Period	Exports f.o.b.	Imports c.i.f.	Trade account (1-2)	Transport. net	Travel. net	Other services. net	Goods and services account (3 to 6)	Invest- ment income, net	Un- requited transfers, net	Other, net	Current account (7 to 10)
	1	2	3	4	5	6	7	8	9	10	11
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	75 127	+5 480	+4 008	-1 211	-306	+7 971	-6 786	-1 050	-238	-103
1985*	83 769	81 870	+1 899	+3 677	-1 766	-859	+2 951	-6 259	-1 003	-390	-4 700

1983

Oct.-Dec.	19 350	20 162	-812	+815	-272	+693	+424	-1 305	-204	-4	-1 089
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1984

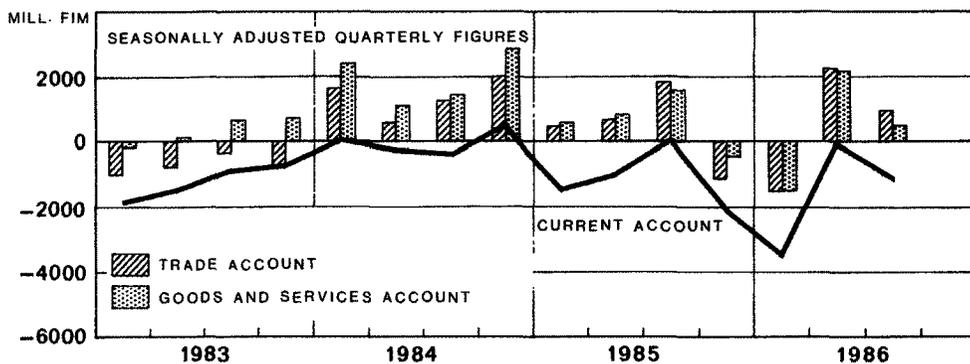
Jan.-March	19 678	17 069	+2 609	+1 018	-370	-60	+3 197	-2 010	-284	-60	+843
Apr.-June	19 700	18 852	+849	+1 009	-326	-174	+1 357	-1 225	-202	-39	-108
July-Sept.	19 395	19 330	+65	+1 144	-123	-265	+820	-1 593	-279	-46	-1 098
Oct.-Dec.	21 834	19 877	+1 958	+837	-392	+194	+2 597	-1 958	-285	-93	+261

1985\*

Jan.-March	20 057	18 937	+1 120	+872	-517	-288	+1 187	-1 809	-322	-145	-1 088
Apr.-June	22 436	21 407	+1 030	+993	-481	-370	+1 172	-1 679	-230	-71	-808
July-Sept.	20 612	19 652	+961	+907	-295	-261	+1 312	-1 283	-180	-75	-226
Oct.-Dec.	20 663	21 875	-1 211	+905	-473	+60	-719	-1 489	-271	-99	-2 578

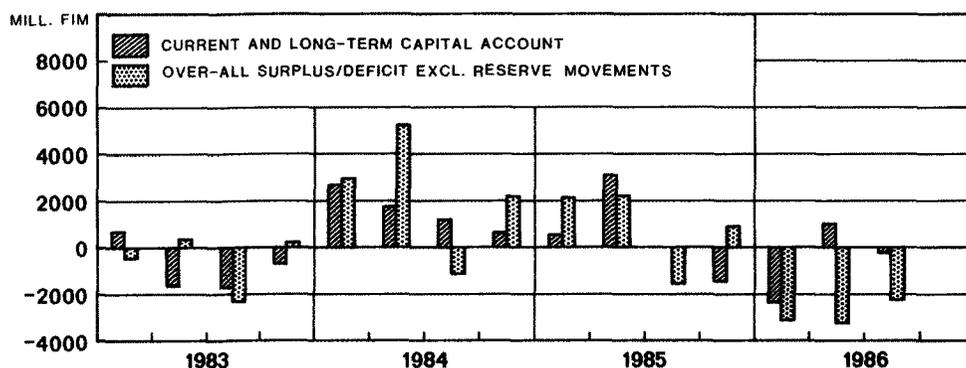
1986\*

Jan.-March	19 981	20 875	-894	+734	-599	-179	-939	-1 610	-499	-131	-3 179
Apr.-June	18 285	15 995	+2 290	+656	-647	-141	+2 158	-1 954	-332	-98	-226
July-Sept.	21 198	20 870	+328	+696	-416	-192	+415	-1 424	-298	-62	-1 369



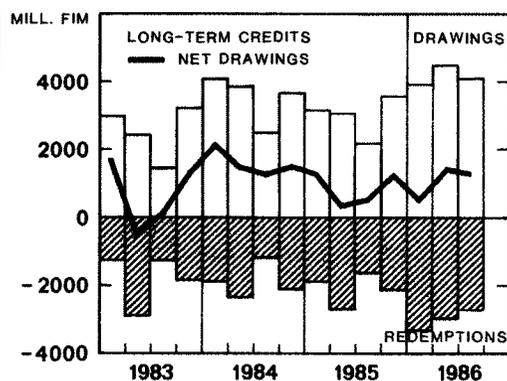
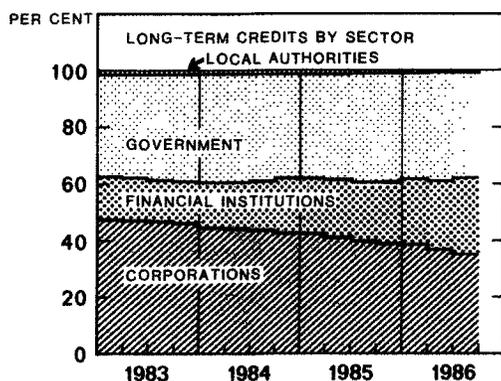
Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net	Long-term capital account (12 to 15)	Current and long-term capital account (11 + 16)	Prepayments and liabilities related to imports	Prepayments and receivables related 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	+6 192	+760	+2 995	+2 086	-2 758	+9 275	-9 275
+11 870	-8 255	+1 339	+1 840	+6 794	+2 094	+440	-2 062	+5 267	-1 994	+3 744	-3 744
+3 213	-1 838	-92	-873	+410	-679	+930	-2 029	+2 380	-366	+236	-236
+4 075	-1 887	-235	-47	+1 906	+2 749	-1 049	+1 283	+2 443	-2 441	+2 986	-2 986
+3 858	-2 351	+89	+276	+1 872	+1 764	+1 083	+121	+2 531	-276	+5 222	-5 222
+2 495	-1 185	-603	+1 475	+2 182	+1 084	+426	-128	-2 186	-336	-1 140	+1 140
+3 659	-2 115	-933	-276	+335	+596	+300	+1 718	-702	+295	+2 208	-2 208
+3 173	-1 855	+336	-31	+1 623	+535	+533	-1 058	+2 208	-65	+2 153	-2 153
+3 023	-2 632	+354	+3 139	+3 884	+3 076	+836	-1 714	+1 911	-1 881	+2 228	-2 228
+2 139	-1 557	+263	-626	+219	-7	-74	-427	-1 400	+342	-1 566	+1 566
+3 535	-2 211	+386	-642	+1 068	-1 510	-855	+1 137	+2 548	-390	+930	-930
+3 954	-3 377	+245	-8	+814	-2 365	+1 783	-564	-3 085	+1 069	-3 162	+3 162
+4 434	-2 990	-97	-66	+1 281	+1 055	-3 940	-657	-2 589	+2 895	-3 236	+3 236
+4 701	-2 745	+191	-961	+1 186	-183	+914	-1 167	+904	-2 681	-2 213	+2 213

