



BANK OF FINLAND

Monthly Bulletin

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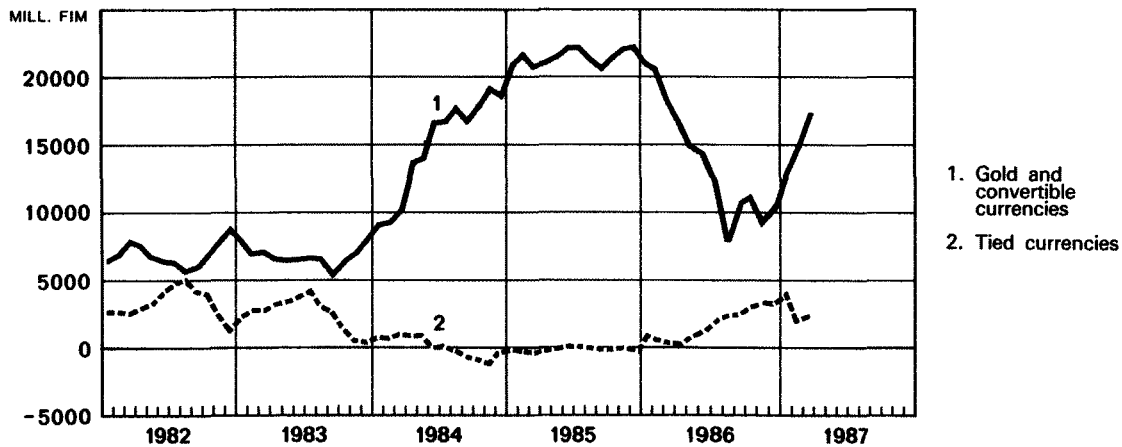
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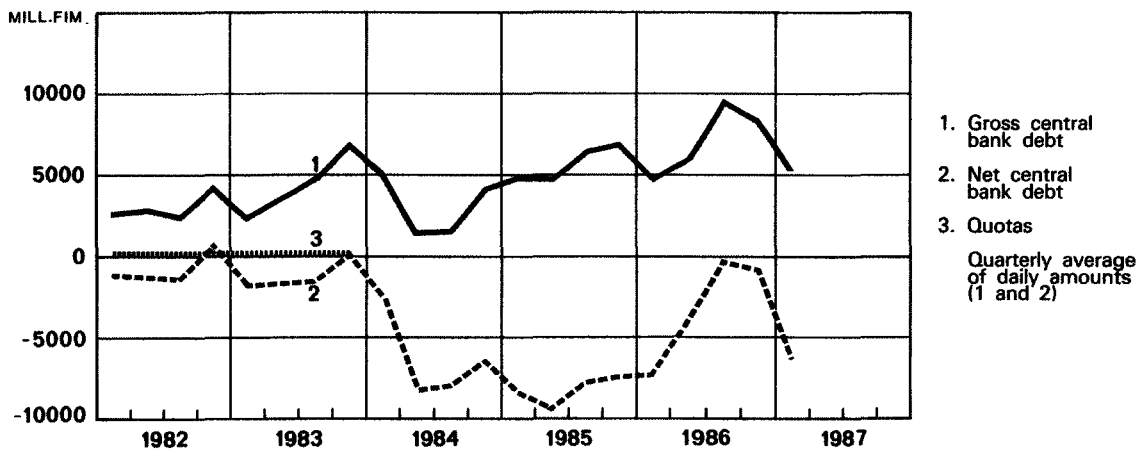
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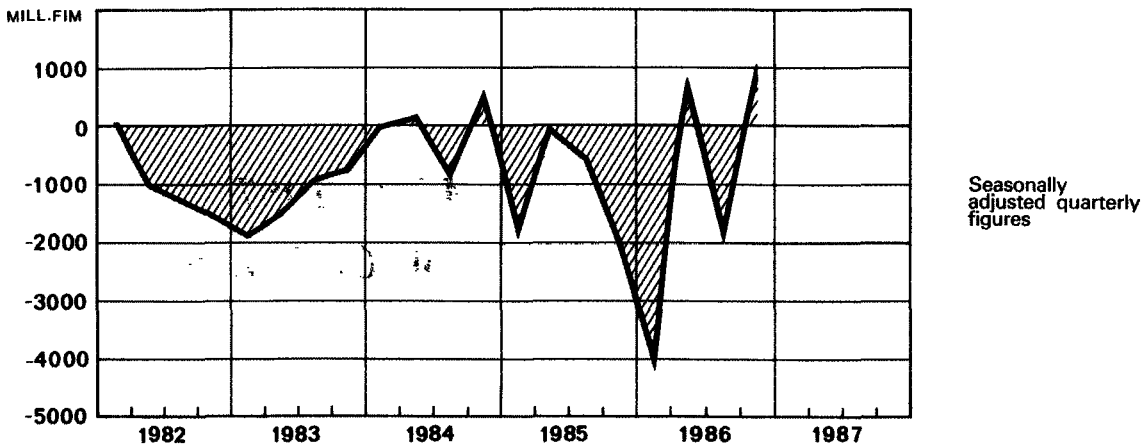
BANK OF FINLAND'S CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, 1982-87



