



BANK OF FINLAND

Monthly Bulletin

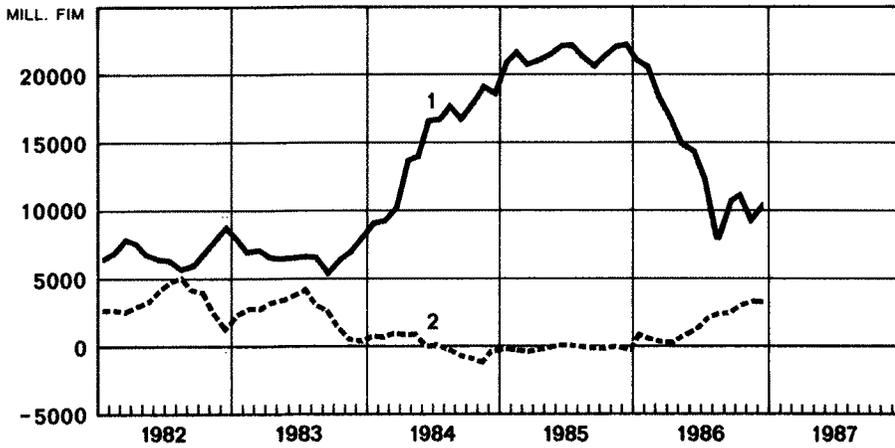
Recent developments in trade between
Finland and the Soviet Union

Trends in Finnish financial market legisla-
tion

Monetary and foreign exchange policy
measures from March 1986 to
February 1987

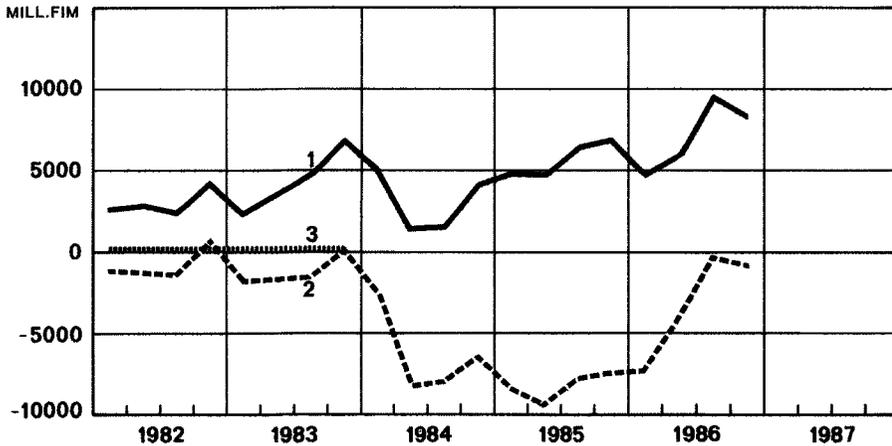
Publication of the Bank of Finland

BANK OF FINLAND'S CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, 1982-87



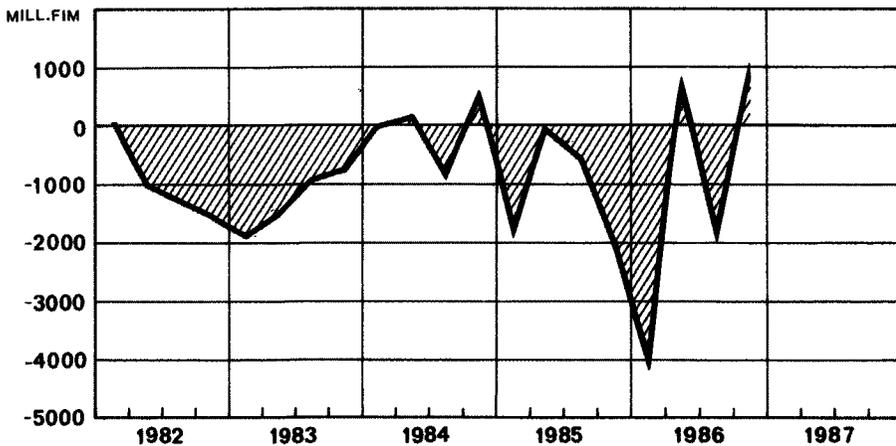
- 1. Gold and convertible currencies
- 2. Tied currencies

DEPOSIT BANKS' CENTRAL BANK POSITION, 1982-87



- 1. Gross central bank debt
 - 2. Net central bank debt
 - 3. Quotas
- Quarterly average of daily amounts (1 and 2)

BALANCE OF PAYMENTS CURRENT ACCOUNT SURPLUS/DEFICIT, 1982-87



Seasonally adjusted quarterly figures

RECENT DEVELOPMENTS IN TRADE BETWEEN FINLAND AND THE SOVIET UNION

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BACKGROUND

Trade between Finland and the Soviet Union is almost entirely bilateral and based on reciprocal trade agreements. Payments between the two countries are effected through rouble-denominated clearing accounts held with the Bank of Finland and the Bank for Foreign Trade of the U.S.S.R. The primary aim is to keep the accounts in balance by regulating flows of goods. The main outlines of trade over the medium term are set down in framework agreements concluded at intervals of five years. The level of trade in any particular year is agreed on in negotiations on the exchange of goods undertaken in the autumn of the preceding year.

The level of trade between Finland and the Soviet Union reached a record high at the beginning of the 1980s. The growth in the value of imports was due to the sharp increase in the price of crude oil at the end of the 1970s; crude oil and other energy products account for the vast bulk of Finland's imports. Another factor contributing to the growth in the value of imports was the rise in the international value of the US dollar, which is used as the pricing currency for oil imports

CHART 1. VOLUME OF TRADE BETWEEN FINLAND AND THE SOVIET UNION IN 1971-1986, 1980 = 100

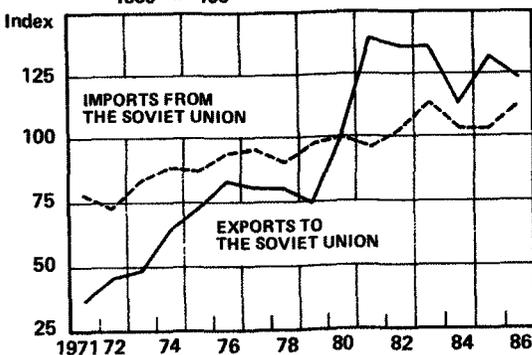
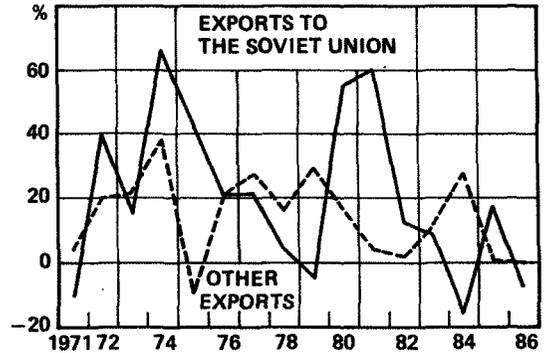


CHART 2. CHANGES IN FINNISH EXPORTS IN 1971-1986, PERCENTAGE CHANGE FROM PREVIOUS YEAR



from the Soviet Union. Owing to the clearing payments system, the increase in Finnish imports quickly led to an increase in exports to the Soviet Union in the years 1980-83 (Chart 1).

As a result of the rapid increase in imports and exports, the share of trade with the Soviet Union in Finland's total foreign trade increased from an average of 16 per cent in the 1970s to 24 per cent at the beginning of the 1980s.

Fluctuations in trade and payment flows between Finland and the Soviet Union have been more marked in the 1980s than earlier (Chart 2). The fluctuations in bilateral trade have evened out those in Finland's western exports, thereby promoting the balanced growth of the economy. They have, however, caused adjustment problems in those sectors of the economy which are heavily dependent on bilateral trade. Moreover, Finland has tended to accumulate protracted and increasingly large surpluses on the clearing account, since it has not been possible to adjust exports quickly enough to circumstances in which, for instance, the value of imports has not risen sufficiently because of the decline in the price of crude oil or in the exchange rate of the dollar.

The trading partners have had to make intensive efforts to remove the imbalances. Primarily, they have sought to diversify the structure of trade, especially that of imports. To complement traditional trade, new forms of trade have been devised, of which mention can be made of industrial cooperation and the compensation arrangements and joint ventures currently being developed.

FINANCIAL OPERATIONS

The aim of simultaneously maintaining both a high level of trade and balance in the bilateral clearing account has resulted in the growth of financial transactions in trade between the two countries in the 1980s. Apart from special account arrangements, these have included oil trading deals and changes in the method of payment for exports of ships.

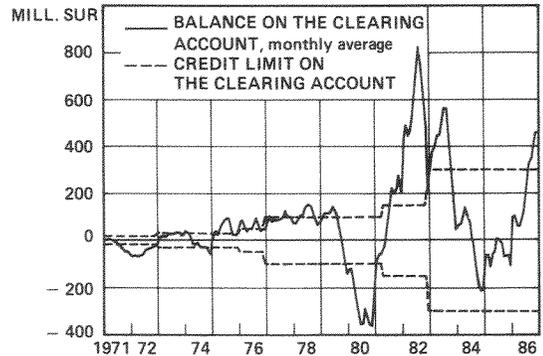
Trading deals differ from the other measures in that they create scope for a corresponding increase in exports. By contrast, special account arrangements and changes in the payments practice for ships allow time for the adjustment of exports, but they do not offer any opportunity for additional exports.

When Finland's credit balance on the clearing account rose to a record level of SUR 800 million (FIM 5.3 billion) in 1982, it was agreed at the end of that year to transfer SUR 300 million (FIM 2.2 billion) from the normal bilateral clearing account, which is interest-free, to a special interest-bearing account. By this means, it was possible to lower Finland's outstanding claim on the main clearing account below the credit limit, which had been raised to SUR 300 million. The credit granted to the Soviet Union was repaid during 1984, thus reducing the scope for exports by an equivalent amount (Chart 3).

In 1982–84, Finland's credit balance was also reduced by trading deals under which the Soviet Union supplied Finland with a total of more than 4 million tonnes of crude oil for resale to third countries and in world oil markets. The Soviet Union was paid for the oil

through the clearing account, while Finland's earnings from the resale were in convertible currencies. As a result of this measure, Finland's clearing account surplus diminished by SUR 760 million (FIM 5.5 billion), increasing the level of Finnish exports by the same amount. Third-party trading was resumed at the end of 1986.

CHART 3. THE BALANCE ON THE CLEARING ACCOUNT BETWEEN FINLAND AND THE SOVIET UNION AND THE CREDIT LIMIT IN 1971–1986



In the spring of 1984, the payments practice applied in connection with deliveries of vessels to the Soviet Union was altered so that the Soviet Union was to pay three quarters of the price at the time of delivery and one quarter prior to delivery; previously, the Soviet Union had paid three quarters of the price prior to delivery. The change in the payments practice slowed the growth of the clearing account surplus in the middle of the decade. At the beginning of 1987, the payments practice was further amended so that ships were to be paid for in full only on delivery.