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

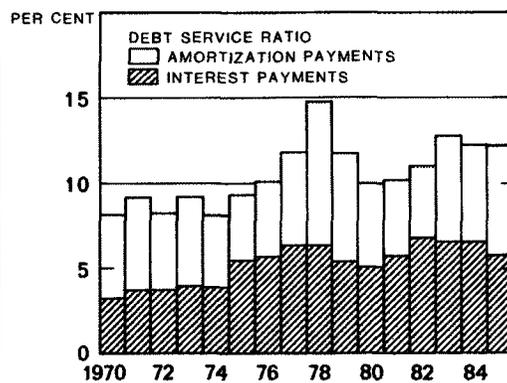
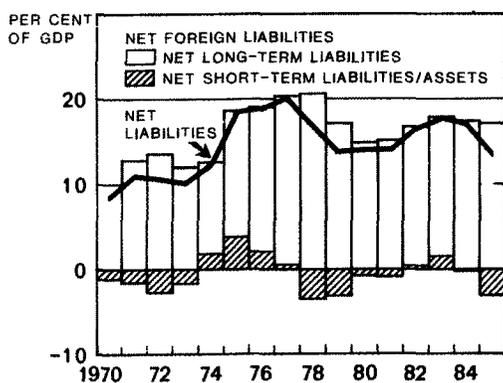


# FINLAND'S FOREIGN ASSETS AND LIABILITIES

End of year and month	Long-term assets				Long-term liabilities					Net long-term liabilities (10-4)	
	Export credits	Direct investment	Other	Total (1 to 3)	Financial loans	Import credits	Direct investment	Portfolio investment	Other		Total (5 to 9)
	1	2	3	4	5	6	7	8	9	10	11
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	2 905	2 013	805	73 546	54 022
1985*	6 538	10 516	2 774	19 828	63 197	2 892	3 274	6 313	1 065	76 741	56 913
1983											
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	2 905	2 013	805	73 546	54 022
1985*											
March	8 504	9 408	2 071	19 983	64 521	3 939	2 899	2 900	778	75 037	55 054
June	8 034	9 824	2 195	20 053	64 822	3 602	2 763	6 317	873	78 377	58 324
Sept.	7 200	10 290	2 179	19 669	63 388	3 064	2 809	6 210	867	76 338	56 669
Dec.	6 538	10 516	2 774	19 828	63 197	2 892	3 274	6 313	1 065	76 741	56 913
1986*											
March	6 098	10 686	2 712	19 496	63 570	2 803	3 356	6 407	820	76 956	57 460
June	6 140	11 401	2 784	20 325	66 600	2 546	3 413	7 117	832	80 508	60 183
Sept.	5 769	11 873	3 119	20 761	68 282	2 487	3 669	6 911	906	82 255	61 494



Short-term assets				Short-term liabilities				Net short-term liabilities (19-15)	Net liabilities (11+20)	Debt service, flow	Of which amortization payments, flow
Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (12 to 14)	Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (16 to 18)				
12	13	14	15	16	17	18	19	20	21	22	23
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	16 181	61 328	4 308	49 116	11 591	5 621
22 912	43 319	12 804	79 035	4 562	55 695	17 988	78 245	-790	53 232	12 877	5 896
25 183	38 760	18 155	82 097	4 070	51 374	15 999	71 443	-10 654	46 259	13 459	7 024
11 842	29 263	15 915	57 020	5 705	39 443	16 181	61 328	4 308	49 116	2 726	1 387
14 740	25 724	15 374	55 838	3 657	37 966	15 571	57 193	1 355	46 782	3 523	1 452
20 705	31 935	14 978	67 618	3 775	47 084	16 836	67 694	76	48 481	3 260	1 987
21 064	34 621	14 727	70 411	4 815	47 882	17 431	70 128	-283	51 926	2 448	821
22 912	43 319	12 804	79 035	4 562	55 695	17 988	78 245	-790	53 232	3 646	1 636
24 785	44 984	15 869	85 638	4 535	59 386	18 362	82 283	-3 356	51 698	3 639	1 802
26 208	46 661	18 635	91 504	3 729	62 896	18 727	85 352	-6 151	52 173	3 780	2 029
24 770	44 927	18 183	87 880	4 240	59 370	17 808	81 418	-6 462	50 207	2 793	1 488
25 183	38 760	18 155	82 097	4 070	51 374	15 999	71 443	-10 654	46 259	3 247	1 705
21 647	40 409	18 037	80 093	3 659	50 424	17 288	71 371	-8 722	48 738	5 085	3 424
18 470	45 222	18 213	81 905	3 499	52 647	12 898	69 044	-12 861	47 322	5 279	3 292
16 245	45 952	19 411	81 609	3 565	54 282	13 827	71 673	-9 935	51 559	4 931	3 462



# PRICE INDICES

Period	Basic price index for domestic supply 1980 = 100							Building costs 1980 = 100		
	Wholesale price index 1949 = 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
1986										
April	1 265	133.6	140.5	112.5	123.0	146.2	147.3	149.3	151.5	147.3
May	1 257	132.6	139.3	112.1	121.3	145.8	147.2	149.8	151.6	147.8
June	1 256	132.4	139.3	111.2	120.9	145.5	147.7	150.8	155.6	148.2
July	1 249	131.7	139.2	108.8	119.4	145.1	148.9	151.2	156.2	148.4
Aug.	1 246	130.9	137.9	109.6	118.3	144.3	148.7	151.5	156.2	149.0
Sept.	1 248	131.3	138.0	111.0	118.7	144.7	149.2	151.8	156.2	149.5
Oct.	1 250	131.5	138.5	110.3	119.0	145.0	149.2	152.0	156.2	149.6
Nov.	1 252	131.7	138.7	110.3	119.1	145.1	149.4	152.3	156.2	150.1

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
1986										
April	138.6	144.2	144.9	131.3	133.6	134.2	162.8	130.4	137.6	147.6
May	139.1	143.9	145.1	131.8	135.7	134.8	162.3	129.2	139.4	148.3
June	139.8	144.9	147.4	131.6	135.7	135.1	162.9	130.2	140.1	148.9
July	139.9	145.7	147.4	130.1	135.7	135.1	163.0	130.4	140.2	149.0
Aug.	140.2	144.8	147.4	131.4	136.3	135.3	164.4	130.2	141.2	150.2
Sept.	140.2	144.9	147.4	133.0	134.2	136.0	164.4	131.4	142.3	150.3
Oct.	140.7	145.4	147.6	134.3	134.3	136.5	167.1	131.6	142.8	150.7
Nov.	140.6	145.0	147.6	135.0	134.3	136.9	167.1	131.1	143.3	151.0

## 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	159.1	166.7	163.5	164.3	162.2	163.5
1985*										
July-Sept.	161.9	162.0	168.2	166.6	160.3	167.9	164.7	165.9	162.6	164.7
Oct.-Dec.	166.8	163.1	174.0	167.1	160.7	168.3	167.1	167.1	165.3	166.5
1986*										
Jan.-March	177.2	166.7	175.5	173.3	166.7	175.2	169.5	171.5	167.9	170.2
Apr.-June	175.0	172.1	174.5	177.4	170.3	178.9	174.1	176.0	171.9	174.5
July-Sept.	176.0	171.3	182.5	178.2	170.5	179.9	175.4	177.0	173.2	175.6