DEPOSIT BANKS' CENTRAL BANK POSITION, 1982-87



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



RECENT MONETARY POLICY

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Over the past few months, monetary conditions have eased rapidly and money market rates have fallen. At the same time, the system of monetary control has undergone major changes. This article gives an account of the new monetary policy instruments and the structural changes in financial markets that have served as a backdrop to them. It then goes on to briefly describe recent developments in banks' liquidity and in money market rates.

NEW MONETARY POLICY INSTRUMENTS

The Finnish money market has expanded and developed rapidly in recent years. Financial intermediation is to an increasing extent taking place by means of negotiable instruments, that is, through the buying and selling in the market of promissory notes made out to bearer. The most important of these instruments are certificates of deposit issued by banks, of which approximately FIM 8 billion worth is currently in circulation. Other short-term instruments include commercial paper, the stock of which is estimated to be FIM 5 billion, local authority paper and Treasury notes. At the turn of the year, the Bank of Finland freed banks' certificates of deposit from the cash reserve requirement, and subsequently the outstanding amount of this instrument has grown quickly. The stock of Treasury notes currently amounts to only FIM 2 billion, but it could become substantially larger next year if existing budget legislation is amended as planned so as to allow the central government better access to the money market for satisfying its borrowing requirement. Money market rates are largely determined by the banks,

which quote binding buying and selling rates for certificates of deposit and other money market instruments on a continuing basis.

A prerequisite for the emergence and expansion of the money market has been the adaptation of monetary policy instruments. Previously, the call money market and the call money rates were the key instrument of monetary policy. For some two years or so now, the Bank of Finland has, on occasion, also influenced banks' liquidity (and the foreign exchange reserves) through forward exchange deals with banks.

At the beginning of last December, the Bank of Finland introduced a system under which, in addition to call money credits, the banks can obtain central bank financing in the form of longer-term credits at fixed rates of interest. So far, these longer term loans have had a maturity of three months. The amounts of these credits and the rates of interest on them have fluctuated daily in accordance with money market conditions and monetary policy targets. Since February, the Bank of Finland has, at times, also been accepting 3-month deposits from banks at fixed rates of interest.

At the end of March of this year, the Bank of Finland further extended its range of monetary policy instruments by introducing open market operations. In practice, this means that the Bank of Finland, whenever it desires, buys or sells certificates of deposit issued by banks. Alternatively, the Bank of Finland issues certificates of deposit of its own. Both alternatives were already in use at the end of March. Through open market operations, the Bank of Finland can affect banks' liquidity and

thereby conditions and interest rates in the money market. The issue of the Bank of Finland's own certificates of deposit is relevant primarily in situations where the Bank of Finland wishes to absorb liquidity from the banks and where it does not have other money market instruments in its portfolio suitable for selling.

At least in the initial stage, open market operations will mainly complement other monetary instruments. In practice, open market operations differ from term credits and deposits in basically three respects. First of all, open market operations do not involve central bank financing in the form of transactions in balances in accounts but rather the buying and selling of negotiable instruments in the open market. Secondly, the Bank of Finland's term credits are granted or term deposits are accepted only on the basis of an auction specially arranged at about 11 o'clock in the morning, whereas open market operations can be undertaken throughout the day on the basis of rates quoted by banks. Thirdly, open market operations can be flexibly targeted at any part of the maturity distribution.

If open market operations, now introduced on an experimental basis, prove practical in all respects, it is possible that term credits and deposits will eventually turn out to be of only limited significance. In retrospect they might perhaps be regarded as temporary substitutes for open market operations.

It is worth noting that, as a result of these changes, the call money market and the call money rates are now clearly losing their significance for monetary policy. In keeping with monetary policy objectives, the banks' borrowing from the central bank has shifted almost entirely to term credits in recent months. The reduction in call money credits also reflects the easing of banks' liquidity. The aim is that the call money market operated by the Bank of Finland should no longer be used as a permanent source of central bank financing for the banks but rather mainly for evening out temporary fluctuations in liquidity. For this

reason, the call money rate is usually higher than money market rates and, furthermore, each bank can daily have access to call money credit only up to a certain limit. If a bank's call money credit exceeds the upper limit, penalty interest is collected on the amount in excess of the limit. Taken as a whole, the authorized banks can resort to call money credit up to the amount of about FIM 2 billion without entering the "penalty interest area". To reduce call money deposits, the rate payable on them is, in future, likely to be kept permanently at a relatively low level.