With the collapse of the oil price at the beginning of 1986, Finland's surplus started to grow at a rapid pace. To finance the outstanding credit balance, negotiations began on the setting up of a new special account. As a result of the negotiations, it was agreed to transfer the balance in excess of the credit limit of SUR 300 million (FIM 2.1 billion) to a special interest-bearing account denominated in rou-

(continued on page 37)

	1986		1987			
	Jan. 31	Dec. 31	Jan. 8	Jan. 15	Jan. 23	Jan. 30
Assets						
Gold and foreign currency claims	22 383	14 088	14 503	14 463	15 814	17 358
Gold	2 081	2 081	2 081	2 081	2 081	2 081
Special drawing rights	930	983	978	968	964	961
IMF reserve tranche	786	794	789	782	778	776
Convertible currencies	17 388	6 795	6 624	6 699	7 873	9 386
Tied currencies	1 198	3 435	4 031	3 933	4 118	4 154
Other foreign claims	2 633	2 585	2 585	2 585	2 585	2 585
Markka subscription to Finland's IMF quota	2 633	2 585	2 585	2 585	2 585	2 585
Claims on financial institutions	5 601	14 074	12 291	12 163	11 647	9 493
Banks' cheque accounts	—	—	—	—	—	—
Call money credits	1 852	6 818	4 469	3 965	2 860	428
Term assets	—	2 381	3 029	3 521	3 931	4 266
Till-money credits	1 558	2 305	2 227	2 156	2 290	2 231
Bonds	2 119	2 111	2 110	2 074	2 119	2 119
Other claims on financial institutions	72	459	456	447	447	449
Claims on the public sector	1 036	1 002	1 002	1 002	1 003	1 001
Bonds	132	59	59	59	59	58
Total coinage	896	935	935	935	937	939
Other claims on the public sector	8	8	8	8	7	4
Claims on corporations	4 805	4 844	4 741	4 702	4 655	4 618
Financing of exports	1 673	1 749	1 688	1 659	1 610	1 575
Financing of domestic deliveries	2 981	2 833	2 793	2 784	2 786	2 785
Bonds	79	65	63	63	63	63
Other claims on corporations	72	197	197	196	196	195
Other assets	147	149	148	150	150	151
Total	36 605	36 742	35 270	35 065	35 854	35 206
Liabilities						
Foreign currency liabilities	143	31	87	92	66	69
Convertible currencies	35	17	66	67	39	42
Tied currencies	108	14	21	25	27	27
Other foreign liabilities	3 482	3 423	3 419	3 411	3 407	3 405
IMF markka accounts	2 634	2 585	2 585	2 585	2 585	2 585
Allocations of special drawing rights	848	838	834	826	822	820
Notes and coin in circulation	7 455	8 667	8 357	8 392	9 219	8 851
Notes	6 710	7 856	7 552	7 591	8 420	8 053
Coin	745	811	805	801	799	798
Liabilities to financial institutions	12 299	9 729	9 605	9 585	9 591	10 451
Banks' cheque accounts	0	0	1	1	0	0
Call money deposits	1 734	131	3	1	15	798
Cash reserve deposits	9 828	9 270	9 270	9 270	9 270	9 353
Capital import deposits	631	254	254	244	242	240
Other liabilities to financial institutions	106	74	77	69	64	60
Liabilities to the public sector	1 014	2 001	1 001	1 000	1 000	1
Cheque accounts	1	1	1	0	0	1
Government deposit account	1 000	2 000	1 000	1 000	1 000	—
Capital import deposits	—	—	—	—	—	—
Other liabilities to the public sector	13	0	0	0	0	0
Liabilities to corporations	4 585	5 019	5 000	4 983	5 006	4 943
Deposits for investment and ship purchase	3 832	4 671	4 655	4 638	4 586	4 606
Capital import deposits	750	336	336	337	337	333
Other liabilities to corporations	3	12	9	8	83	4
Other liabilities	15	23	23	17	16	17
Valuation account and reserves	1 728	1 920	1 849	1 656	1 620	1 540
SITRA's capital	400	400	400	400	400	400
Capital accounts	5 484	5 529	5 529	5 529	5 529	5 529
Primary capital	5 000	5 000	5 000	5 000	5 000	5 000
Reserve fund	484	485	529	529	529	529
Undisposed profits	—	—	—	—	—	—
Net earnings	—	44	—	—	—	—
Total	36 605	36 742	35 270	35 065	35 854	35 206

BANK OF FINLAND

Mill. FIM

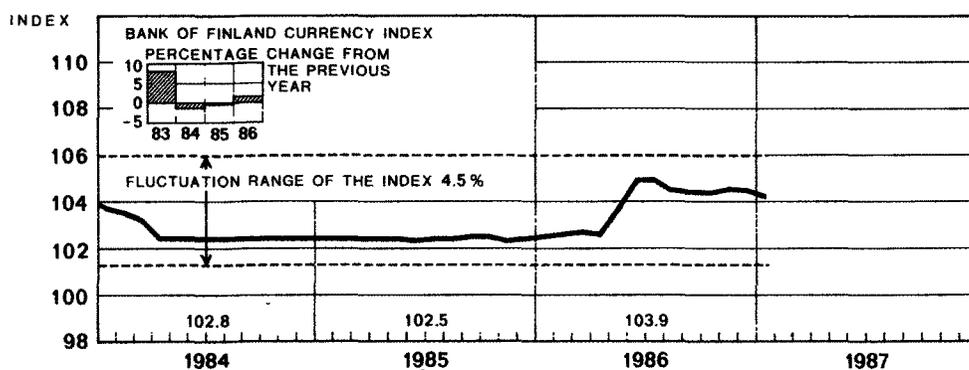
End of year or month	Foreign sector						Public sector			
	Gold SDRs, IMF reserve tranche	Convertible currencies, net	Total convertible reserves (1+2)	Tied currencies, net	Other claims, net	Net claims (3 to 5)	Claims	Government deposit account	Other liabilities	Net liabilities (8-7+9)
	1	2	3	4	5	6	7	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
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
1987										
Jan.	3 818	9 344	13 162	4 127	-820	16 469	1 001	-	1	-1 000

OFFICIAL FOREIGN EXCHANGE RESERVES

Mill. FIM

	Dec. 31, 1985	Oct. 31, 1986	Nov. 28, 1986	Dec. 31, 1986	Jan. 30, 1987
Gold	2 081	2 081	2 081	2 081	2 081
SDRs	931	983	989	983	961
IMF reserve tranche	775	801	799	794	776
Convertible currencies, net	18 572	7 490	5 713	6 778	9 344
Total convertible reserves, net	22 359	11 355	9 582	10 636	13 162
Tied currencies, net	-285	3 225	3 497	3 421	4 127
Total reserves, net	22 074	14 580	13 097	14 057	17 289

End of year or month	Domestic financial sector						Corporate sector				Notes and coin in circulation
	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)	
	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
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
1987											
Jan.	2 231	4 266	428	798	9 353	-2 268	-958	4 360	4 685	-325	8 851



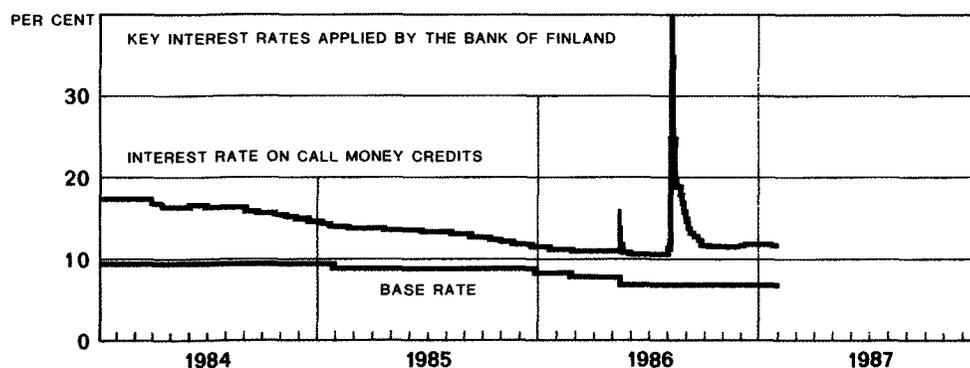
MONETARY POLICY INDICATORS

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 ¹ %	Average lending rate of the commercial banks ² %
	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 ³	7.42	9.08
1985									
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	8.81
1987									
Jan.	7 106	-2 248	9 275	4.7	3 594	11.99	12.25	7.00	..

¹ End of period for monthly figures.

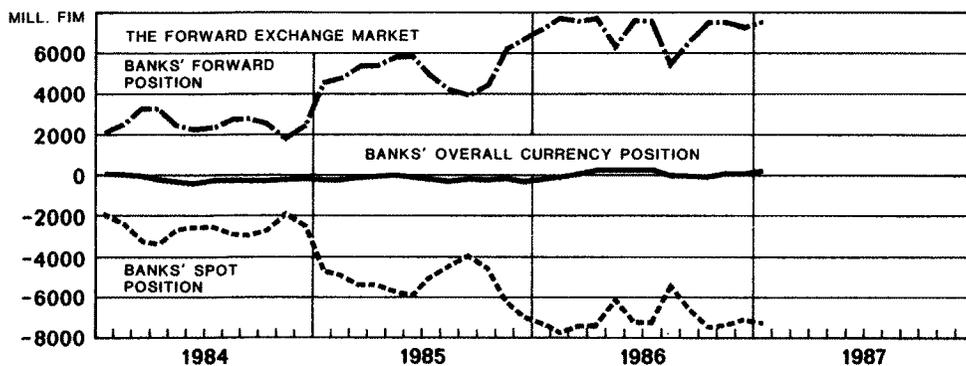
² End of period.

³ Dec. 1986 figure.



FORWARD EXCHANGE MARKETS IN FINLAND

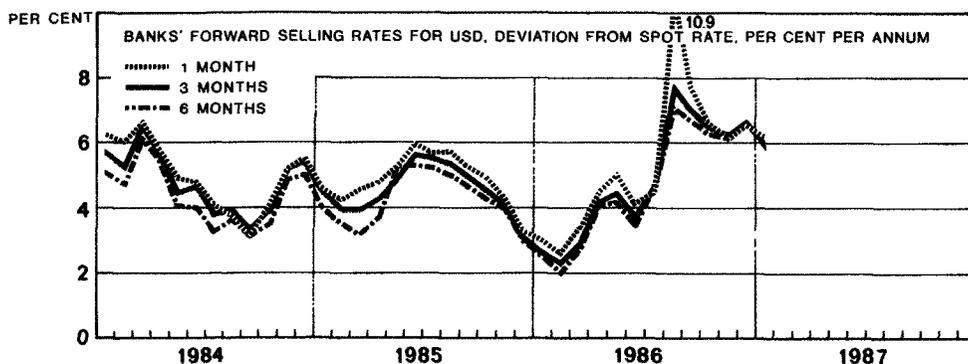
Period	Banks' forward positions in mill. FIM with						Banks' forward selling rates for USD		
	Domestic firms			Foreign banks	Bank of Finland	Overall	Deviation from spot rate, per cent per annum		
	Assets	Liabilities	Net	Net	Net	Net	1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
1985	16 982	1 733	15 249	708	-9 005	6 876	3.3	3.2	3.1
1986	11 446	1 319	10 127	-2 461	-92	7 591	6.6	6.7	6.7
1985									
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
Dec.	11 446	1 319	10 127	-2 461	-92	7 591	6.6	6.7	6.7



FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange. FIM

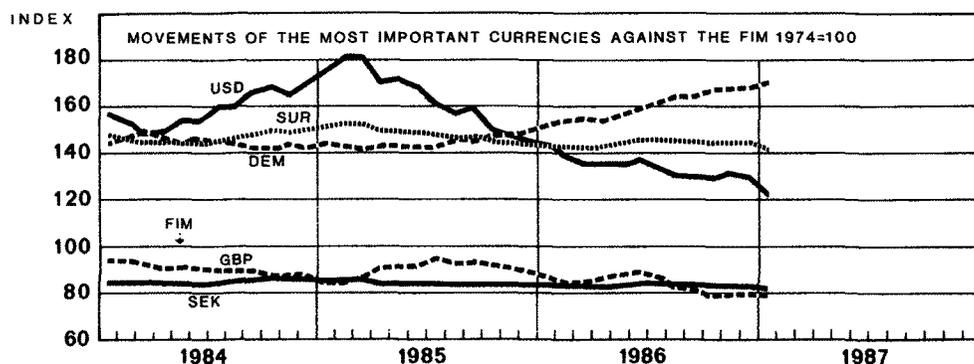
Period	New York 1 US \$ USD	Montreal 1 C \$ CAD	London 1 £ GBP	Dublin 1 Ir£ IEP	Stockholm 1 Skr SEK	Oslo 1 Nkr NOK	Copenhagen 1 Dkr DKK	Frankfurt 1 DM DEM	Amsterdam 1 Hfl NLG	Brussels 1 FB BEC	BEL	Zurich 1 Sfr CHF
	1	2	3	4	5	6	7	8	9	10	11	12
1982	4.820	3.913	8.423	6.854	0.7703	0.7484	0.5793	1.9876	1.8066	0.10584	0.09859	2.3779
1983	5.570	4.524	8.456	6.957	0.7275	0.7644	0.6107	2.1861	1.9566	0.10934	0.10742	2.6570
1984	6.010	4.645	8.023	6.533	0.7277	0.7384	0.5816	2.1165	1.8772	0.10428	0.10274	2.5642
1985	6.206	4.554	8.000	6.590	0.7222	0.7231	0.5871	2.1142	1.8745	0.10483	0.10421	2.5360
1986	5.078	3.659	7.459	6.816	0.7138	0.6882	0.6290	2.3454	2.0789	0.11399	0.11299	2.8349
1985												
Dec.	5.487	3.941	7.952	6.737	0.7157	0.7185	0.6023	2.1851	1.9403	0.10722	0.10666	2.6101
1986												
Jan.	5.419	3.860	7.747	6.772	0.7149	0.7190	0.6064	2.2215	1.9711	0.10875	0.10733	2.6242
Feb.	5.258	3.748	7.513	6.827	0.7114	0.7227	0.6115	2.2539	1.9950	0.11018	0.10904	2.6908
March	5.131	3.659	7.531	6.868	0.7101	0.7207	0.6143	2.2689	2.0097	0.11087	0.10962	2.6937
April	5.128	3.700	7.682	6.853	0.7092	0.7180	0.6117	2.2564	2.0020	0.11066	0.10970	2.6968
May	5.105	3.717	7.774	6.985	0.7157	0.6898	0.6201	2.2935	2.0369	0.11237	0.11168	2.7583
June	5.195	3.745	7.840	7.055	0.7217	0.6834	0.6277	2.3254	2.0654	0.11389	0.11307	2.8220
July	5.074	3.681	7.671	7.067	0.7193	0.6803	0.6306	2.3578	2.0925	0.11460	0.11372	2.9080
Aug.	4.940	3.564	7.356	6.665	0.7141	0.6731	0.6372	2.3966	2.1256	0.11580	0.11465	2.9748
Sept.	4.918	3.552	7.256	6.632	0.7127	0.6717	0.6377	2.4114	2.1360	0.11646	0.11525	2.9772
Oct.	4.896	3.532	7.005	6.669	0.7126	0.6674	0.6489	2.4446	2.1631	0.11780	0.11692	2.9852
Nov.	4.959	3.583	7.072	6.685	0.7133	0.6599	0.6495	2.4500	2.1685	0.11795	0.11725	2.9435
Dec.	4.907	3.562	7.055	6.712	0.7111	0.6529	0.6523	2.4649	2.1809	0.11853	0.11760	2.9443
1987												
Jan.	4.641	3.413	6.998	6.685	0.7031	0.6485	0.6590	2.4988	2.2148	0.12042	0.11854	2.9774



Average selling rates for foreign exchange. FIM

Paris 1 FF FRF	Rome 1 Lit ITL	Vienna 1 OS ATS	Lisbon 1 Esc PTE	Reykjavik 1 lkr ISK	Madrid 1 Ptas ESB	Tokyo 1 Y JPY	Moscow 1 C! Rbl SUR	Melbourne 1 A \$ AUD	1 European currency unit XEU	1 special drawing right SDR	Currency index ¹
13	14	15	16	17	18	19	20	21	22	23	24
0.7365	0.00358	0.2831	0.0613	0.4079	0.0441	0.01943	6.624	..	..	5.305 63	115.9
0.7353	0.00369	0.3111	0.0514	0.2325	0.0391	0.02351	7.491	..	..	5.943 25	125.1
0.6907	0.00344	0.3013	0.0414	0.1939	0.0375	0.02534	7.357	..	..	6.147 39	102.8
0.6940	0.00327	0.3012	0.0367	0.1520	0.0366	0.02610	7.419	..	..	6.278 79	102.5
0.7355	0.00343	0.3339	0.0343	0.1259	0.0364	0.03028	7.228	..	..	5.944 32	103.9
0.7157	0.00322	0.3112	0.0348	0.1336	0.0354	0.02710	7.183	..	..	5.971 01	102.5
0.7255	0.00327	0.3163	0.0349	0.1303	0.0356	0.02712	7.164	..	..	5.940 24	102.6
0.7358	0.00332	0.3210	0.0350	0.1280	0.0359	0.02850	7.161	..	..	5.926 58	102.7
0.7391	0.00335	0.3236	0.0348	0.1267	0.0362	0.02876	7.131	..	..	5.888 85	102.8
0.7133	0.00331	0.3217	0.0346	0.1261	0.0358	0.02931	7.148	..	..	5.886 47	102.7
0.7213	0.00335	0.3265	0.0346	0.1274	0.0362	0.03062	7.230	..	..	5.954 02	103.8
0.7311	0.00340	0.3312	0.0347	0.1281	0.0365	0.03099	7.301	..	..	6.039 58	105.0
0.7342	0.00345	0.3355	0.0345	0.1258	0.0370	0.03201	7.313	..	..	6.024 88	105.0
0.7368	0.00350	0.3409	0.0341	0.1240	0.0369	0.03209	7.278	..	..	5.960 80	104.5
0.7379	0.00351	0.3431	0.0339	0.1238	0.0368	0.03182	7.255	..	..	5.943 98	104.5
0.7481	0.00355	0.3481	0.0337	0.1236	0.0369	0.03139	7.252	..	..	5.922 50	104.5
0.7506	0.00355	0.3483	0.0335	0.1243	0.0366	0.03049	7.263	..	..	5.933 16	104.6
0.7524	0.00357	0.3505	0.0333	0.1231	0.0366	0.03025	7.242	..	..	5.910 76	104.6
0.7512	0.00354	0.3553	0.0329	0.1190	0.0360	0.03004	7.107	3.084	5.156	5.795 56	104.3

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



DEPOSITS BY THE PUBLIC

Mill. FIM

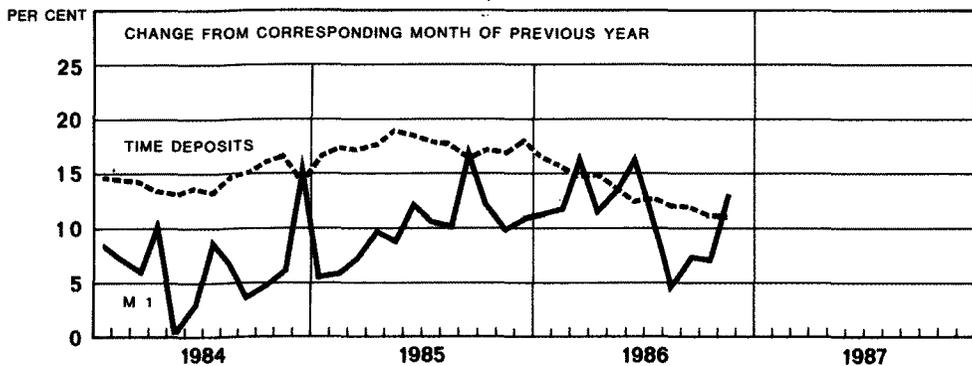
End of year and month	Demand deposits				Time deposits					Total (4 + 9)
	Commer- cial banks	Savings banks & Co-op. banks	Posti- pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Posti- pankki	All deposit banks (5 to 8)	
	1	2	3	4	5	6	7	8	9	10
1982	7 155	3 874	3 049	14 078	29 465	25 883	21 040	8 665	85 054	99 132
1983	7 056	4 567	3 676	15 300	34 302	29 273	24 175	9 938	97 689	112 988
1984	8 470	5 268	4 463	18 201	39 354	33 333	27 900	11 266	111 852	130 053
1985*	9 382	5 988	5 027	20 397	49 240	38 167	32 133	12 671	132 210	152 607

1985*

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
Sept.	9 240	5 842	5 871	20 953	49 591	41 102	35 046	13 045	138 784	159 737



ADVANCES TO THE PUBLIC – MONEY SUPPLY

Mill. FIM

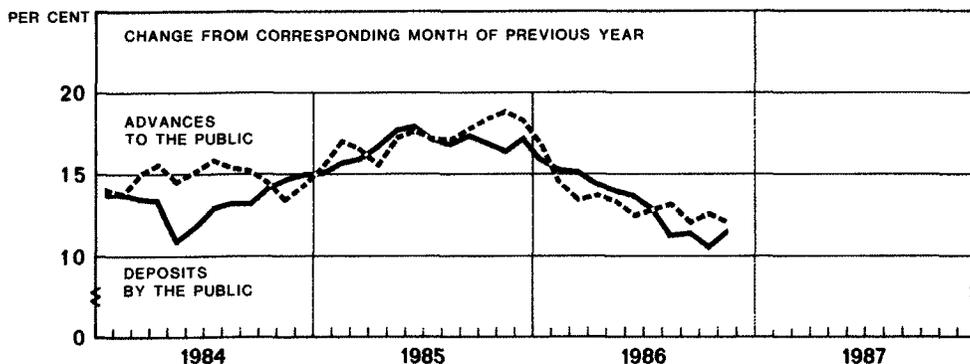
End of year and month	Advances granted by				Types of advances			Total (1 to 4) (5 to 7)	Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency		M ₁	M ₁ + Quasi-Money
	1	2	3	4	5	6	7		8	9	10
1982	48 620	25 682	23 601	12 684	93 014	3 468	14 105	110 587	19 917	107 549
1983	56 162	29 276	27 322	13 471	104 627	4 350	17 253	126 231	21 427	121 906
1984	65 965	32 705	31 164	14 687	118 924	5 233	20 363	144 520	24 945	141 658
1985*	81 669	36 991	35 751	16 745	140 139	6 313	24 704	171 155	27 694	166 652

1985*

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	184 479	26 030	172 484
Sept.	86 148	40 864	39 542	19 607	154 570	7 771	23 819	186 160	28 064	174 666



STATE FINANCES

Mill. FIM

Revenue	Jan.-Oct.		Expenditure	Jan.-Oct.	
	1985	1986		1985	1986
Income and wealth tax (net)	19 838	22 348	Wages, salaries, pensions etc.	12 132	12 851
Gross receipts	54 113	49 064	Repair and maintenance	1 565	1 602
Refunds & local authorities	-34 274	-26 716	Other consumption expenditure	7 081	7 243
Other taxes on income and wealth	514	435	Total consumption expenditure	20 778	21 695
Employers' child allowance payments	610	4	State aid to local authorities	17 520	19 023
Sales tax	20 127	21 919	State aid to industries	7 940	8 346
of which: agric. price subsidies			of which: agric. price subsidies	4 173	3 928
Customs duties and import charges and levies	1 328	1 403	Child allowances	1 838	1 292
Excise duties	9 726	10 926	Share in national pensions and sickness insurance schemes	1 918	1 428
Excise duty on alcoholic bevcs.	3 454	3 803	Deficit of State enterprises	1 017	1 150
Excise duty on tobacco	1 390	1 581	Other transfer expenditure	10 197	11 389
Excise duty on liquid fuel	3 390	3 831	Total transfer expenditure	40 430	42 628
Other excise duties	1 492	1 710	Machinery and equipment	1 633	1 953
Tax on autom. and motor-cycles	2 322	2 795	Construction of buildings	925	784
Stamp duties	2 174	2 727	Land and waterway construction	1 938	2 093
Special diesel etc. vehicles tax	346	385	Total real investment	4 496	4 830
Other taxes and similar revenue	1 766	1 703	Interest on State debt	4 065	4 205
Total taxes	58 751	64 645	Other expenditure	25	17
Miscellaneous revenue	4 798	5 801	Total other expenditure	4 091	4 222
Interest, dividends etc.	1 700	2 102	Increase in inventories	141	240
Surplus of state enterprises	1 687	1 956	Lending	3 455	3 272
Redemptions of loans granted	1 323	1 554	Other financial investment	767	693
Total revenue	68 259	76 057	Total expenditure	74 158	77 581
Foreign borrowing	3 374	5 037	Redemption of foreign loans	1 288	5 241
Domestic borrowing	6 283	7 288	Redemption of domestic loans	4 634	4 016
Total borrowing	9 656	12 325	Total redemptions	5 922	9 257
Deficit (+) or surplus (-)	2 165	-1 544			
Total	80 080	86 837	Total	80 080	86 837