## PRODUCTION

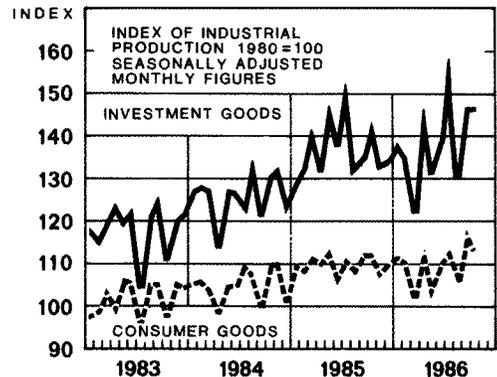
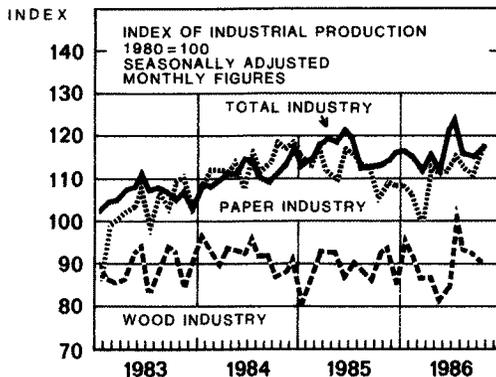
Volume indices of production 1980 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communication	Commerce	Public sector services	Others
1984										
July-Sept.	109	102	196	45	114	105	108	110	115	119
Oct.-Dec.	121	122	91	117	140	108	121	119	116	127
1985*										
Jan.-March	107	112	74	102	81	94	106	100	117	117
Apr.-June	114	121	77	109	85	113	111	112	117	127
July-Sept.	112	107	175	37	109	114	111	113	118	125
Oct.-Dec.	124	124	83	110	140	116	125	124	120	134
1986*										
Jan.-March	108	108	71	96	80	97	109	103	120	122
Apr.-June	114	121	77	90	71	117	111	118	118	132
July-Sept.	116	110	179	39	110	117	116	119	121	131

# PRODUCTION

Index of industrial production 1980 = 100

Period	Special indices of manufacturing										Total adjusted for seasonal variations
	Total	Investment goods	Consumer goods	Other producer goods	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*	111.8	126.8	105.6	111.9	109.3	92.4	114.3	111.5	108.4	120.0	112.1
1985*	116.1	137.8	110.3	114.7	111.3	89.4	113.1	115.1	109.7	129.9	116.5
1985*											
Oct.	129.7	157.4	126.3	126.1	138.6	109.6	112.2	127.4	135.4	149.9	113.5
Nov.	124.5	148.9	122.2	120.9	130.4	96.7	116.8	117.1	118.6	142.5	114.5
Dec.	108.0	130.9	104.2	105.4	104.7	63.2	102.8	108.3	95.9	123.6	116.6
1986*											
Jan.	122.7	143.3	120.5	119.8	106.8	93.6	111.2	121.9	102.7	137.5	117.2
Feb.	110.5	132.7	108.1	107.4	93.1	82.9	102.2	111.0	83.0	123.9	115.3
March	107.5	127.0	104.2	105.3	91.3	83.6	95.2	121.8	81.1	121.3	112.4
April	125.0	157.7	117.8	122.3	114.4	113.5	114.7	133.4	98.4	148.9	116.7
May	118.7	157.6	110.0	115.7	104.7	100.1	107.4	121.5	98.3	147.1	113.1
June	118.0	151.5	104.4	118.3	105.1	97.4	101.5	113.9	102.8	141.1	121.4
July	86.7	71.3	75.3	94.6	103.4	47.2	126.8	83.7	73.4	73.2	124.8
Aug.	114.4	123.0	108.6	115.3	107.0	83.0	117.0	123.3	121.1	121.1	116.0
Sept.	124.6	146.9	117.6	123.7	111.5	106.2	110.8	125.7	140.1	144.2	115.3
Oct.	134.1	162.0	128.5	131.5	140.7	107.0	124.0	123.2	139.2	157.6	117.6



## LABOUR – TIMBER FELLINGS – INTERNAL TRADE

Period	Population of working age, 1 000 persons	Total labour force, 1 000 persons	Employed, 1 000 persons	Un-employed, 1 000 persons	Unemployment, % of total labour force	Commercial timber fellings, 1 000 solid cu. m	Retail sales volume index 1980 = 100	Wholesale volume index 1980 = 100
	1	2	3	4	5	6	7	8
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	110
1985*								
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	115	119
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	110	103
Feb.	3 715	2 540	2 346	195	7.7	4 596	100	102
March	3 716	2 551	2 365	186	7.3	4 709	105	109
April	3 716	2 551	2 365	186	7.3	4 534	118	123
May	3 718	2 609	2 438	170	6.5	3 292	122	120
June	3 717	2 788	2 598	190	6.8	2 472	119	111
July	3 717	2 790	2 600	190	6.8	1 124	126	104
Aug.	3 718	2 647	2 481	167	6.3	1 194	116	114
Sept.	3 715	2 600	2 428	171	6.6	2 143	116	126
Oct.	3 716	2 576	2 394	182	7.1	3 100	..	..

## 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*	48.17	18.17	6.70	16.53	3.41	44.74	17.40	4.94	15.97	3.35	49.64
1985*											
Apr.-June	17.13	7.27	3.09	4.80	0.75	10.18	4.08	0.72	3.57	1.05	53.07
July-Sept.	12.16	4.48	1.61	4.21	0.92	10.10	3.80	1.77	3.04	0.75	56.42
Oct.-Dec.	9.69	2.98	0.90	4.32	0.88	15.84	5.67	1.89	6.44	0.82	49.64
1986*											
Jan.-March	9.24	2.96	1.19	4.06	0.50	8.15	3.53	0.56	2.89	0.67	46.75
Apr.-June	16.42	6.67	2.93	4.68	0.89	4.74	2.05	0.65	1.37	0.36	55.87
July-Sept.	12.46	4.26	1.26	4.65	1.24	10.53	3.62	1.62	3.30	1.24	57.20

# EXPLANATIONS RELATING TO THE STATISTICAL SECTION

## BANK OF FINLAND

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

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

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

## MONETARY POLICY INDICATORS

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

Gross central bank debt of the deposit banks = call money credits and term credits extended to the commercial banks and Postipankki. As from January 1984, the only source of central bank debt was the call money market. Three month term credits were introduced in December 1986. Banks' borrowing from the central bank is monitored; a bank exceeding a stipulated limit comes under the special surveillance of the central bank. The rate of interest on call money credits is set by the central bank. The rate of interest on term credits is based on daily tenders by the commercial banks and Postipankki.

Net central bank debt of the deposit banks = Gross central bank debt of the deposit banks - The commercial banks' and Postipankki's 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 September 7, 1984. The deposit banks consist of the commercial banks, co-operative banks, savings banks and Postipankki.

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

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

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

## FORWARD EXCHANGE MARKETS IN FINLAND

Page 7. The figures for columns 1-6 are calculated by the Bank of Finland on the basis of monthly reports from the banks on their outstanding forward exchange positions at the end of each month. The figures for columns 7-9 are based on monthly averages of daily representative quotations, as reported by the banks to the Bank of Finland. The banks' foreign currency positions shown in the chart at the bottom of page 7 are monthly averages of daily spot and forward positions vis-à-vis the markka as reported by the commercial banks to the Bank of Finland. The spot position includes all foreign currency-denominated assets and liabilities of the banks, excluding their outstanding forward contracts.

## FOREIGN EXCHANGE RATES

Pages 8-9. *Exchange rates* are annual and monthly averages of the Bank of Finland's daily quotations. *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 M<sub>1</sub>* = Finnish notes and coins in circulation - Finnish notes and coins held by the banks - Demand deposits held by the public (incl. Demand deposits at the Bank of Finland). *Quasi-Money* = Time deposits held by the public (incl. Time deposits at the Bank of Finland).

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

## STATE FINANCES

Page 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, r Revised, 0 Less than half the final digit shown, . Logically impossible, . Not available, - Nil, S affected by strike, - Break in series.