The significance of the innovations in the instruments of monetary control stems mainly from the fact that it offers a more flexible framework for the conduct of monetary policy. Monetary policy can be aimed at stabilizing interest rates or interest rates can largely be left to the market to be determined on the basis of supply and demand. Under certain circumstances, the latter alternative may ease the management of the foreign exchange reserves. The advantage of a system operating under market conditions is that the emphasis of monetary policy can be gradually shifted from stabilizing interest rates to stabilizing the quantity of central bank debt and vice versa. Other considerations are that the banks can better manage their interest rate risks if their indebtedness to the Bank of Finland is not in the form of call money credits, and that the Bank of Finland now has a more direct channel for affecting longer-term — for example 3 or 6-month — rates, which are of greater significance than the call money rate from the point of view of, for example, companies' investment and borrowing decisions.

The innovations in monetary policy are mainly technical in character: although the methods of monetary policy implementation will become more market-orientated and flexible as a result, there will be no change in monetary policy stance or in the fundamental fact that the level of rates necessary for clearing financial and foreign exchange markets will con-

(Continued on page 41)

	1986		1987				
	April 30	Dec. 31	April 8	April 15	April 23	April 30	
Assets							
Gold and foreign currency claims	17 420	14 088	22 948	22 956	23 475	23 230	
Gold	2 081	2 081	2 081	2 081	2 081	2 081	
Special drawing rights	939	983	963	963	963	961	
IMF reserve tranche	780	794	771	770	770	769	
Convertible currencies	13 082	6 795	16 349	16 225	16 537	16 491	
Tied currencies	538	3 435	2 784	2 917	3 124	2 927	
Other foreign claims	2 623	2 585	4 570	4 567	4 567	4 557	
Markka subscription to Finland's IMF quota	2 623	2 585	2 585	2 585	2 585	2 585	
Term credit	—	—	1 985	1 982	1 982	1 972	
Claims on financial institutions	9 531	14 074	8 111	7 601	7 299	7 880	
Banks' cheque accounts	—	—	—	—	—	—	
Call money credits	5 285	6 818	54	123	14	1 076	
Term assets	—	2 381	3 348	2 856	2 446	2 111	
Till-money credits	1 984	2 305	2 127	2 055	2 261	2 114	
Bonds	2 153	2 111	2 173	2 162	2 162	2 161	
Other claims on financial institutions	109	459	409	405	416	417	
Claims on the public sector	978	1 002	959	960	960	960	
Bonds	71	59	9	9	9	9	
Total coinage	904	935	945	946	946	946	
Other claims on the public sector	3	8	5	5	5	5	
Claims on corporations	4 961	4 844	4 306	4 275	4 245	4 188	
Financing of exports	1 629	1 749	1 293	1 261	1 227	1 191	
Financing of domestic deliveries	3 036	2 833	2 759	2 752	2 756	2 736	
Bonds	75	65	59	59	59	59	
Other claims on corporations	221	197	195	203	203	202	
Other assets	148	149	152	153	153	152	
	Total	35 661	36 742	41 046	40 512	40 699	40 967
Liabilities							
Foreign currency liabilities	182	31	78	70	72	70	
Convertible currencies	65	17	64	57	55	51	
Tied currencies	117	14	14	13	17	19	
Other foreign liabilities	3 453	3 423	3 399	3 399	3 399	3 397	
IMF markka accounts	2 623	2 585	2 585	2 585	2 585	2 585	
Allocations of special drawing rights	830	838	814	814	814	812	
Notes and coin in circulation	8 094	8 667	8 329	8 657	8 552	8 704	
Notes	7 330	7 856	7 528	7 846	7 741	7 889	
Coin	764	811	801	811	811	816	
Liabilities to financial institutions	10 771	9 729	17 248	16 471	16 769	16 926	
Banks' cheque accounts	0	0	0	—	1	—	
Call money deposits	1 204	131	2 546	345	197	198	
Term liabilities	—	—	4 791	6 225	6 683	6 703	
Cash reserve deposits	8 846	9 270	9 597	9 597	9 597	9 734	
Capital import deposits	631	254	237	235	235	231	
Other liabilities to financial institutions	90	74	77	69	56	60	
Liabilities to the public sector	1 100	2 001	1	0	0	1	
Cheque accounts	0	1	1	0	0	1	
Government deposit account	1 100	2 000	—	—	—	—	
Capital import deposits	—	—	—	—	—	—	
Other liabilities to the public sector	0	0	0	0	0	0	
Liabilities to corporations	4 809	5 019	4 635	4 624	4 628	4 688	
Deposits for investment and ship purchase	3 904	4 671	4 299	4 291	4 292	4 341	
Capital import deposits	896	336	330	330	329	343	
Other liabilities to corporations	9	12	6	3	7	4	
Other liabilities	15	23	29	23	26	24	
Valuation account and reserves	1 353	1 920	1 398	1 339	1 324	1 227	
SITRA's capital	400	400	400	400	400	400	
Capital accounts	5 484	5 529	5 529	5 529	5 529	5 529	
Primary capital	5 000	5 000	5 000	5 000	5 000	5 000	
Reserve fund	484	485	529	529	529	529	
Undisposed profits	—	—	—	—	—	—	
Net earnings	—	44	—	—	—	—	
	Total	35 661	36 742	41 046	40 512	40 699	40 967