State debt	1984	1985	1986			
	Dec.	Dec.	Sept.	Oct.	Nov.	Dec.
Foreign debt	24 946	25 677	26 922	26 540	25 919	26 981
Long-term debt	19 057	20 872	23 048	23 836	23 955	24 602
Short-term credit	266	432	383	384	386	411
Domestic debt	19 323	21 304	23 431	24 220	24 341	25 013
Total State debt	44 269	46 981	50 353	50 760	50 260	51 994
Total debt mill. \$	6 855	8 562	10 238	10 368	10 135	10 597

FOREIGN TRADE

Mill. FIM

Value, 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

1986*

Jan.	6 792	7 466	-674
Feb.	6 923	6 309	+614
March	6 309	6 970	-661
April	6 451	6 794	-343
May	6 306	5 141	+1 165
June	5 561	3 931	+1 630
July	6 996	6 629	+367
Aug.	6 477	6 476	+1
Sept.	7 761	7 686	+75
Oct.	7 932	6 600	+1 332
Nov.	7 605	6 766	+839

Jan.-Nov.

1985	77 472	74 509	+2 963
1986*	75 113	70 768	+4 345

Indices of exports and imports
1980 = 100

Period	Indices of exports and imports 1980 = 100				Terms of trade
	Volume		Unit value		
	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

1984

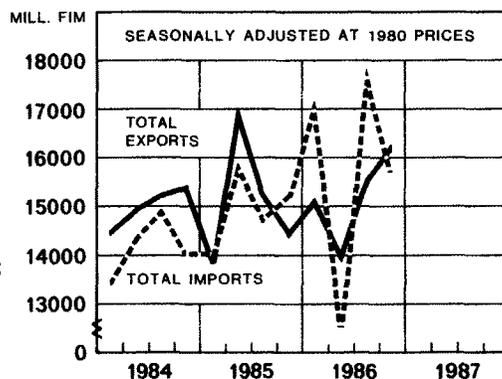
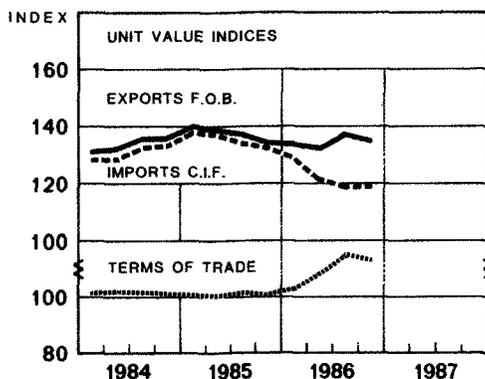
July-Sept.	108	99	137	133	102
Oct.-Dec.	121	101	137	134	102

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

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

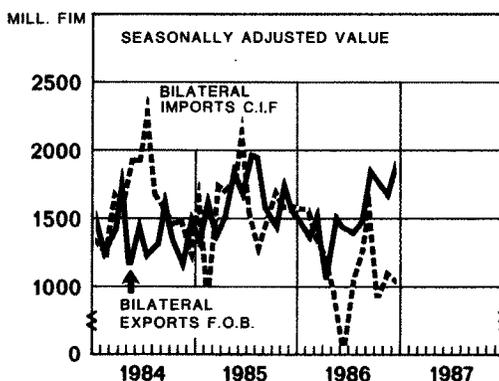
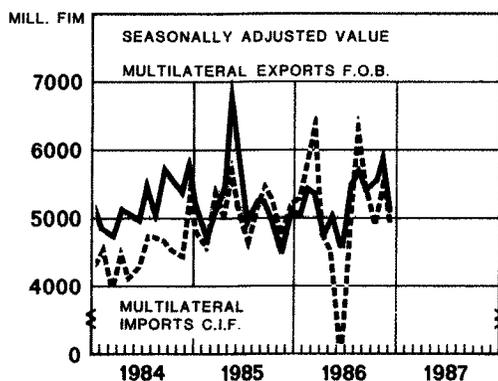
Period	Exports, f.o.b.					Imports, c.i.f.				
	Agricultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Raw materials and intermediate goods	Fuels and lubricants	Finished goods		Other goods
								Investment goods	Consumer 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	4 868	474	1 038	1 080	6
Feb.	350	486	1 829	1 940	2 318	3 728	316	887	1 370	8
March	319	516	1 799	1 704	1 970	4 033	218	1 192	1 504	24
April	145	583	2 051	2 103	1 568	3 868	389	1 098	1 418	22
May	128	494	1 804	2 338	1 542	3 122	231	780	990	18
June	142	506	2 012	1 411	1 490	2 344	166	681	738	2
July	263	637	2 307	2 068	1 721	3 729	425	1 227	1 240	6
Aug.	236	546	2 072	1 820	1 803	3 560	421	1 050	1 421	25
Sept.	125	607	2 245	2 730	2 054	4 578	412	1 198	1 482	16
Oct.	155	703	2 444	2 392	2 238	3 770	337	1 124	1 275	94
Nov.	163	755	2 192	2 443	2 053	3 877	315	1 196	1 368	9

Jan.-Nov.

1985	2 550	6 190	23 231	22 298	23 201	46 405	5 061	10 647	11 970	425
1986*	2 300	6 321	22 600	23 150	20 732	41 478	3 703	11 470	13 887	231



FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January–November				January–November			
	1985		1986*		1985		1986*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
OECD countries in Europe	57.0	44 149	61.4	46 083	56.2	41 791	62.1	43 951
Austria	0.7	549	0.9	709	1.2	877	1.3	932
Belgium and Luxembourg	1.5	1 139	1.7	1 272	2.0	1 505	2.4	1 732
Denmark	4.0	3 108	4.1	3 056	2.5	1 871	2.8	1 992
France	3.9	3 036	4.5	3 364	3.4	2 525	4.2	2 967
Federal Republic of Germany	9.3	7 204	9.8	7 354	15.0	11 164	17.0	12 030
Italy	2.0	1 541	2.1	1 565	3.3	2 493	4.3	3 008
Netherlands	3.3	2 544	3.5	2 657	3.0	2 214	3.0	2 156
Norway	4.2	3 258	4.6	3 487	2.5	1 824	2.2	1 568
Portugal	0.3	240	0.3	190	0.7	541	0.9	622
Spain	0.8	620	1.1	794	1.0	733	1.1	789
Sweden	13.1	10 174	14.9	11 173	11.8	8 763	13.4	9 513
Switzerland	1.5	1 132	1.7	1 247	1.7	1 231	2.0	1 423
United Kingdom	10.9	8 436	10.7	8 025	7.3	5 433	6.6	4 646
Other	1.5	1 169	1.6	1 189	0.8	618	0.8	573
OECD countries outside Europe	10.0	7 768	9.3	6 967	11.7	8 716	12.3	8 723
Canada	1.2	928	1.1	837	0.7	535	0.5	378
Japan	1.5	1 117	1.5	1 119	5.3	3 926	6.6	4 662
United States	6.3	4 848	5.5	4 160	5.3	3 982	4.8	3 406
Other	1.1	875	1.1	851	0.4	273	0.4	277
CMEA countries	23.5	18 122	21.3	16 030	24.2	17 996	18.4	12 986
Czechoslovakia	0.3	263	0.4	281	0.5	344	0.5	362
German Democratic Republic	0.5	366	0.4	274	0.5	365	0.6	405
Poland	0.4	303	0.3	215	1.5	1 137	1.3	890
Soviet Union	21.5	16 623	19.7	14 764	21.1	15 719	15.4	10 884
Other	0.7	566	0.6	495	0.6	431	0.6	445
Latin America	1.7	1 340	1.5	1 143	2.4	1 764	2.5	1 748
Argentina	0.1	60	0.1	71	0.1	107	0.1	103
Brazil	0.2	134	0.2	165	0.8	577	0.7	479
Colombia	0.2	115	0.1	81	0.6	448	0.8	581
Other	1.3	1 031	1.1	826	0.8	632	0.8	585
Other	7.9	6 093	6.5	4 890	5.7	4 242	4.7	3 360
GRAND TOTAL	100.0	77 472	100.0	75 113	100.0	74 509	100.0	70 768
of which								
EFTA countries	20.0	15 228	22.3	16 744	17.2	12 803	19.1	13 529
EEC countries	37.0	28 650	38.7	29 039	38.8	28 924	42.9	30 359
OECD countries	67.0	51 917	70.6	53 050	67.8	50 507	74.4	52 674

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- requred transfers, net	Other, net	Current account (7 to 10)
	1	2	3	4	5	6	7	8	9	10	11
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*	83 731	82 025	+1 706	+3 662	-1 771	-558	+3 038	-6 247	-1 096	-395	-4 700
1986*	82 450	77 850	+4 600	+2 850	-2 350	-500	+4 600	-7 000	-1 500	-300	-4 200

1984

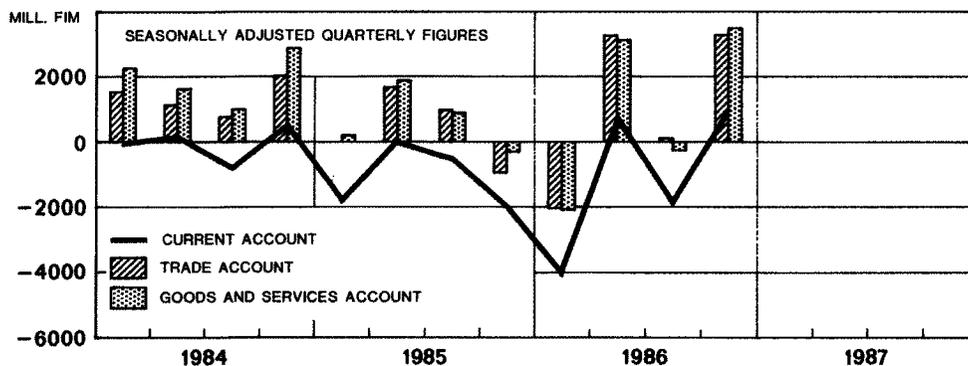
Jan.-March	19 678	17 069	+2 609	+1 018	-370	-60	+3 197	-2 010	-284	-60	+843
Apr.-June	19 700	18 852	+849	+1 009	-326	-174	+1 357	-1 225	-202	-39	-108
July-Sept.	19 395	19 330	+65	+1 144	-123	-265	+820	-1 593	-279	-46	-1 098
Oct.-Dec.	21 834	19 877	+1 958	-837	-392	+194	+2 597	-1 958	-285	-93	+261

1985*

Jan.-March	20 048	18 982	+1 066	+935	-529	-220	+1 252	-1 781	-349	-146	-1 025
Apr.-June	22 423	21 436	+987	+1 016	-473	-294	+1 237	-1 696	-270	-73	-802
July-Sept.	20 598	19 681	+917	+904	-295	-193	+1 334	-1 255	-219	-77	-217
Oct.-Dec.	20 661	21 926	-1 265	+807	-475	+149	-784	-1 515	-259	-99	-2 657