# SOME PARTICULARS ABOUT FINLAND

## FORM OF GOVERNMENT

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

Parliament, comprising 200 members is elected by universal suffrage for a period of 4 years. The number of seats of the different parties in Parliament elected in 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 AIDB 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 (1985), in million FIM: Gross domestic product at factor cost by industrial origin: agriculture and fishing 13 190 (4%), forestry 10 977 (4%), manufacturing 85 794 (29%), construction 23 138 (8%), trade, restaurants and hotels 33 163 (11%), transport and communication 23 672 (8%), banking and insurance 12 973 (4%), ownership of dwellings 19 097 (6%), other services 74 707 (25%), total 296 711. Index of real domestic product 114 (1980 = 100).

FOREST RESOURCES (1983). The growing stock comprised of 1 660 million m<sup>3</sup> (solid volume with bark) of which 45% was pine and 37% spruce the remaining 18% being broad-leaved trees chiefly birch. Of the growing stock 656 million m<sup>3</sup> was up to the standard required for logs, 51% of these being pine. The annual growth was 68 million m<sup>3</sup> and the total drain calculated on the basis of roundwood consumption was 49.4 million m<sup>3</sup>.

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, 1986): Passenger vessels 167 (295 058 gross reg. tons), tankers 31 (490 175 gross reg. tons), dry cargo vessels 121 (417 167 gross reg. tons), other vessels 108 (41 134 gross reg. tons), total 427 (1 243 534 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 traded 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 20.6, DEM 19.6, GBP 13.8, USD 8.8, other currencies 37.2. The permissible range of fluctuation is about 2.25 per cent on either side of the theoretical arithmetic mean. The fluctuation limits are 106.0 and 101.3.

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

OTHER CREDIT INSTITUTIONS (Dec. 31, 1985). There are two big and eight small commercial banks with in all 967 offices, 254 savings banks, 370 co-operative banks, six mortgage banks, 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% and 9%. Other credit institutions: time deposits 2% and 6% month deposits 4%; 12 month deposits 5%; 24 month deposits 7%.

# PUBLIC FINANCE AND FISCAL POLICY

by **Raimo Sailas**, Assistant Head of Department,  
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## ECONOMIC PERFORMANCE

Since the late 1970s, the performance of the Finnish economy has been favourable on the whole. From 1978 to 1985, total output grew on average by 3.8 per cent a year while the corresponding growth rate in the total OECD area was 2.5 per cent and in the European OECD countries 1.9 per cent. Moreover, the rate of growth of total output has been very steady.

The employed labour force has increased by nearly a quarter of a million (11 per cent) since the low point reached in 1978. The relative shares of both the population of working age and the workforce in Finland are high by international standards. The rate of unemployment, which rose to 7.3 per cent in 1978, dropped to 4.7 per cent in 1980 but has since gradually risen and is estimated to have been 7.0 per cent in 1986. The corresponding figure for the European OECD countries was more than 12 per cent. Thanks to, among other things, improved unemployment benefits, there has been a marked decline in hidden unemployment.

In Finland, as elsewhere, the rate of inflation has fallen rapidly in the past few years. In 1981, consumer prices still increased by 12.0 per cent but in 1986 the rise was 3.6 per cent. Though the slowdown in inflation came to a halt in the autumn of 1986, the downward trend is expected to continue in 1987 with consumer prices rising on average by an estimated 2 1/2 per cent.

Since 1978, real earnings have increased every year and were more than 16 per cent higher in 1986 than in 1978. In the spring of 1986, the central labour market organizations concluded agreements which are estimated to have a cost

effect (excluding reductions in working hours) of 2.4 per cent in 1986 and 2.6 per cent in 1987. At union level, however, the settlements in many cases provided for increases in excess of those in the comprehensive agreements, partly as a result of strikes. Taking wage drift into account, average earnings are estimated to have risen by 7 per cent in 1986 and are forecast to rise by 6 1/2 per cent in 1987.

As a consequence of the increase in real earnings and employment as well as tax and current transfers policies, households' purchasing power has grown appreciably during recent years. In 1986, the increase was in the region of 3 per cent and it is forecast to be as much as 5 per cent in 1987.<sup>1</sup> Indicative of the growth of households' purchasing power is the fact that private consumption in Finland increased by an estimated 28 per cent between 1978 and 1986 while the corresponding figure for the European OECD countries was 18 per cent.

The Finnish investment ratio has for long been one of the highest in the industrialized world, and is estimated to average between 23 and 24 per cent in the period 1985 - 1987. Housing production has remained at a high level in comparison to other countries. Since the mid-1970s, investment in machinery and equipment has grown rapidly, and expenditure by industry on R & D is also increasing at a fast pace.

In spite of brisk domestic demand, broad balance has been maintained in the current account. The balance of trade was in surplus in 1985 and 1986 and is forecast to post a surplus in the current year as well. There was a

<sup>1</sup> The postponement of tax refunds to households from December 1986 to January 1987 affects the growth figures for both years by more than one percentage point.

sharp improvement in the terms of trade in 1986, mainly because of the fall in the price of crude oil.

**TABLE 1. ECONOMIC PERFORMANCE IN 1984–1987**

	1984 %	1985 %	1986* %	1987** %
Growth of total output	2.8	2.8	2	3
Private consumption	2.8	3.4	3 1/2	3 1/2
Change in consumer prices	7.1	5.9	3 1/2	2 1/2
Change in average earnings	9.4	8.4	7	6 1/2
Unemployment rate	6.2	6.3	7.0	7.1
Current account, per cent of GDP	-0.0	-1.4	-0.3	-0.4

\* Estimate

\*\* Forecast

## ACTIVE FISCAL POLICY

Since 1977, economic policy in Finland has been conducted within the framework of a medium-term strategy. This has been facilitated by the long life and stability of Finnish governments during this period.

Maintenance of output growth and employment have been based explicitly on enhancing the operating conditions of the open sector. Price competitiveness has been maintained primarily by curbing the rise in domestic costs rather than periodically resorting to big devaluations of the markka, as was the case in previous decades.

The Government has sought to influence developments in wages and salaries more or less directly. Comprehensive incomes policy settlements have been the rule in Finland. These settlements have covered wages and salaries, agricultural income and sometimes other nominal income as well. To support these settlements, the Government has taken discretionary action of various kinds, including, for instance, the easing of personal income taxation, welfare policy reforms, changes in employers' social security contributions and measures promoting employment. The coordination of such a broad range of measures by a multiparty government in a labour market

where wage- and salary-earners are represented by four central unions and employers in the private sector by two central organizations and where, in addition, farmers have an important role has required a high degree of consensus on the goals of economic policy and the means of achieving them.

The stated prime objective of fiscal policy has been to keep a tight rein on the growth of public expenditure. In consequence, central and local government finances and social security funds have been more clearly regarded as a single entity than before. The growth of public expenditure has slowed down, although for the most part targets have not been achieved. In 1985, public expenditure accounted for 41 per cent of GDP, which is clearly less than in the other Nordic countries. In the course of a decade, the relative share has increased by 5 percentage points.

In 1976, the gross tax ratio in Finland rose to 38.0 per cent. Thanks to tax relief measures implemented in connection with subsequent stabilization policy, it fell to 32.9 per cent in 1979 and 1980, and then rose again to 36.8 per cent in 1985. However, part of the rise was due to the fact that certain social security benefits were increased and at the same time made taxable. Personal income tax schedules have been adjusted annually, among other things, to eliminate the tightening effect of taxation caused by inflation. Automatic indexation has not, however, been introduced in income taxation since it has been considered important to retain scope for flexibility in counter-cyclical policy.

The local government tax rate has increased only slightly in the past decade, from 15.55 per cent in 1975 to 16.05 per cent in 1986. The rate of increase is, however, projected to accelerate somewhat in 1987.

Since 1977, insured persons' and employers' social security contributions have been used actively as a fiscal policy instrument. In this respect, Finland may be considered a pioneer country. In 1977, employers in the private

sector paid sickness insurance contributions, child allowance contributions, national pension contributions, employment pension contributions and unemployment insurance contributions equivalent to 21.4 per cent of total wages and salaries. The corresponding figure for 1987 was 19.6 per cent even though the social security financed largely out of these contributions has been substantially improved over the past decade, inter alia, by enhancing basic pensions security, increasing sickness and maternity benefits and improving unemployment benefits.