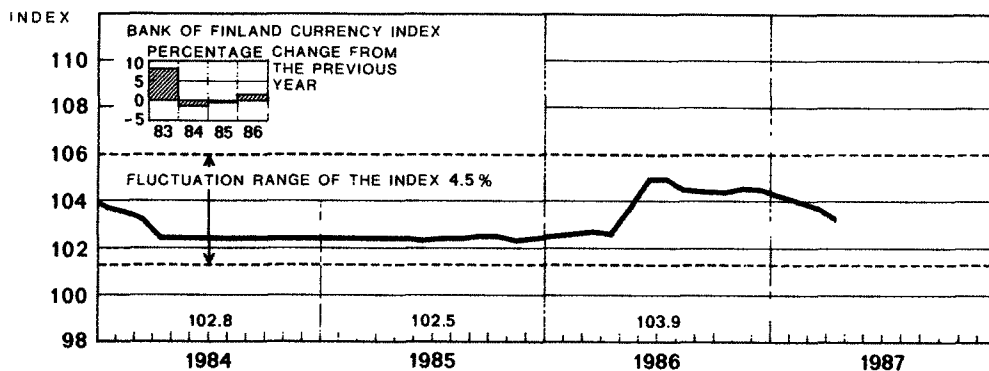
End of year or month	Foreign sector						Public sector			
	Gold, SDRs, IMF reserve tranche	Convertible currencies, net	Total convertible reserves (1 + 2)	Tied currencies, net	Other claims, net	Net claims (3 to 5)	Claims	Government deposit account	Other liabilities	Net liabilities (8 - 7 + 9)
	1	2	3	4	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										
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
Feb.	3 821	11 215	15 036	2 196	1 182	18 414	957	-	1	-956
March	3 813	13 468	17 281	2 537	1 168	20 986	959	-	1	-958
April	3 811	16 440	20 251	2 908	1 160	24 319	960	-	0	-960

OFFICIAL FOREIGN EXCHANGE RESERVES

Mill. FIM

	Dec. 31, 1986	Jan. 30, 1987	Feb. 27, 1987	March 31, 1987	April 30, 1987
Gold	2 081	2 081	2 081	2 081	2 081
SDRs	983	961	967	962	961
IMF reserve tranche	794	776	773	770	769
Convertible currencies, net	6 778	9 344	11 215	13 468	16 440
Total convertible reserves, net	10 636	13 162	15 036	17 281	20 251
Tied currencies, net	3 421	4 127	2 196	2 537	2 908
Total reserves, net	14 057	17 289	17 232	19 818	23 159