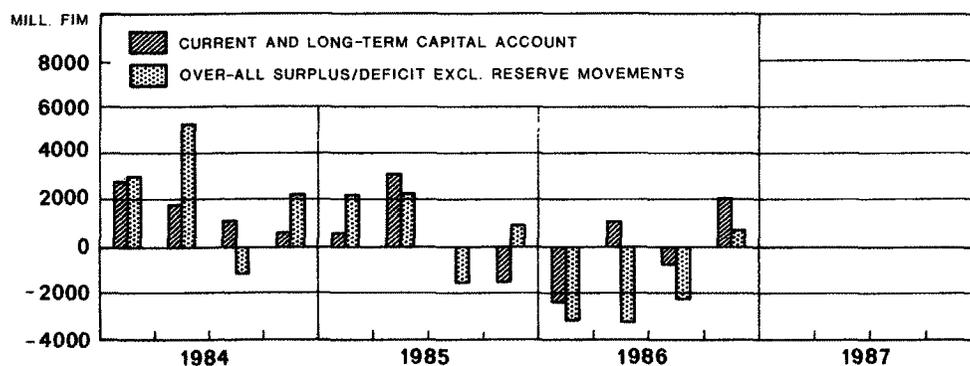
1986*

Jan.-March	19 981	20 875	-894	+734	-599	-159	-919	-1 610	-499	-131	-3 159
Apr.-June	18 285	15 995	+2 290	+656	-647	-121	+2 178	-1 954	-332	-98	-206
July-Sept.	21 198	20 870	+328	+696	-416	-178	+430	-1 424	-298	-62	-1 354
Oct.-Dec.	22 987	20 111	+2 876	+765	-687	-42	+2 911	-2 012	-371	-9	+519



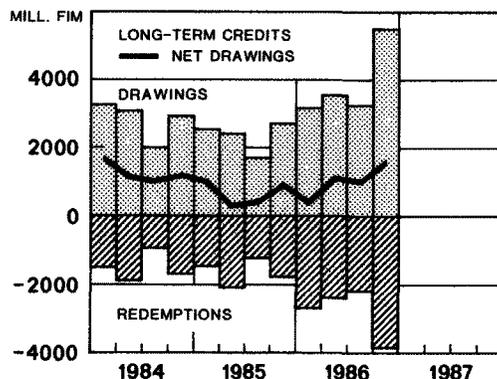
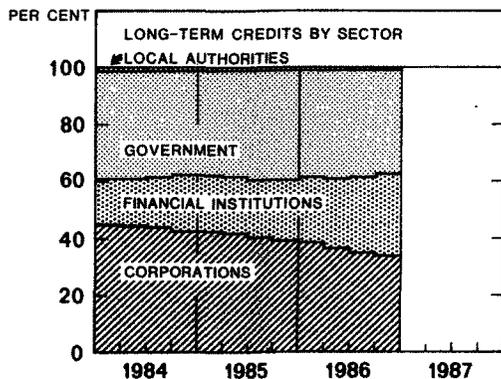
Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net	Long-term capital account (12 to 15)	Current and long-term capital account (11 + 16)	Prepayments and liabilities related to imports	Prepayments and receivables related to exports	Short-term capital of authorized banks, net	Miscellaneous, short-term capital items, incl. errors and omissions	Over-all surplus deficit excl. reserve movements (17 to 21)	Bank of Finland foreign exchange reserves
12	13	14	15	16	17	18	19	20	21	22	23
+10 112	-7 273	+423	-1 388	+1 874	-3 353	+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	+544	-3 177	+5 267	-984	+3 744	-3 744
+19 321	-13 930	+516	-1 756	+4 151	-49	+1 489	-70	-9 300	0	-7 930	+7 930
+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	+598	+573	-1 122	+2 208	-105	+2 153	-2 153
+3 023	-2 632	+354	+3 139	+3 884	+3 082	+841	-1 460	+1 911	-2 146	+2 228	-2 228
+2 139	-1 557	+263	-626	+219	+2	-47	-270	-1 400	+149	-1 566	+1 566
+3 535	-2 211	+386	-642	+1 068	-1 589	-823	-324	+2 548	+1 118	+930	-930
+3 954	-3 377	+245	-8	+814	-2 345	+1 783	-564	-3 085	+1 049	-3 162	+3 162
+4 434	-2 990	-97	-67	+1 280	+1 074	-1 061	-657	-2 589	-3	-3 236	+3 236
+4 701	-2 745	+191	-961	+1 186	-168	+914	+438	-3 996	+599	-2 213	+2 213
+6 232	-4 818	+177	-720	+871	+1 390	-147	+714	+370	-1 645	+681	-681

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

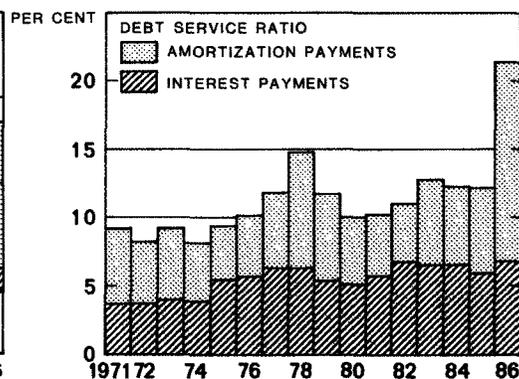
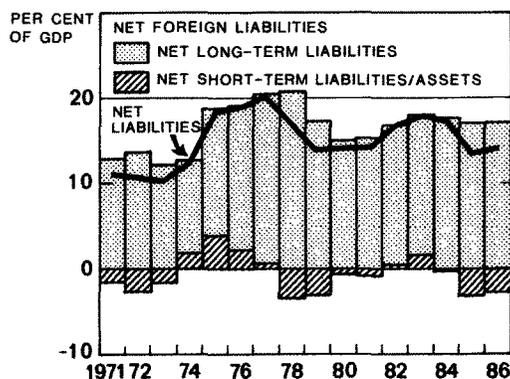


FINLAND'S FOREIGN ASSETS AND LIABILITIES

End of year and month	Long-term assets				Long-term liabilities						Net long-term liabilities (10-4)
	Export credits	Direct investment	Other	Total (1 to 3)	Financial loans	Import credits	Direct investment	Portfolio investment	Other	Total (5 to 9)	
	1	2	3	4	5	6	7	8	9	10	11
1983	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1984	8 920	8 689	1 915	19 524	63 958	3 865	2 905	2 013	805	73 546	54 022
1985*	6 539	10 524	2 774	19 837	63 228	2 893	3 274	6 313	895	76 603	56 766
1986*	5 523	13 630	3 225	22 378	68 976	2 072	4 791	6 959	953	83 751	61 373
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	8 473	9 942	2 061	20 476	64 484	3 651	2 899	2 900	778	74 712	54 236
June	8 027	10 379	2 177	20 583	64 801	3 318	3 058	6 317	873	78 367	57 784
Sept.	7 194	10 484	2 167	19 845	63 385	3 064	3 104	6 210	867	76 630	56 785
Dec.	6 539	10 524	2 774	19 837	63 228	2 893	3 274	6 313	895	76 603	56 766
1986*											
March	6 103	10 702	2 712	19 517	63 570	2 803	3 356	6 407	820	76 956	57 439
June	6 158	11 685	2 784	20 627	66 600	2 546	3 419	7 117	832	80 514	59 887
Sept.	5 865	12 609	3 119	21 593	67 670	2 487	3 685	6 911	906	81 659	60 066
Dec.	5 523	13 630	3 225	22 378	68 976	2 072	4 791	6 959	953	83 751	61 373



Short-term assets				Short-term liabilities				Net short-term liabilities (19-15)	Net liabilities (11+20)	Debt service flow	Of which amortization payments, flow
Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (12 to 14)	Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (16 to 18)				
12	13	14	15	16	17	18	19	20	21	22	23
11 842	29 263	15 915	57 020	5 705	39 443	16 181	61 328	4 308	49 116	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	38 775	18 155	82 113	4 070	51 374	16 103	71 547	-10 565	46 201	13 247	6 779
16 613	51 683	17 805	86 101	3 455	55 467	17 197	76 118	-9 983	51 390	22 669	15 462
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	18 402	82 323	-3 316	50 920	3 639	1 803
26 208	46 661	18 635	91 504	3 729	62 896	18 772	85 397	-6 106	51 678	3 763	2 011
24 770	44 927	18 183	87 880	4 240	59 370	17 880	81 490	-6 390	50 395	2 646	1 337
25 183	38 775	18 155	82 113	4 070	51 374	16 103	71 547	-10 565	46 201	3 199	1 628
21 647	40 424	18 037	80 109	3 659	50 424	17 392	71 475	-8 633	48 806	5 055	3 394
18 470	45 237	18 213	81 921	3 499	52 647	15 786	71 932	-9 988	49 899	5 295	3 308
16 168	51 576	18 143	85 887	3 565	54 990	17 018	75 573	-10 314	49 752	4 922	3 453
16 613	51 683	17 805	86 101	3 455	55 467	17 197	76 118	-9 983	51 390	7 397	5 307



PRICE INDICES

Period	Wholesale price index 1949 = 100	Basic price index for domestic supply 1980 = 100						Building costs 1980 = 100		
		Total	Origin		Purpose			Total	Wages in building trade	Building materials
			Domestic goods	Imported goods	Raw materials	Consumer goods	Investment goods			
	1	2	3	4	5	6	7	8	9	10
1985	1 324	140.5	143.1	132.8	137.5	145.8	142.4	144.3	144.4	142.8
1986	1 264	133.2	139.8	113.1	122.3	145.7	148.0	150.6	154.1	148.3
1986										
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
Dec.	1 256	131.9	138.8	110.9	119.5	144.9	149.8	152.3	156.2	150.2

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
1985	134.6	139.1	140.3	126.1	130.9	129.7	155.7	130.4	132.5	140.4
1986	139.4	144.2	146.4	131.6	134.5	135.0	164.1	130.7	139.9	149.0
1986										
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
Dec.	140.8	144.5	147.5	135.2	134.3	137.0	167.1	132.4	143.3	151.1

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

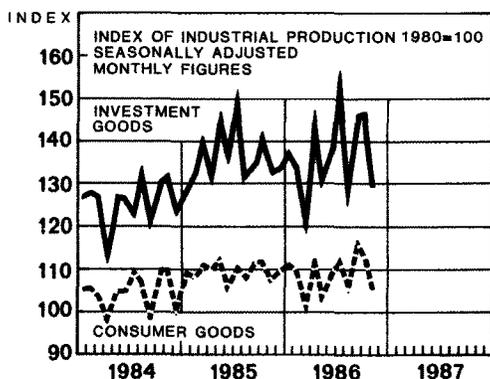
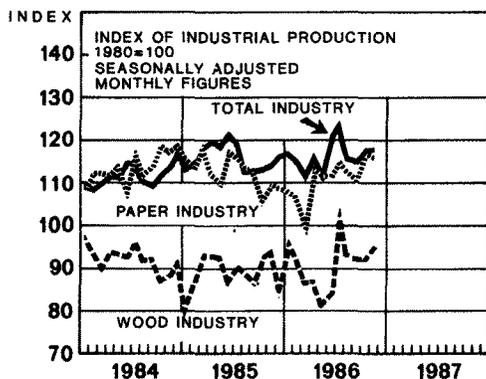
Volume indices of production 1980 = 100

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	
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*											
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.	122.6	143.3	120.5	119.7	106.7	93.6	110.8	121.9	102.7	137.4	117.1
Feb.	110.4	132.6	108.1	107.3	93.0	82.9	102.3	111.0	83.0	123.6	115.2
March	107.3	126.8	104.1	105.2	91.2	83.6	95.4	121.8	81.1	120.9	112.2
April	124.9	157.9	117.8	122.2	114.4	113.5	115.0	133.4	98.4	149.4	116.7
May	118.3	157.4	109.7	115.2	104.4	100.1	107.2	121.5	98.3	146.9	112.7
June	117.7	151.3	104.2	117.9	105.0	97.4	101.3	113.9	102.8	140.8	121.0
July	86.3	70.5	75.0	94.2	103.4	47.2	126.8	83.7	73.4	71.6	124.4
Aug.	114.4	123.3	108.4	115.3	107.3	83.5	116.8	123.3	119.9	121.7	115.9
Sept.	124.6	146.9	117.6	123.7	111.5	106.2	110.8	125.7	140.1	144.2	115.3
Oct.	134.3	162.4	128.4	131.7	140.9	108.8	122.9	123.2	140.2	157.9	117.8
Nov.	124.4	144.2	118.8	113.3	130.1	94.3	123.3	126.0	116.0	140.6	118.1



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*								
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	119	130
Nov.	3 717	2 567	2 392	174	6.8	3 626	..	..