The breakthrough of the Keynesian demand management approach in the decades following World War II did not really touch Finland. Fiscal policy generally spanned a short horizon, emphasizing the balancing of public sector budgets in the short term. In fact, policies frequently exercised a pro-cyclical influence. It was not until the late 1970s that there was shift towards a longer horizon in fiscal policy and the setting of counter-cyclical objectives. Fiscal policy was expansionary in both 1978 and 1979 after which there was a tightening in policy stance. In 1982 and 1983, fiscal action was once again taken to promote output only to be followed by a reorientation of policy in a more restrictive direction as western exports picked up.

The fiscal policy pursued cannot, however, be regarded as wholly Keynesian. The curbing of the growth of public expenditure, the income tax concessions and the reductions in social security contributions incorporate features associated with supply-side economics. In fact, fiscal policy over the last ten years or so has been considerably more active and long-term than formerly but pragmatic and free of any strict theoretical approach. Its most distinctive feature is perhaps its link with incomes policy.

#### FISCAL POLICY IN 1986 AND 1987

Through the marked easing of personal income taxation in connection with the budget for 1986, the Government sought to promote

moderate pay settlements in the spring of 1986. Developments in nominal wages and agricultural income did not, however, adjust adequately to the rapid deceleration in inflation following the sharp fall in the price of oil, among other things. Price competitiveness as measured by unit labour costs is estimated to have weakened slightly in 1986. The fall in oil prices was also expected to reduce exports to the Soviet Union since trade between the two countries is bilateral and based on clearing principles, in addition to which oil accounts for a major share of Finland's imports from the Soviet Union.

Given these circumstances, fiscal policy was formulated with a view to bolstering the competitiveness of the open sector. In the spring, Parliament approved an energy tax reform which entered into force at the beginning of August. As a result of the reform, the energy costs of particularly the forest industry and the basic metals industry were reduced significantly whereas those of households grew. Thus, the growth of real household income and private consumption was checked to some extent.

According to high-employment budget balance calculations, the overall impact of fiscal changes was broadly neutral in 1986. When the automatic effects of general government operations are taken into account, fiscal policy can be said to have had a slightly expansionary effect on the economy in 1986.

When agreeing on the budget for 1987 in the late summer of 1986, the Government faced a difficult situation. During the summer the Finnish markka had been subject to speculative attacks prompted by persistent rumours of a looming devaluation. The Bank of Finland and the Government staved off devaluation and stated their determination to maintain the value of the markka. On the other hand, sluggish output growth during the first half of the year was leading to growing unemployment while the prospects for the Soviet trade added to the uncertainty. The margin for manoeuvre in fiscal policy was restricted to some extent by the

index clauses incorporated in the pay and agricultural income agreements, which provided for additional increases in the event of the index thresholds being breached. In Finland, it is customary when assessing the effects of fiscal policy to attach great importance to the direct impact of discretionary changes in public spending and revenue on the consumer price index.

In order to curb the growth of unemployment, the Government decided on a slightly expansionary budget proposal, a prominent place in which was given to measures aimed at improving real competitiveness and opportunities for internal financing in the business sector.

**TABLE 2. STATE FINANCING REQUIREMENT AND STATE DEBT**

	1985	1986*	1987**
	per cent of GDP		
Gross State financing requirement	3.2	3.3	4.2
Net State financing requirement	1.0	0.3	2.0
State debt at year end	13.5	13.9	14.9

\* Estimate

\*\* Forecast

The corporate income tax rate was lowered by 10 percentage points to 33 per cent in 1986, but advance tax was still withheld at the old rate. The introduction of the new advance tax rate will ease corporate taxation in 1987 and in addition the "excess" payments in 1986 are to be refunded. To promote the internal financing of firms, the maximum amount of taxfree income from dividends and interest on shares in cooperative societies has been increased, the taxable value of shares quoted on the stock exchange has been reduced for the purposes of wealth taxation and the stamp duty on shares traded on the stock exchange has been eased. It should also be noted that the impact of the energy tax reform will not be felt in full at an annual level until this year. Telecommunications tariffs were reduced by an average of 8 per cent at the beginning of 1987.

Personal income tax scales were adjusted to correspond to an inflation rate of 4 per cent.

The most important allowable deductions were raised by 3 per cent. The taxation of families with children is to be reduced still further. The rates of insured persons' sickness insurance and national pensions contributions remain unchanged. On the other hand, a slight increase in the average local government tax rate will tighten personal income taxation this year. Prices of alcoholic beverages were raised by an average of 6 per cent at the beginning of 1987 and the excise tax included in the price of motor fuels by 2 1/2 per cent.

According to the budget proposal, expenditure (excluding redemptions of State debt) is estimated to increase by 3 per cent in real terms as compared with cash outlays in 1986. Areas receiving special emphasis on the expenditure side are the promotion of basic and applied research, the support of product development, vocational training and adult education. The development of social security is mainly to continue along previously approved lines. The budget proposal does not contain any new projects in the sphere of social security but existing benefits are to be improved.

Concerned about the threat of growing unemployment, the Government decided to introduce a supplementary budget in the autumn of 1986. This supplementary budget contained several changes in expenditure and revenue which have only become effective in the current year.

The most important single fiscal policy measure decided on in connection with the supplementary budget concerned the reduction as from the beginning of 1987 in the sickness insurance and national pensions contributions rates of employers in the private sector by on average a total of one percentage point of the total wage and salary bill. The reduction was graduated slightly in favour of labour-intensive companies. The reasons for the cuts were to enhance employment opportunities and competitiveness as well as the fact that other social security contribution rates are set to rise by just over one percentage point in 1987. In addition, the Government announced that it

was considering alternative ways of reducing the linkage of employers' social security contributions to wages and salaries and that a decision on the amendment would be made in connection with the budget proposal for 1988. This can be regarded as a logical extension of the effort to check the increase in employers' wage-related social security contributions during the past decade.

The supplementary budget also contains authorizations and appropriations for speeding up public investments and purchases as well as other direct employment measures. A decision was also taken on steps to activate the use of corporate investment reserves. The measures included in the supplementary budget will to some extent increase the expansionary impact of fiscal policy and the central government borrowing requirement for 1987. According to the budget as passed by Parliament, the borrowing requirement is projected to reach about FIM 16.3 billion (not final). The central government net financing requirement in 1987 is estimated at 2 per cent of GDP. In 1986, the corresponding percentage was 1/3 per cent according to preliminary data. Reducing the 1986 figure and increasing the 1987 figure somewhat is the fact that taxation is behind schedule owing to a strike by civil servants in 1986.

**TABLE 3. IMPACT OF FISCAL POLICY**

	1985	1986*	1987**
	per cent of GDP, at constant prices		
Central government	-0.2	-0.1	0.6
Local government	0.6	0.4	0.3
Social security funds	-0.1	0.1	-0.1
General government	0.3	0.4	0.8

\* Estimate

\*\*Forecast

## MEDIUM-TERM OUTLOOK FOR FISCAL POLICY

The Ministry of Finance has estimated that real GDP in Finland could grow at an average annual rate of 3 per cent up to 1990 given reasonably favourable developments in the in-

ternational economy. As before, the aim is to achieve this growth primarily by enhancing the competitiveness of the open sector although private consumption is also likely to grow rapidly in the early part of the period.

If there is no significant increase in the gross tax ratio or in State debt in relation to GDP, it would be possible for public expenditure to grow by about 2 per cent annually in the next few years. As local government spending is set to grow more rapidly on the basis of existing laws and decisions, this implies that central government expenditure (excluding management of State debt) should increase by no more than just over one per cent a year.