End of year or month	Domestic financial sector						Corporate sector				Notes and coin in circulation
	Till-money credits	Term liabilities of deposit banks	Term assets of deposit banks	Net demand for call money by deposit banks	Cash reserve deposits of deposit banks	Other liabilities. net	Net claims (1+2-3+4-5-6)	Permanent special financing schemes	Liabilities. net	Net claims (8-9)	
	1	2	3	4	5	6	7	8	9	10	11
1983	942	.	.	5 175	5 039	-1 998	3 076	4 529	1 282	3 247	6 574
1984	1 563	.	.	2 802	8 696	-1 618	-2 713	4 646	2 614	2 032	7 442
1985	1 925	.	.	4 014	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1986	2 305	2 381	.	6 687	9 270	-2 242	4 345	4 582	4 757	-175	8 667
1986											
April	1 984	.	.	4 081	8 846	-1 541	-1 240	4 665	4 513	152	8 094
May	1 842	.	.	5 593	8 862	-1 411	-16	4 644	4 067	577	8 046
June	1 875	.	.	5 841	8 891	-2 022	847	4 552	4 585	-33	8 156
July	1 844	.	.	7 324	9 030	-2 070	2 208	4 552	4 669	-117	8 086
Aug.	1 650	.	.	11 273	9 023	-2 119	6 019	4 550	4 718	-168	7 969
Sept.	1 847	.	.	7 875	8 954	-2 129	2 897	4 552	4 750	-198	7 903
Oct.	1 755	.	.	7 040	9 052	-2 557	2 300	4 650	4 863	-213	7 973
Nov.	1 709	.	.	8 250	9 180	-2 542	3 321	4 659	4 786	-127	8 024
Dec.	2 305	2 381	.	6 687	9 270	-2 242	4 345	4 582	4 757	-175	8 667
1987											
Jan.	2 231	4 266	.	-370	9 353	-2 268	-958	4 360	4 685	-325	8 851
Feb.	2 012	4 736	1 600	-1 313	9 356	-2 227	-3 294	4 259	4 609	-350	8 453
March	2 177	3 572	4 000	-369	9 597	-2 243	-5 974	4 073	4 516	-443	8 325
April	2 114	2 111	6 703	878	9 734	-2 287	-9 047	3 927	4 427	-500	8 704

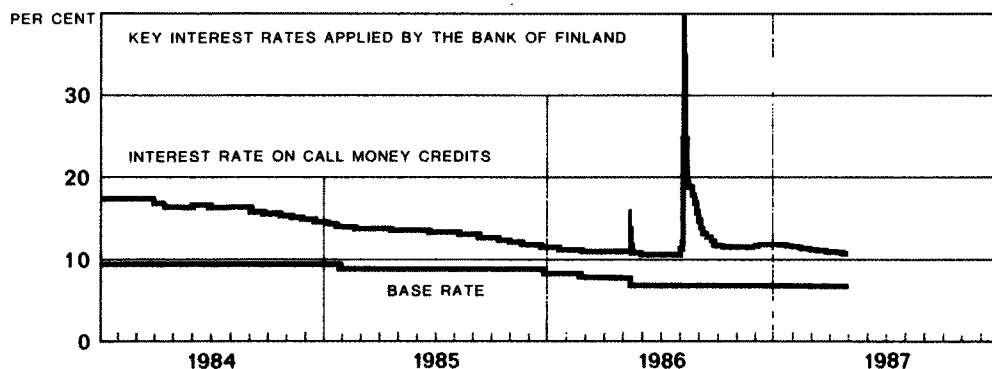


MONETARY POLICY INDICATORS

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 %	Interest rate on term deposits %	Base rate ¹ %	Average lending rate of the commercial banks ¹ %
	1	2	3	4	5	6	7	8	9	10
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 ²	.	7.42	9.08
1986										
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	8.81
Feb.	5 035	-6 671	9 353	4.7	-1 595	11.76	11.27	10.72	7.00	8.80
March	3 732	-9 717	9 362	4.7	-281	11.44	10.45	10.60	7.00	8.84
April	3 137	-13 160	9 602	4.7	-773	11.14	10.37	9.99	7.00	..

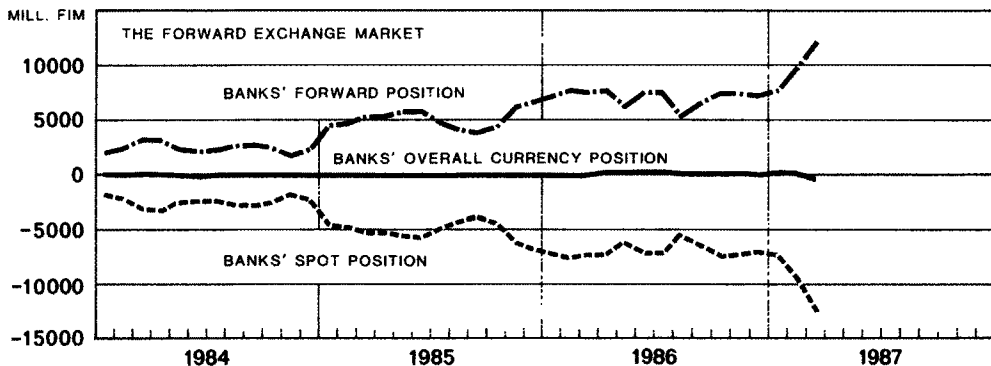
¹ End of period for monthly figures.