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	16.94	6.83	2.97	4.89	0.95	5.33	2.26	0.70	1.62	0.39	55.46
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. From the beginning of 1987, all quotations are expressed as FIM per one unit of foreign currency. The Australian dollar (AUD) and the European Currency Unit (XEU) have been added to the list of quoted currencies. The *currency index* is shown as annual and monthly averages of daily index numbers. The chart at the bottom of page 8 shows the banks' forward selling rates for the US dollar as deviations from the spot rate.

DEPOSITS BY THE PUBLIC -

ADVANCES TO THE PUBLIC - MONEY SUPPLY

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

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

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

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

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

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

STATE FINANCES

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

FOREIGN TRADE

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

BALANCE OF PAYMENTS

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

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

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

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

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

FOREIGN ASSETS AND LIABILITIES

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

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

Column 22. Debt service = Net investment income of short-term and long-term assets and liabilities + net amortisation payment of long-term foreign assets and liabilities, 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 AfDB 1982.

LAND

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

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

POPULATION

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

DENSITY OF POPULATION (1984): In South Finland 47.7, in East and Central Finland 14.3, in North Finland 4.2 and in the whole country an average of 16.1 inhabitants to the square kilometre.

DISTRIBUTION BY AREA (1984): 40% of the population inhabit the rural areas, 60% towns. The largest towns are: Helsinki (Helsingfors), the capital, 484 263 inhabitants, Tampere (Tammerfors) 168 150, Turku (Åbo) 162 282.

EMPLOYMENT (1985): Agriculture and forestry 11%, industry and construction 32%, commerce 15%, transport and communication 8%, financing, insurance, real estate and business services 6%, community and personal services 28%.

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

EDUCATION (1986): Practically all persons over 15 years of age are literate. There are 8 universities (the oldest founded in 1640) and 12 colleges of university standard.

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

TRADE AND TRANSPORT

NATIONAL INCOME (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 m³ (solid volume with bark) of which 45% was pine and 37% spruce the remaining 18% being broad-leaved trees chiefly birch. Of the growing stock 656 million m³ was up to the standard required for logs, 51% of these being pine. The annual growth was 68 million m³ and the total drain calculated on the basis of roundwood consumption was 49.4 million m³.

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

INDUSTRY (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 pennia (singular: penni). The abbreviation used for the markka is FIM. The last par value of the markka was set on Oct. 12, 1967 and was 0.21159 grams of fine gold per markka (equivalent, at the time, to 4.20 markkaa per U.S. dollar). Since Nov. 1, 1977 the external value of the markka has been officially expressed in terms of a currency index. This index is tradeweighted and as from Jan. 1, 1984 indicates the average change in the convertible currencies which are important in Finnish foreign trade. The present currency weights are SEK 20.6, 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%, 6 month deposits 4%, 12 month deposits 5%; 24 month deposits 7%.

TRENDS IN FINNISH FINANCIAL MARKET LEGISLATION

by Erkki Kontkanen, Head of Department
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GENERAL

Finnish financial markets have been highly underdeveloped. They have been characterized by the dominance of banks and strict regulation by the authorities. Among other things, rates of interest and foreign capital movements have been extensively controlled.

In recent years, financial markets have undergone rapid changes. The central bank has gradually relaxed its interest rate and exchange controls. The proportion of unregulated funding has increased, resulting, *inter alia*, in changes in the composition of banks' deposits. New instruments, such as short-term bearer obligations, have also been introduced in the markets.

With the internationalization of business, Finnish financial markets have also become internationalized. For example, the international operations of Finnish banks and the forward market have expanded substantially. Finnish financial markets have also been affected to some extent by the entry of foreign banks from the beginning of 1982. At present, there are four foreign-owned banks operating in Finland.

Traditionally, investment in securities has been of very limited significance in Finland, although interest in securities among investors has grown rapidly during the past few years. From 1980 up to the end of 1986, total turnover on the Helsinki Stock Exchange increased about 23-fold, from FIM 0.7 billion to FIM 16 billion.

The changes in financial markets have naturally given rise to pressures for revisions in legislation as well. Thus, in many respects, the legislation governing financial markets has become outdated and deficient, for example, as regards new institutions.

This article briefly examines the present state of the legislation bearing upon Finnish financial markets and the prospects for its future development.

FINANCIAL INSTITUTIONS

THE STRUCTURE OF LEGISLATION

Finland has no general legislation governing financial institutions. Rather, each type of financial institution is regulated by its own act. Deposit banks are controlled through four deposit bank acts: the Commercial Bank Act, the Cooperative Bank Act, the Postipankki Act and the Savings Bank Act. Credit companies are governed by the Credit Company Act and mortgage banks by the Mortgage Bank Act.

DEPOSIT BANK LEGISLATION

The present deposit bank acts have been in force since the beginning of 1970. They differ significantly from each other in several respects. Among other things, the minimum capital requirement for commercial banks is double that for cooperative banks and savings banks. However, because of the lower capital ratio, the risk-taking opportunities of cooperative and savings banks have been restricted. Postipankki operates under the responsibility of the central government and no minimum capital requirement has therefore been imposed in its case. The regulation of Postipankki differs significantly from that of other banks in other respects as well.

Differences in the regulations governing banking activities in the present banking laws place the various categories of bank in unequal operating positions without any justification. Hence, they tend to hamper the natural de-

velopment of business and competition in the banking sector.

A banking committee submitted its report in early 1986. The committee recommended that a uniform law governing the activities of deposit banks should be enacted for all deposit banks. The law would provide all deposit banks with the same rights to engage in any banking business stipulated in the law, within the limits set by their capital base, financial capacity and expertise.

As under the existing legislation, the proposed law would grant the deposit banks the sole right to receive deposits from the public. The new law would also include stipulations concerning the deposit banks' business activities and the restrictions thereon, their capital and liquidity ratios, customer protection and the promotion of competition in banking. The proposed law is designed to replace the incoherent regulations in the present deposit bank acts. Regulations on the establishment, administration and winding-up of a bank's activities

as well as on banks' deposit protection schemes would still be laid down in separate banking acts but these regulations would also be completely revised.

The major amendment to the present legislation proposed by the committee concerns the regulation of banks' solvency. The capital adequacy of a bank would no longer be calculated in terms of the ratio of its equity capital to its total liabilities but rather in terms of the ratio of its equity capital to its claims, investments and contingent liabilities, in accordance with international practice over the past few years. A bank's claims, investments and contingent liabilities would be divided into five risk categories so that the capital ratio would vary according to the degree of risk inherent in different classes of asset and contingent liability. The extent of a bank's business would thus be restricted both by the size of its capital base and by the degree of risk attaching to its activities. The following gives an outline of the committee's proposed risk classification and the ratio to be applied to each class:

0 %	1 %	3 %	5 %	10 %
including, inter alia:	– Bonds	– Secured claims and contingent liabilities	– Unsecured claims and contingent liabilities	including, inter alia:
– Cash	– Guaranteed claims and contingent liabilities			– Shareholdings
– Claims on the central government, local authorities and financial institutions subject to public control				– Doubtful claims
				– Open foreign exchange position
				– Temporary assets

As a rule, foreign items would be subject to an additional capital adequacy requirement of one percentage point as compared with domestic items. Thus, for example, a capital ratio of one per cent would be applied in the case of claims on foreign banks and a ratio of 11 per cent in the case of foreign shareholdings. In calculating a bank's capital adequacy, shares and participations in institutions engaged in banking in which the bank has a holding of more than 20 per cent would be deducted from its capital base.

A bank's open foreign exchange position may expose a bank's solvency to significant risks. The committee therefore proposed that a

bank's open foreign exchange position in different currencies should be included in the risk category subject to the maximum capital ratio; i.e. equity capital equal to 10 per cent of the amount of the foreign exchange exposure would be required. Country risks would also be taken into account in the calculation of capital adequacy. Claims on countries which have suspended the repayment of their debts or with which new loan arrangements have been agreed upon because of payment difficulties would be included in the category of maximum risk. New types of obligation, such as options and futures, would be included in a bank's contingent liabilities to the extent stipulated by the Bank Inspectorate.

Apart from individual banks, the capital adequacy requirement would also be applied to banking groups on a consolidated basis, a group being defined to include all the institutions engaged in banking — both at home and abroad — in which the parent bank's holding is more than 20 per cent.

In the proposal, the regulations concerning deposit banks' business activities largely correspond to the present legislation. Thus the area of banks' permissible activity would not change to any significant extent. In contrast to the existing legislation, however, banks would be allowed more freedom to operate as real estate agents than at present. According to the proposal, deposit banks would continue to be prohibited from issuing bonds. This proposal is justified by the need to maintain the *division of labour between different financial institutions*. Traditionally, Finnish mortgage banks have specialized in lending with funds raised through bond issues.

In principle, the right of deposit banks to hold shares in companies engaged in business other than banking would also be restricted in the same way as at present. Deposit banks would be allowed to hold up to 20 per cent of the share or cooperative capital of companies carrying on non-banking business. This restriction would be extended to cover banking groups on a consolidated basis. However, at present Parliament is discussing an amendment to the existing banking act by which a bank's right to own shares would be restricted to 10 per cent of the share or cooperative capital of a non-banking company.

The committee also proposed that the banks' liquidity regulations should be revised. With the rapid development of financial markets, banks' liquidity risks have increased and become more difficult to predict. Special demands have been placed on liquidity management by various off-balance-sheet operations, such as loan commitments issued by banks. Liquidity management would no longer be confined exclusively to the maintenance of statutory cash reserves. Rather, according to

the proposal, banks should adopt additional techniques for maintaining adequate liquidity.

In order to improve the legal rights of bank customers, the committee recommended the introduction of a new system of customer protection. According to the proposal, matters concerning customer protection would be the sole responsibility of the Bank Inspectorate. General consumer protection legislation would no longer be applied to the activities of deposit banks. This particular proposal has aroused a great deal of discussion, and it seems unlikely that it will be enacted in its present form. The committee also recommended that the authorities' opportunities to promote competition in banking should be improved.

A comprehensive reform of banking legislation is currently being prepared on the basis of the proposals of the committee. The Government's bill concerning the reform will probably be submitted to Parliament in the course of this year. The new legislation would come into force at the beginning of 1988 at the earliest. In the same context, Postipankki would be transformed into a limited company in which the State would have a majority shareholding.

OTHER LEGISLATION ON FINANCIAL INSTITUTIONS

Changes in financial markets have also affected the activities of financial institutions other than deposit banks. For example, the business of finance and credit card companies has expanded substantially. So as to bring the activities of these financial institutions under public control, the Ministry of Finance has prepared a proposal for a separate Finance Company Act. Technically, the proposal is ready to be submitted to Parliament.