In practice, it will be difficult to keep the growth of public expenditure within these limits since it is for the most part fixed by law, agreements or other decisions and plans of various kinds.

Important plans and decisions have been made concerning, inter alia, development assistance expenditure, spending on universities, financial aid for students, the introduction of local government pensions funding, the development of child day care, housing policy and the development of welfare and health care services. Additional pressures for increasing expenditure have been created by the Employment Act, State pensions expenditure<sup>2</sup> and road maintenance appropriations. Nor it is easy to reduce the export subsidies caused by massive overproduction in agriculture. In addition, new plans for the improvement of social security are constantly being put forward.

The collective agreements concluded after the civil servants' strike will substantially increase the central government's wage and salary bill

<sup>2</sup> In Finland, the basic pensions scheme is managed by the Social Insurance Institution, which is part of the public sector. Employment pensions in the private sector are managed by insurance companies and institutions belonging to the private sector. Central government pensions are paid out of the budget while local government pensions are managed by the Local Government Pensions Institutions. The central government supports the financing of local government and self-employed persons' pensions and provides most of the financing for farmers' pensions.

in the period up to the beginning of March 1988 and will probably affect expenditure on pay by local authorities as well. In addition, shorter working hours are to be introduced in the public sector before 1990, which in theory will increase staffing requirements by about 1.5 per cent. Actual requirements are likely to be less than this, however.

The structural rigidity of public expenditure and the fact that large sums are committed in advance on a continuing basis are inconsistent with the demand of flexible fiscal policy. Rigidity in public expenditure all too easily ties up unnecessarily large resources and acts as a brake on structural change essential for the growth of output and the maintenance of employment. Nor are internal solutions within the various parts of the public sector optimal under these circumstances. For instance, a pension benefit achieved by a particular group easily leads to the improvement in the pension benefits of some other group even though a change in circumstances would make it more logical to "even out" the situation by removing the benefit obtained by the first group.

The State debt in Finland is small by international standards. Admittedly, it has grown since the mid-1970s, when it was of very small proportions, and was equivalent to 13.9 per cent of GDP at the end 1986. Nor is the local government sector heavily indebted, the corresponding figure being about 3 per cent. During

the past few years, the growth of State debt has slowed down appreciably. Slightly more than half the outstanding amount is in foreign currencies, the rest being domestic. Current economic policy does not include plans for increased borrowing to finance the growth of public expenditure. Rather, the aim is to raise funds to cover expenditure primarily by maintaining sufficient growth of total output and the tax base.

In Finland, as elsewhere, the debate concerning taxation has recently become more lively. The debate has focussed on the differential taxation of various types of income, high marginal tax rates, the increasing unwieldiness of the system of deductions, the possibilities of expanding the tax base and the system of social security contributions. It has been argued that the unequal tax treatment of different types of income hinders the optimal distribution of resources and that high marginal tax rates curtail the supply of manpower.

The implementation of an extensive tax reform will evidently be the central issue in fiscal policy over the next few years. Another important task will be to reduce the structural rigidity of public expenditure so that the growth of spending can be kept within the limits set by the current economic policy strategy and used to further structural change in trade and industry and thereby to increase employment.

# MONETARY AND FOREIGN EXCHANGE POLICY MEASURES FROM FEBRUARY 1986 TO JANUARY 1987

**1986**

## 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	12.3
May 14	16.0	15.3
May 16	14.0	13.3
May 20 (I)	13.0	12.2
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.

*FIM bond issue by the Nordic Investment Bank.* The Nordic Investment Bank issues FIM bonds in Finland totalling FIM 250 million, up to half of which the Bank of Finland permits to be sold directly to foreign investors. At least half of the issue is to be sold to domestic investors, but once quoted on the Helsinki

Stock Exchange, the bonds can be sold and purchased abroad on the secondary market through the Stock Exchange.

## August

*Call money market.* On July 31, the Parliamentary Bank Supervisors extend to the Board of Management of the Bank of Finland, until further notice, unlimited powers to raise the call money rate. In this context, the Bank of Finland decides to introduce, as from August 1, a call money rate policy under which call money rates are henceforth to be determined in accordance with the foreign exchange reserves. Thus, call money rates are to rise when foreign exchange reserves decline and fall when foreign exchange reserves grow.

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
August 1 (I)	11.2	10.2
" 1 (II)	11.6	10.6
" 4	12.4	11.4
" 5 (I)	13.2	12.2
" 5 (II)	15.2	14.2
" 5 (III)	25.0	24.0
" 7	40.0	39.0
" 14	35.0	34.0
" 15 (I)	30.0	29.0
" 15 (II)	25.0	24.0
" 18	20.0	19.0
" 20	19.0	18.0
" 26	18.0	17.0
" 29	17.0	16.0

*Regulation of average lending rates.* The Bank of Finland abolishes the regulation of average lending rates as from August 1.

*Revision of foreign exchange regulations.* As from August 1, the Bank of Finland decides to exempt from regulation foreign credits with a maturity of at least five years raised by manufacturing and shipping companies for financing their own operations. The decision on the removal of control does not apply to bond or debenture issues denominated in Finnish markkaa.

## September

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

Effective as from	Rate on call money advances	Rate on call money deposits
	Per cent	Per cent
September 2	16.0	15.0
September 5	15.0	14.0
September 9	14.0	13.0
September 12	13.5	12.5
September 18	13.0	12.0
September 26	12.5	11.5

*Cash reserve requirement.* As an exception to the cash reserve agreement concluded with the banks, the Bank of Finland decides to pay interest on cash reserve deposits for the period September – December 1986 at a rate which is 3 percentage points below the Bank of Finland call money lending rate, however, not less than 1/4 percentage point below the Bank of Finland base rate.

## October

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

Effective as from	Rate on call money advances	Rate on call money deposits
	Per cent	Per cent
October 2	12.0	11.0
October 16	11.8	10.8

The decision of the Parliamentary Bank Supervisors on the temporary removal of the upper limit on the call money lending rate expires on October 21, 1986. From that date, the upper limit on the call money lending rate is again the base rate plus 15 percentage points.

*Investment reserves.* On October 23, 1986, the Council of State decides to release, as from April 1, 1986, investment reserves made for accounting periods ending in 1984 for use in the Greater Helsinki area. The utilization period is to expire on December 31, 1987.

In the same context, the Council of State decides to raise the special investment allowance from 3 to 6 per cent outside the Greater Helsinki area. The increased allowance can be applied to investment reserves to be used during accounting periods ending between November 1, 1986 and December 31, 1987.

*Change in the cash reserve agreement.* Samuel Montagu Osakepankki starts operations in Finland at the beginning of October, and on October 17, 1986 it joins the cash reserve agreement between the Bank of Finland and the banks.

## November

*Changes in the terms of central bank financing.* As from the beginning of November, the Bank of Finland grants Samuel Montagu Osakepankki the same rights to central bank financing and to participation in the call money market as the other commercial banks. After Bank of Helsinki Ltd ceases operations as an independent bank and is merged with Union Bank of Finland Ltd at the beginning of November, the Bank of Finland cancels the rights of Bank of Helsinki Ltd to central bank financing and to participation in the call money market with effect from November 1, 1986.

*Lending rates.* On November 28, 1986, the Bank of Finland decides that henceforth lending rates applied in short- (up to 1 year) and medium-term (between 1 and 5 years) loan agreements may be linked to a reference rate which reflects the cost of unregulated short-term funding. The introduction of a reference rate requires the prior approval of the Bank of Finland.

Banks are still required to link lending rates on all housing loans and on all long-term loans of more than five years to the Bank of Finland's base rate or to charge fixed rates of interest on such loans. In addition, banks may continue to apply these interest rates to short- and medium-term credits. Similarly, they may con-

tinue to link lending rates on short-term credits to the call money rate.