² 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									
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
1987									
Jan.	13 285	1 515	11 770	-2 248	-5	9 541	6.3	6.0	6.1
Feb.	14 389	1 385	13 003	-1 204	26	11 789	4.4	4.5	4.5
March	15 908	1 263	14 645	-490	18	14 262	4.0	3.9	3.8



FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange. FIM

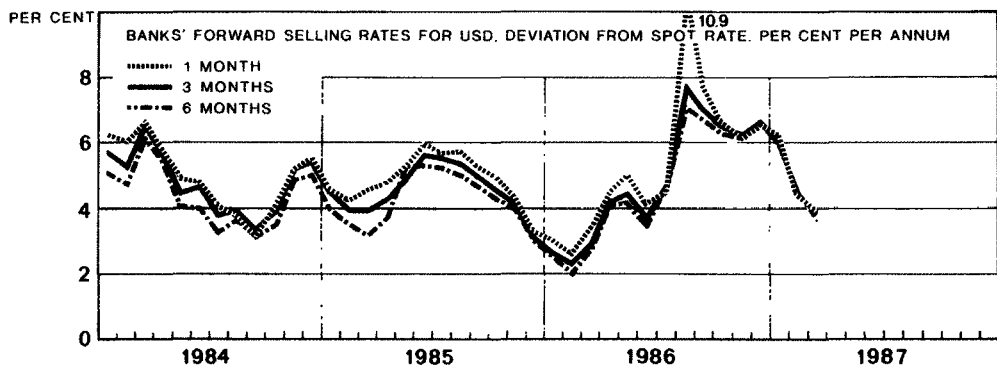
Period	New York 1 US USD	Montreal 1 C CAD	London 1 £ GBP	Dublin 1 Ir£ IEP	Stockholm 1 Skr SEK	Oslo 1 Nkr NOK	Copenhagen 1 Dkr DKK	Frankfurt 1 DM DEM	Amsterdam 1 Hfl NLG	Brussels 1 FB BEC	BEL	Zurich 1 Sfr CHF
	1	2	3	4	5	6	7	8	9	10	11	12
1982	4.820	3.913	8.423	6.854	0.7703	0.7484	0.5793	1.9876	1.8066	0.10584	0.09859	2.3779
1983	5.570	4.524	8.456	6.957	0.7275	0.7644	0.6107	2.1861	1.9566	0.10934	0.10742	2.6570
1984	6.010	4.645	8.023	6.533	0.7277	0.7384	0.5816	2.1165	1.8772	0.10428	0.10274	2.5642
1985	6.206	4.554	8.000	6.590	0.7222	0.7231	0.5871	2.1142	1.8745	0.10483	0.10421	2.5360
1986	5.078	3.659	7.459	6.816	0.7138	0.6882	0.6290	2.3454	2.0789	0.11399	0.11299	2.8349

1986

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

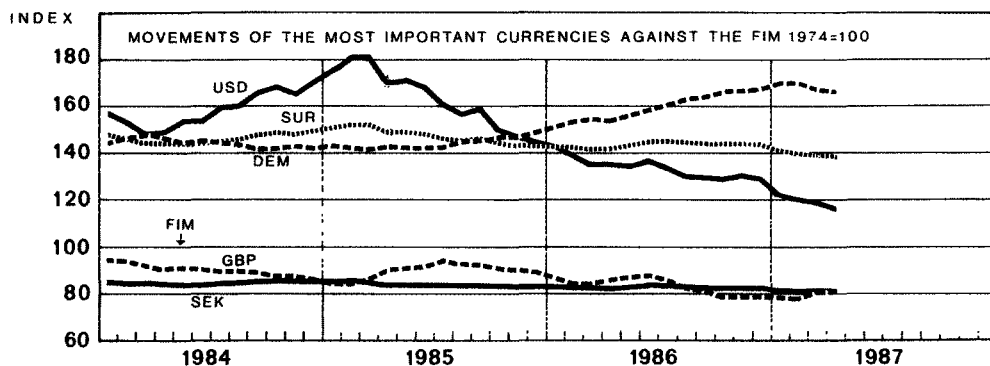
Jan.	4.641	3.413	6.998	6.689	0.7031	0.6485	0.6590	2.4988	2.2148	0.12042	0.11854	2.9774
Feb.	4.560	3.422	6.971	6.660	0.7021	0.6520	0.6619	2.4991	2.2140	0.12073	0.11934	2.9603
March	4.509	3.421	7.185	6.579	0.7040	0.6521	0.6537	2.4603	2.1785	0.11884	0.11821	2.9353
April	4.422	3.360	7.216	6.535	0.7014	0.6542	0.6480	2.4429	2.1652	0.11797	0.11747	2.9599