In the bill, the activities of finance companies are strictly limited to leasing, factoring, confirming and the financing of hire purchase. Finance companies alone would be allowed to engage in the above-mentioned activities as their main line of business. Like other financial institutions, finance companies would be

subject to a capital adequacy requirement and, for instance, their right to hold shares in other companies would be restricted. The act would also be applied to the activities of credit card companies.

There is also a need to develop legislation with regard to the acts on credit companies and mortgage banks. Among other things, the capital ratio regulations contained in these acts will probably be revised in the next few years to better correspond to the regulations proposed by the banking committee

SECURITIES MARKETS

LEGISLATION ON SECURITIES TRADE AND THE STOCK EXCHANGE

Finland has no legislation governing securities trade and stock exchange business. At present, stock exchange activities are controlled through the internal rules of the Helsinki Stock Exchange. The new Rules of the Stock Exchange have been in force since the beginning of 1986. The purpose of the Rules is to regulate, inter alia, insider dealing, the obligation of a company listed on the Stock Exchange to disclose information on its operations and the obligation of a listed company to offer to redeem the shares of another listed company. The Rules also include regulations on securities agencies, their solvency ratios and the liability insurance they are required to take out in case of liability for damages.

However, the Government did not consider that the internal Rules of the Stock Exchange alone were sufficient, in part because internal regulation is unable to prevent the occurrence of irregularities in securities trade carried on outside the Stock Exchange. Consequently, at the end of 1986, the Government appointed a committee charged with the following responsibilities:

1) to draw up a proposal for regulations on insider dealing. These regulations should concern at least the exchange of shares, option rights and convertible debentures;

2) to draw up proposals for regulations on companies' obligation to disclose information, particularly in connection with share issues, as well as proposals for regulations on private placings of shares;

3) to determine the need for and possibilities of implementing revisions concerning other aspects of securities trade and the legal protection of investors. In this respect, the committee is required to draw up proposals for the regulations it considers necessary; and

4) to determine the extent of the need for regulating the activities of the parties participating in securities trade and to draw up necessary regulations on companies listed on the Stock Exchange, on agencies and brokers and on the control of the Stock Exchange.

As regards items 1, 2 and 4, the committee is expected to complete its work by September 1987 at the latest and, as regards 3, by early 1989.

UNIT TRUST ACT

An investment trust act was for long under preparation in Finland in the 1970s, and the Government submitted a bill to Parliament in 1977. However, this bill was never enacted. Subsequently, the preparation of legislation in this area has been based on a unit trust (open-end investment fund) system along the lines of that in operation, for example, in Sweden and the United Kingdom. The Government's bill on unit trusts is currently being discussed in Parliament. In the bill, account has been taken of the principles mentioned in the standard regulations on unit trust activities confirmed by the OECD in 1972. The aim is to have the bill passed during the first half of the current year.

After the enactment of the bill, there would be two ways in which the public could engage in collective investment in securities, i.e., by participating in a unit trust or by subscribing shares in an investment trust. As until now,

the activities of investment trusts would not be separately regulated.

Unit trusts would be jointly owned by the persons and corporate bodies investing funds in them. A trust corporation similar to a limited company would be in charge of the trust's administration, acquisition of funds and investment activities. Investors holding a unit in the trust would be able to influence the operations of the trust at meetings of unit owners. These meetings would appoint one-third of the members of the Board of Directors and at least one of the unit trust's auditors. These meetings would also be able to decide upon the bringing of an action for damages against the unit trust. The trust's funds would be kept in a depositary institution, which could be a deposit bank, i.e., a commercial bank, a cooperative bank, Postipankki or a savings bank.

As regards the investment of its funds, the bill would permit a trust to invest freely in domestic securities quoted on the Helsinki Stock Exchange. Up to 20 per cent of a trust's funds could be invested in other domestic securities quoted in a reliable way. Up to 5 per cent of a trust's funds could be invested in unquoted Finnish securities. Up to 20 per cent of a trust's funds could be invested in foreign securities quoted on stock exchanges approved by the Bank Inspectorate. Up to 20 per cent of the trust's funds could be invested in shares, bonds and other securities floated by the same issuer.

ACT ON BONDS

A special Act on Bonds has been in force in Finland since 1969. The Act divides these debt instruments into ordinary bonds, debentures and other bonds. The issue of bonds requires the permission of the Council of State and the issue must be backed by sufficient security. Debentures are divided into credit debentures and subordinated debentures. Subordinated debentures are characterized by the fact that they have less priority in relation to the other obligations of the issuer. Security cannot be given in respect of debenture issues. The issue

of debt instruments other than bonds is not subject to permission. However, on the basis of the banking acts, banks must obtain permission for the issue of bearer paper.

The Act on Bonds needs revising in many respects, and indeed work on reforming the Act seems likely to get under way in the near future.

THE REFORM OF SECURITIES PROCESSING

Recently, a committee submitted a report in which it proposed that shares, bonds, debentures and other similar debt instruments should be recorded in special value share accounts by means of computerized book entry, thus dispensing with the need for the issue of certificates.

According to the proposal, a decentralized system for the processing of securities would be introduced in Finland. In other countries which have introduced or are in the process of introducing a paperless system automated book entries are generally concentrated in one central register.

Two types of securities register are envisaged. On the one hand, there would be so-called issuers' registers operated by companies for their shares, and by issuers of bonds and debentures for their issues of bonds and debentures. On the other hand, there would be securities trading registers, which would be administered by licensed banks and banking houses. Investors would be able to choose whether they wished to use the securities trading registers or the issuers' registers. By providing investors with a choice it is hoped that the resulting competition would maximize the efficiency of register activities. The establishment of a securities register would in all cases be subject to the permission of the authorities.

THE TAXATION OF CAPITAL INCOME

In Finland, bank deposits are tax-exempt in income and wealth taxation on certain condi-

tions. This has increased the dominance of banks in Finnish financial markets, because a very significant proportion of capital flows has been channelled into tax-exempt deposits rather than, for example, into company shares.

Since the 1940s, the tax exemption of interest and principal in respect of deposits has been laid down in temporary tax concession acts, the present three-year act being in force up to the end of 1988. According to the Act on the Tax Exemption of Deposits, the interest income received by a natural person on deposits held in accounts classified in the Act as in general use are tax-free in central and local government taxation. The Act stipulates that an account is in general use if it is employed by two banking categories for receiving deposits from the public on similar interest rate and account terms. Thus, in practice, tax exemption is linked to the interbank interest rate agreement. It is worth noting that in 1981 the European Commission recommended that banks should not enter into interest rate agreements. In Finland, an interest rate agreement even serves as the basis for a tax act.

There is fairly widespread agreement that the present Act on the Tax Exemption of Deposits is unsatisfactory both from the legislative and the practical points of view. It is regarded as constituting the major barrier to the development of capital markets, as it greatly impedes interbank interest rate competition. A very lively debate is expected to take place in the near future when the present act comes up for renewal. In the same context, the issue of the taxation of capital income in general will almost certainly come to the fore.

At present, the taxation of capital income is highly incoherent. In addition to bank deposits, tax exemption is applied to public bonds issued by the central government and, subject to permission, by mortgage banks operating as subsidiaries of deposit banks. Other capital income is taxable. However, tax deductions have been allowed for capital income since the early 1980s. The deduction is differentiated, being highest for rental income, lower in the case of dividend income and lowest in the case of interest income.

MONETARY AND FOREIGN EXCHANGE POLICY MEASURES FROM MARCH 1986 TO FEBRUARY 1987

1986

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 credits 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

External value of the markka. On May 16, the external value of the markka is lowered by 1.6 per cent by raising the currency index number within the fluctuation range.

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 credits 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	12.3
May 20 (II)	12.0	11.3
May 22	11.0	10.3

Amendments to Foreign Exchange Regulations. The authorized banks are granted permission to use foreign credit to finance their customers' long-term export receivables as from May 13, 1986. Similarly, exporters are, on application, granted permission to raise foreign finance in their own names in order to finance their long-term export receivables.

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

June

Call money market. The Bank of Finland lowers the rate on call money credits 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 credits		Rate on call money deposits	
	Per cent		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 financ-

ing 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 credits	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 credits	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 continue 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.

Call money market. The Bank of Finland lowers the rate on call money credits from 12.0 to 11.9 per cent as from January 26.

February

Call money market. The Bank of Finland lowers the rate on call money credits from 11.9 to 11.8 per cent as from February 2.

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

ITEM

Publication of the Bank of Finland. The following publication has appeared in series D:63: Monica Ahlstedt, *Small sample estimation and stochastic simulation of an econometric model*, Helsinki 1986, 181 pp. ISBN 951-686-127-X, ISSN 0355-6042.

The study deals with measuring the uncertainty in simultaneous model predictions. The aim of the study is twofold: first to investigate how to improve the reliability of the model by minimizing the uncertainty in the estimation phase through the use of a simultaneous estimation method and then to find out how to calculate the variance-covariance matrix of the forecasts using a stochastic simulation method so as to measure the reliability of an econometric model.

Different methods are compared in order to find a consistent efficient method for simul-

taneous estimation of nonlinear models from undersized samples. In the comparison of the methods, use is made of asymptotic theory, analytical finite sample results and Monte Carlo experiment results, and finally empirical comparisons. The main finding of the study is to recommend the IIV iterative instrumental estimation method (Hatanaka 1978) for consistent estimation of structural parameters and the residual-based stochastic simulation method (Brown & Mariano 1983) for the calculation of the mean and variance of the forecasts.

In the empirical part of the study the methods were applied to the structural annual model of the Bank of Finland. The study is, however, based on the assumption that the conclusions obtained from using a specific model can be generalized for other models with two features typical of most macromodels, that is, nonlinearity in variables and undersized samples.

(continued from page 2)

bles at the beginning of 1987. The credit is to be repaid by the end of 1991.

The repayment schedule and the method of repayment will depend on developments in Finnish imports from the Soviet Union. It will be possible for the Soviet Union to repay the credit in advance if the clearing account surplus shifts into a deficit balance for Finland.

The Soviet Union is to discharge its liability mainly in the form of shipments of goods by repaying the credit through the clearing account. In the event that the value of Finnish imports from the Soviet Union does not develop as desired and the Soviet Union wants to retain its purchases at a high level, the agreement also provides for the possibility of repaying the credit in convertible currencies.

The value of the credit in the special account has been protected against a possible weakening of the rouble by means of a currency basket.

TRADE IN 1986—87

In the agreement on the exchange of goods for 1986, the value of imports was determined according to the prevailing oil price of USD 28 per barrel and Finland's export quotas were set on that basis. Since, however, the average price of crude oil collapsed to below USD 15 per barrel, the value of Finnish imports from the Soviet Union actually decreased by nearly a third. There was, however, a marked increase in import volumes.

The sharp fall in the Soviet Union's export earnings was already reflected in Finnish exports last year, the value of which fell by 7 per cent from the preceding year. But, as Finnish exports to the Soviet Union declined by substantially less than Finnish imports from that country, the surplus on the bilateral trade account widened to FIM 4.9 billion (Chart 4).

As a result of the decrease in exports and imports, the share of the Soviet Union in

Finland's foreign trade fell from 21 per cent in 1985 to 18 per cent last year. Finland's share in the Soviet Union's exports to western markets remained at approximately the same level as in the previous year (12 per cent), but Finland's market share in the Soviet Union's imports from the West seems to have increased slightly (to 14 per cent).