## **December**

*Terms of central bank financing.* On December 1, 1986, the Bank of Finland introduces a system under which the banks may, in addition to call money credit, also obtain central bank financing in the form of longer-term credits at fixed rates of interest. Initially, only three-month credits are to be granted and the quantity of credit and the rate of interest charged are to be determined on the basis of banks' requests for credit within the framework of the targets set for central bank financing by the Bank of Finland. The upper limit on the rate of interest applied to fixed-rate term loans extended by the central bank is the same as that on the call money lending rate, i.e. the base rate plus 15 percentage points.

For the present, the Bank of Finland does not undertake to accept longer-term deposits at fixed rates.

*Call money market.* The Bank of Finland lowers the call money deposit rate from 10.8 to 9.0 per cent as from December 1 and raises the rate on call money credits from 11.8 to 11.9 per cent as from December 2 and further to 12.0 per cent as from December 9.

*Credits for the financing of domestic suppliers' deliveries.* The rate of interest applied to credits for the financing of domestic suppliers' deliveries is raised by one percentage point to the equivalent of the base rate plus 2.0 percentage points as from December 10, 1986. The Bank of Finland's share in the financing of domestic suppliers' deliveries is raised from 30 per cent to 40 per cent for the period from

December 10, 1986 to December 31, 1987. At the same time, it is decided to again permit the use of credits for the financing of domestic suppliers' deliveries in the financing of sawmill investments.

## **1987**

### **January**

*Financing of short-term export credits.* As from the beginning of 1987, the Bank of Finland restricts the financing of short-term export credits to concern export companies the turnover of which does not exceed FIM 200 million.

*New-export credits.* As from the beginning of 1987, the Bank of Finland restricts the use of new-export credits so that the duration of a new-export credit extended to a company cannot exceed five years from the drawing of the first credit instalment. The rate of interest collected by the Bank of Finland from banks for new-export credits is raised to the same level as that applied to the financing of short-term export credits, i.e. the Bank of Finland's base rate.

*Cash reserve agreement.* The Bank of Finland and the banks agree on the revision of the cash reserve agreement as from January 1, 1987 so that certificates of deposit and certain long-term foreign credits intermediated by banks are no longer subject to the cash reserve requirement.

*Amendments to Foreign Exchange Regulations.* As from January 1, 1987, the Bank of Finland grants the Labour Savings Bank of Finland the status of an authorized bank.

## ITEMS

**The closing of the accounts of the Bank of Finland for 1986.** In 1986, the growth of total output decelerated slightly in Finland and unemployment increased somewhat. Finland's exports to bilateral markets decreased in volume terms, as the sharp fall in oil prices at the beginning of 1986 weakened the prospects for Finnish exports to the Soviet Union. In western markets, economic activity started to pick up during the latter half of the year, and as a result the total volume of Finnish exports to those markets was slightly higher than in 1985. An improvement in the terms of trade supported domestic demand, particularly private consumption. Throughout the year, the rise in consumer prices was distinctly slower than on average in 1985.

In the early months of 1986, the Bank of Finland continued its policy of lowering both the base rate and the call money rates. The foreign exchange reserves, which had previously risen to an exceptionally high level, continued to decline. When confidence in the external value of the markka weakened in the spring, the lowering of interest rates had to be brought to a halt. The call money rate was raised temporarily in May and again in August. Towards the end of the year, the foreign exchange market in Finland market was stable. Although confidence in the economic policy stance improved, it was not possible to continue the lowering of interest rates.

The trend towards more liberal financial conditions continued in 1986. The Bank of Finland relaxed the regulation of banks' average lending rates during the first half of 1986 and abolished regulation in full in August. In the course of the year, the regulation of imports of long-term capital was also eased. The rates of interest on tax-exempt bank deposits fell in line with the reductions in the Bank of Finland's base rate. Similarly, the rates of interest on banks' outstanding loans largely followed the changes in the base rate. By contrast, the

rates of interest applied to banks' unregulated deposits, as well as the rates of interest on new credits, reflected changes in the Bank of Finland's call money rate and inflation expectations. Up till the late summer, the overall trend in unregulated market rates was falling and thereafter slightly rising.

The growth of banks' lending to the public decelerated in the course of the year. The rate of growth of banks' total deposits decelerated even more appreciably. At the end of the year, the banks' central bank position was hence weaker than at the beginning of the year. As from the beginning of December, banks were allowed to gradually convert their call money credits into three-month fixed-rate credits extended by the central bank. The purpose of this measure was to supplement the central bank's arsenal of monetary policy instruments, to support the development of financial markets and to facilitate banks' management of interest rate risks.

Economic developments and the volatility in the foreign exchange market in the course of the year gave rise to sizeable changes in the balance sheet items of the Bank of Finland's closing of the accounts for 1986 as compared with the closing of the accounts at the end of the previous year.

According to the Balance Sheet of the Bank of Finland, the convertible foreign exchange reserves fell by FIM 11 723 million to FIM 10 636 million in the course of 1986. The tied foreign exchange reserves grew by FIM 3 706 million, and, at the end of the year, the tied accounts showed a net claim of FIM 3 421 million.

"Other foreign claims" of the Bank of Finland, which comprised only the markka subscription to Finland's quota in the IMF, decreased by FIM 60 million to FIM 2 585 million. The Bank's "Other foreign liabilities" fell by FIM 71 million to FIM 3 423 million, with the IMF markka accounts decreasing by FIM 60 million and

allocations of special drawing rights by FIM 11 million.

Total central bank financing of the banks grew by FIM 3 980 million and reached FIM 9 199 million at the end of the year. Of this amount, call money credits accounted for FIM 6 818 million and term claims on banks for FIM 2 381 million. Banks' deposits consisted exclusively of call money deposits, which amounted to FIM 131 million. This was FIM 1 074 million less than at the end of the previous year. At the turn of the year, total central bank financing exceeded the amount of call money deposits by FIM 9 068 million.

At the end of the year, the banking institutions had cash reserve deposits with the Bank of Finland totalling FIM 9 270 million, which was FIM 952 million less than a year earlier. The decline was attributable to a reduction in the cash reserve requirement, whereas the deposit base grew slightly. The cash reserve requirement based on the cash reserve base in December 1985 and January-February 1986 was lowered by a total of 0.9 percentage point to 4.7 per cent. Capital import deposits by financial institutions fell by FIM 385 million to FIM 254 million. Till-money credits grew by FIM 380 million and totalled FIM 2 305 million at the end of the year. The Bank of Finland's holdings of bonds issued by financial institutions increased by FIM 46 million to FIM 2 111 million. The Bank of Finland's net liability to financial institutions turned into a net claim of FIM 4 345 million, as the Bank's net claims increased by FIM 7 242 million in the course of the year.

The Bank of Finland's claims on the public sector fell by FIM 21 million to FIM 1 002 million. The Bank's holdings of government bonds decreased by FIM 59 million, while total coinage grew by FIM 44 million. Other claims on the central government fell by FIM 6 million. Liabilities to the public sector decreased by FIM 2 299 million to FIM 2 001 million. Funds in the government deposit account fell by FIM 2 300 million in the course of 1986, whereas those in the cheque accounts increased by FIM 1 million.

The Bank of Finland's lending to corporations grew by FIM 165 million and amounted to FIM 4 844 million at the end of the year. Financing of exports increased by FIM 148 million, while financing of suppliers' credits fell by FIM 91 million and other items increased by FIM 108 million. Of the liabilities to corporations, deposits for investment and ship purchase grew by FIM 830 million to FIM 4 671 million, while capital import deposits of corporations declined by FIM 88 million to FIM 336 million.

Notes and coin in circulation increased by FIM 595 million and amounted to FIM 8 667 million at the end of the year.