Average selling rates for foreign exchange. FIM

Paris 1 FF FRF	Rome 1 Lit ITL	Vienna 1 OS ATS	Lisbon 1 Esc PTE	Reykjavik 1 lkr ISK	Madrid 1 Ptas ESB	Tokyo 1 Y JPY	Moscow 1 Cl Rbl SUR	Melbourne 1 A \$ AUD	1 European currency unit XEU	1 special drawing right SDR	Currency index ¹
13	14	15	16	17	18	19	20	21	22	23	24
0.7365	0.00358	0.2831	0.0613	0.4079	0.0441	0.01943	6.624	..	..	5.305 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
0.7391	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
0.7517	0.00353	0.3555	0.0325	0.1184	0.0356	0.02975	7.050	3.063	5.153	5.74575	104.1
0.7407	0.00347	0.3503	0.0322	0.1176	0.0352	0.02980	7.003	3.119	5.103	5.71328	103.8
0.7350	0.00343	0.3478	0.0319	0.1162	0.0350	0.03097	6.971	3.165	5.072	5.70115	103.3

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



DEPOSITS BY THE PUBLIC

Mill. FIM

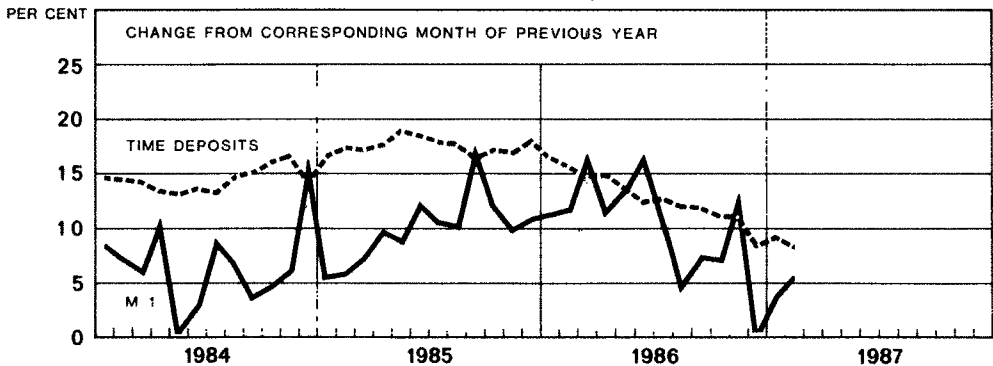
End of year and month	Demand deposits				Time deposits				Total (4+9)	
	Commercial banks	Savings banks & Co-op. banks	Post-pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Post-pankki		All deposit banks (5 to 8)
	1	2	3	4	5	6	7	8	9	10
1983	7 056	4 567	3 676	15 300	34 302	29 273	24 175	9 938	97 689	112 988
1984	8 470	5 268	4 463	18 201	39 354	33 333	27 900	11 266	111 852	130 053
1985*	9 382	5 988	5 027	20 397	49 240	38 167	32 133	12 671	132 210	152 607
1986*	9 643	6 235	4 194	20 071	51 003	42 315	36 263	13 992	143 572	163 643

1986*

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
Oct.	9 505	5 890	4 899	20 294	49 922	41 403	35 283	13 603	140 211	160 505
Nov.	9 010	6 073	5 278	20 361	50 201	41 867	35 636	13 778	141 482	161 843
Dec.	9 643	6 235	4 194	20 071	51 003	42 315	36 263	13 992	143 572	163 643

1987*

Jan.	9 054	5 891	4 401	19 346	51 823	43 129	37 068	14 402	146 423	165 770
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ADVANCES TO THE PUBLIC – MONEY SUPPLY

Mill. FIM

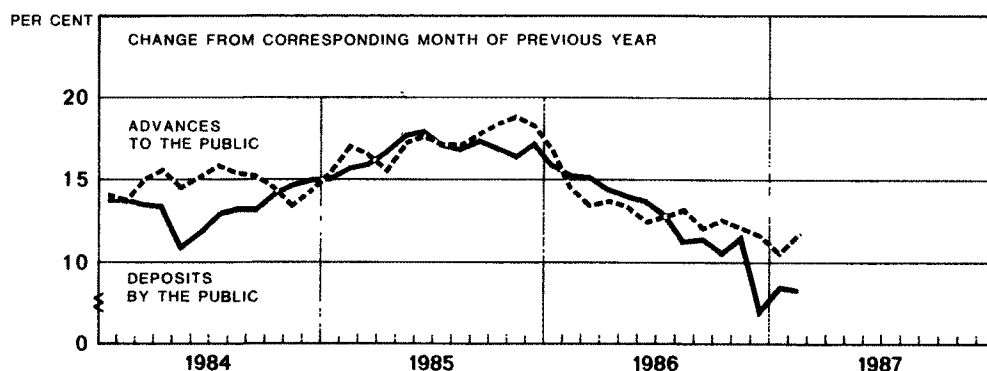
End of year and month	Advances granted by				Types of advances			Total (1 to 4) (5 to 7)	Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency		M ₁	M ₁ + Quasi-Money
	1	2	3	4	5	6	7		8	9	10
1983	56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