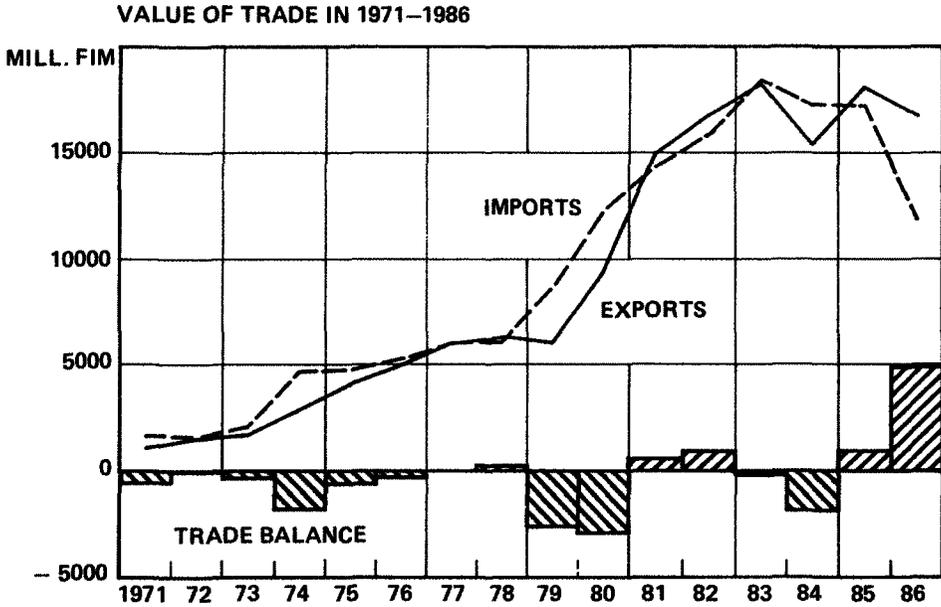
Negotiations on the exchange of goods for 1987 took place in a situation where the clearing account showed a large credit balance in Finland's favour and the oil price was at a low level. It was agreed in the negotiations that the surplus on the trade and clearing accounts would not be allowed to increase in 1987. This implied that exports would have to be adjusted to the reduced level of imports necessitated by the low oil price.

So as to avoid the need for a drastic reduction in the level of exports, the trade protocol for 1987 provides for a marked increase in Finnish purchases from the Soviet Union. The most significant increases in imports are to be found in the quotas for coal, natural gas and petrochemicals. In addition, the agreement includes a record amount of crude oil and oil products intended for trading in third countries.

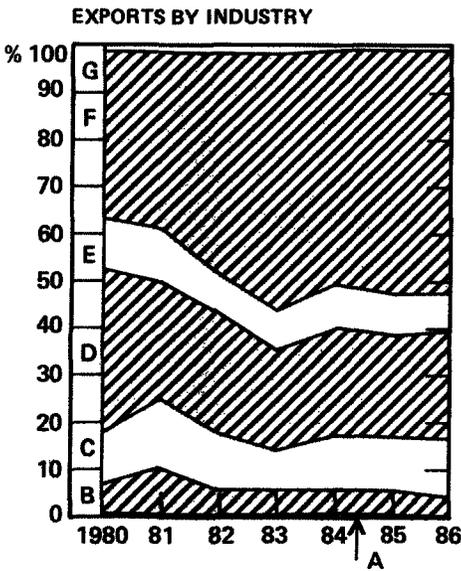
A new feature in the 1987 trade agreement is the upper and lower limits set for export quotas. This makes it possible for Finnish exports to increase flexibly beyond the minimum level if the increase in the value of imports resulting from a rise in the price of crude oil so permits. If actual trade takes place at the lower limit of the range, the value of exports of goods will decrease by more than a fifth from last year's level. Given the volumes of Finnish purchases agreed on in the trade protocol, a rise of one dollar per barrel in the price of oil would mean an increase of about 4 per cent in the value of imports beyond the agreed level.

In relative terms, the quotas for raw materials, chemicals and agricultural produce have been affected most severely by the cutback in exports. The improvement in the relative posi-

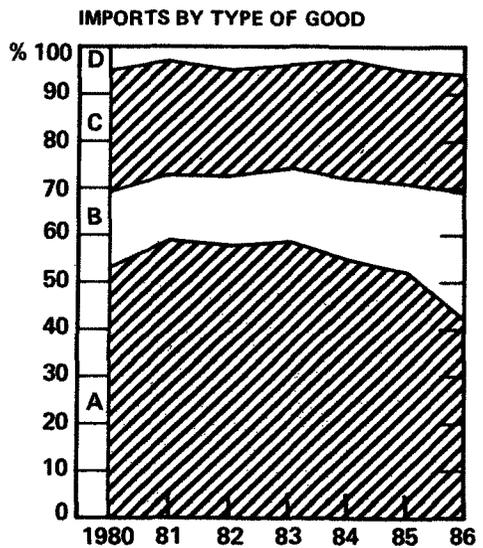
CHART 4. VALUE AND STRUCTURE OF FINNISH-SOVIET TRADE



STRUCTURE OF TRADE IN 1980-1985



- A Agriculture and forestry
- B Food, beverages and tobacco
- C Textiles, clothing and leather
- D Wood products, paper and pulp
- E Chemicals
- F Metal and engineering
- G Other goods



- A Crude oil
- B Other raw materials and intermediate goods
- C Fuels and lubricants
- D Investment and consumer goods, etc.

tion of the metal and engineering industry is partly due to shipments relating to industrial cooperation, the share of which in this sector is set to increase in comparison with the previous year. Ship deliveries, which are agreed on for intervals exceeding a year, will decrease by more than a third from last year's level.

Mitigating the deterioration in the short-term outlook for exports to the Soviet Union, however, will be the strengthening in domestic demand and exports to western markets resulting from the fall in the oil price and the concomitant improvement in the terms of trade. Thus the overall effect on the economy of the decline in the oil price is difficult to assess.

PROSPECTS FOR TRADE IN THE MEDIUM TERM

At least in the short run, developments in Finnish-Soviet trade will continue to be closely linked to movements in the world-market price of oil and in the exchange rate of the dollar. Increasing the volume of imports and developing the structure of imports will only serve to alleviate the imbalances caused by fluctuating oil prices. The effects of measures taken to diversify trade and to foster the development of new forms to complement

traditional trade will only be felt in the longer term.

Recently, industrial cooperation has led to a significant increase in Finnish imports of machinery and equipment from the Soviet Union. The share of machinery and equipment imports nevertheless still accounts for less than 10 per cent of the value of imports, even though Finland buys more of these goods from the Soviet Union than any other market economy. Industrial cooperation largely involves using Soviet sub-contractors in the production of exports intended for the Soviet market.

The latest form of cooperation, Finnish-Soviet joint ventures in the Soviet Union, is currently under negotiation. There have also been serious discussions on compensation trade. Adapting the payment and trade flows arising from these forms of cooperation to the existing trading arrangements could prove a complicated task, and they will have an impact on trade only in the longer run.

It remains to be seen what effects the cutback in Finnish-Soviet trade and the problems of maintaining balance, as well as the reform of the foreign trade system of the U.S.S.R. and of the Soviet economy more widely, will have on trade between the two countries and on the institutional setting in which it takes place.

January 29, 1987

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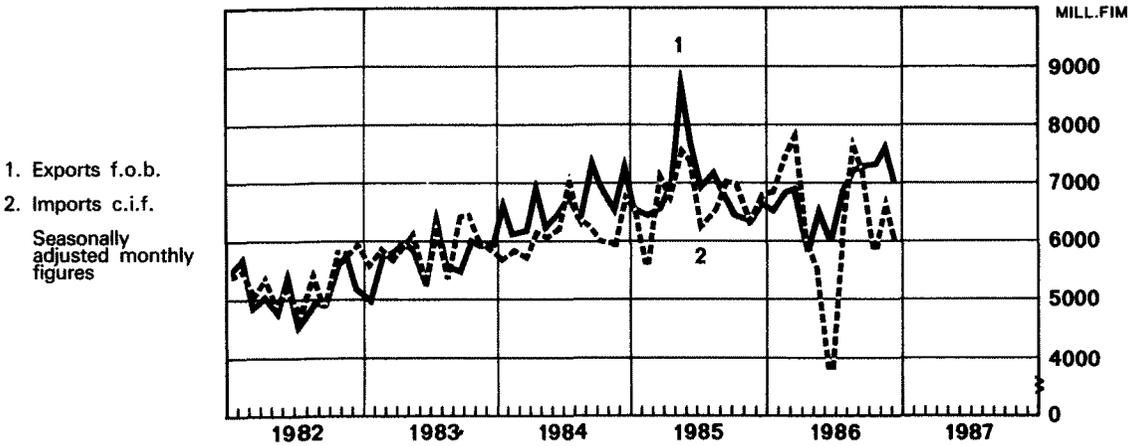
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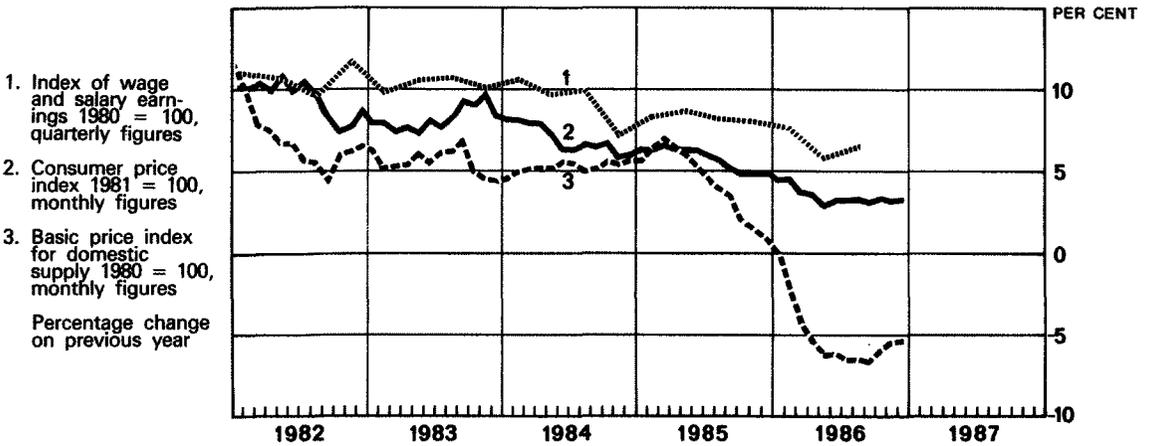
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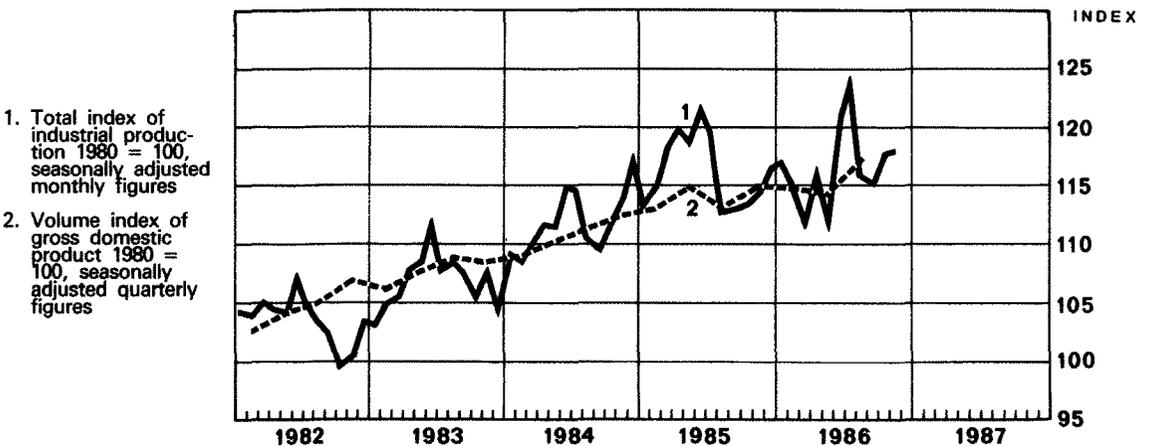
FOREIGN TRADE, 1982-87



PRICES AND WAGES, 1982-87



PRODUCTION, 1982-87



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