The Bank of Finland's profit for the accounting year amounted to FIM 44 million. The profit will be used to augment the reserve fund in keeping with the Regulations for the Bank.

#### **Revision of the cash reserve agreement.**

The Bank of Finland and the banks have agreed on the revision of the cash reserve agreement as from January 1, 1987 so that certificates of deposit and certain long-term foreign credits intermediated by banks are no longer subject to the cash reserve requirement.

The current cash reserve agreement was concluded between the Bank of Finland and the banks in the autumn of 1984. Under the agreement, each deposit bank is obliged to hold funds in the form of cash reserve deposits with the Bank of Finland in the ratio to its deposits and net foreign liabilities prescribed by the Bank of Finland. The Bank of Finland pays interest on the deposits at a rate which is 0.25 percentage point lower than the Bank of Finland's base rate.

The use of certificates of deposits by banks as an instrument for raising funds in the unregulated market has remained relatively insignificant. Instead, banks use instruments that are not negotiable in the secondary market. This has retarded the development of the money market and the enhancement of efficiency in financial intermediation. The freeing of certificates of deposit from the cash reserve

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requirement removes one obstacle that has acted as a brake on development.

It has also been agreed to free some items of long-term foreign financing from the cash reserve requirement. As a result, foreign credits intermediated to companies by domestic and foreign banks are now treated equally.

**Changes in the statistical section.** Owing to the introduction of three-month term credits to the banks, a new item 'term assets' has

been added to the balance sheet of the Bank of Finland on page 3. On page 5, the item 'claims on cheque accounts, net' (column 2) has been replaced by the item 'term credits of deposit banks'. The interest rate on term credits is reported on page 6, column 7, and replaces the item 'average cost of gross central bank debt'. The reported rate is the average of daily rates.

(Continued from page 2)

Another striking feature of investment activity during the past few years has been the reduction in cyclical fluctuations in all sectors of the economy. The change has been most conspicuous in manufacturing industries, where, in fact, the level of capacity utilization has remained fairly stable in recent years. This may be one of the favourable consequences of financial deregulation. Investment has become less dependent on variations in profits because credit rationing is now less prevalent than

earlier and because the allocation of investment between firms and between different sectors of the economy has improved. The higher level of real interest rates may also have curbed cyclical fluctuations by inducing companies to pay closer attention to the timing of their investment expenditures.

January 9, 1987

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# BANK OF FINLAND

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## Board of Management

Rolf Kullberg  
*Chairman*

Pentti Uusivirta

Ele Alenius

Harri Holkeri

Seppo Lindblom  
*Absent as Minister  
of Trade and Industry*

Esko Ollila  
*Absent as Minister  
of Finance*

Markku Puntila  
*Acting Member of the Board*

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## Directors

Markku Puntila

Eino Helenius

Pentti Koivikko

Sirkka Hämäläinen

Matti Vanhala

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## Senior officials

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*Secretary to the Board  
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*Internal Audit*

Ossi Leppänen  
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Ralf Pauli  
*Monetary Policy*

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*Exchange Control*

Johnny Åkerholm  
*Exchange Policy*

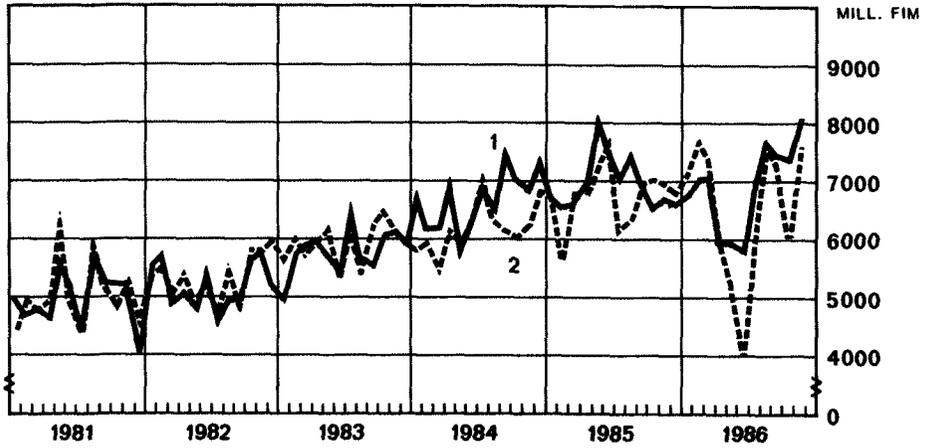
Kari Pekonen  
*Foreign Exchange*

Markus Fogelholm  
*Foreign Financing*

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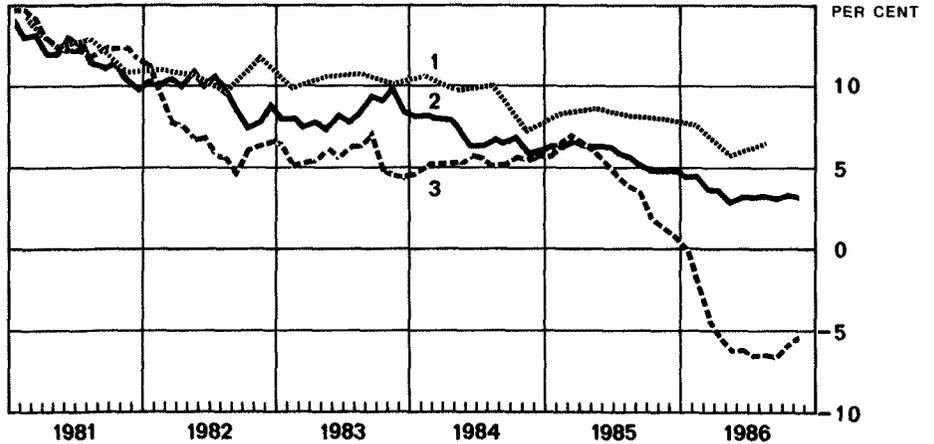
### FOREIGN TRADE, 1981-86

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



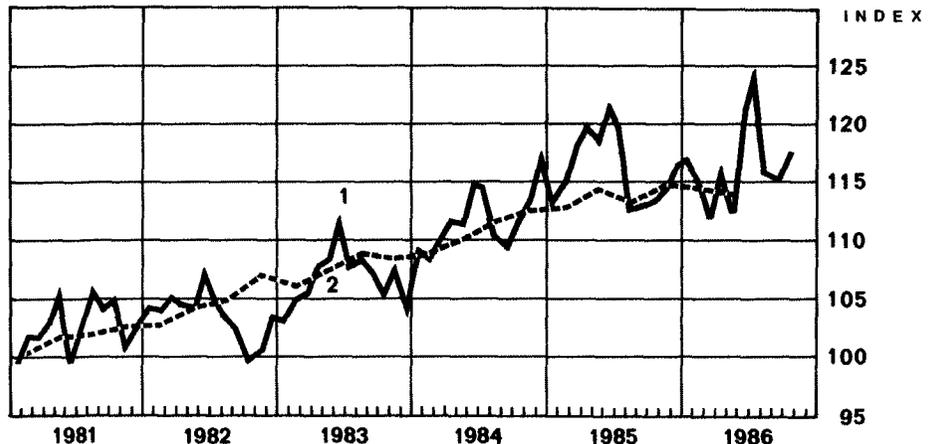
### PRICES AND WAGES, 1981-86

1. Index of wage and salary earnings 1980 = 100, quarterly figures
  2. Consumer price index 1981 = 100, monthly figures
  3. Basic price index for domestic supply 1980 = 100, monthly figures
- Percentage change on previous year



### PRODUCTION, 1981-86

1. Total index of industrial production 1980 = 100, seasonally adjusted monthly figures
2. Volume index of gross domestic product 1980 = 100, seasonally adjusted quarterly figures



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