1986*

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	174 220
Oct.	87 572	41 343	39 913	20 120	156 083	7 573	25 294	188 949	27 471	175 271
Nov.	88 261	41 642	40 213	20 571	157 222	7 644	25 820	190 686	27 915	176 682
Dec.	88 188	42 230	40 776	20 052	158 689	7 542	25 016	191 246	27 838	179 324

1987*

Jan.	88 786	42 644	40 929	20 238	160 024	7 455	25 118	192 597	27 075	181 194
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STATE FINANCES

Mill. FIM

Revenue	Jan.-Nov.		Expenditure	Jan.-Nov.	
	1985	1986		1985	1986
Income and wealth tax (net)	24 149	24 649	Wages, salaries, pensions etc.	13 228	14 154
Gross receipts	59 671	64 828	Repair and maintenance	1 682	1 704
Refunds & local authorities	-35 522	-40 179	Other consumption expenditure	7 734	8 070
Other taxes on income and wealth	552	483	Total consumption expenditure	22 644	23 928
Employers' child allowance payments	669	4	State aid to local authorities	19 262	21 210
Sales tax	22 419	24 779	State aid to industries	8 797	9 230
Customs duties and import charges and levies	1 492	1 617	of which: agric. price subsidies	4 598	4 311
Excise duties	10 587	11 458	Child allowances	2 473	1 959
Excise duty on alcoholic bevs.	3 804	4 327	Share in national pensions and sickness insurance schemes	2 041	1 539
Excise duty on tobacco	1 523	1 620	Deficit of State enterprises	1 084	1 122
Excise duty on liquid fuel	3 628	3 861	Other transfer expenditure	11 278	12 526
Other excise duties	1 633	1 650	Total transfer expenditure	44 936	47 586
Tax on autom. and motor-cycles	2 589	3 141	Machinery and equipment	1 826	2 147
Stamp duties	2 422	2 997	Construction of buildings	1 018	890
Special diesel etc. vehicles tax	351	390	Land and waterway construction	2 173	2 328
Other taxes and similar revenue	1 934	1 861	Total real investment	5 018	5 365
Total taxes	67 166	71 380	Interest on State debt	4 364	4 469
Miscellaneous revenue	5 247	6 374	Other expenditure	26	18
Interest, dividends etc.	1 981	2 293	Total other expenditure	4 390	4 486
Surplus of state enterprises	1 925	2 167	Increase in inventories	161	172
Redemptions of loans granted	1 541	1 841	Lending	3 793	3 643
Total revenue	77 859	84 056	Other financial investment	790	713
Foreign borrowing	3 374	5 592	Total expenditure	81 732	85 893
Domestic borrowing	7 000	7 480	Redemption of foreign loans	1 334	6 331
Total borrowing	10 374	13 072	Redemption of domestic loans	5 059	4 089
Deficit (+) or surplus (-)	-107	-814	Total redemptions	6 393	10 420
Total	88 125	96 313	Total	88 125	96 313

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

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

1986*			
Period	Exports f.o.b	Imports c.i.f.	Surplus of exports (+) or imports (-)
June	5 561	3 931	+1 630
July	6 996	6 632	+364
Aug.	6 471	6 479	-8
Sept.	7 760	7 683	+77
Oct.	7 935	6 600	+1 335
Nov.	7 602	6 754	+848
Dec.	7 474	6 835	+639

1987*			
Period	Exports f.o.b	Imports c.i.f.	Surplus of exports (+) or imports (-)
Jan.	6 721	6 713	-8
Feb.	6 382	5 739	+643

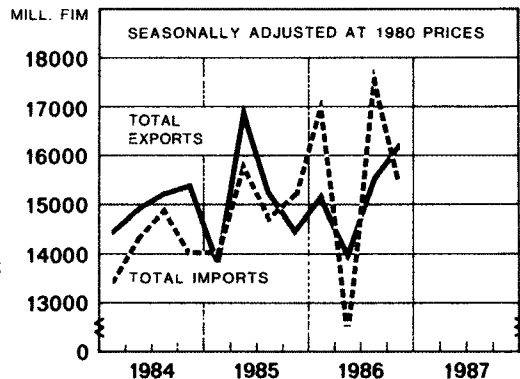
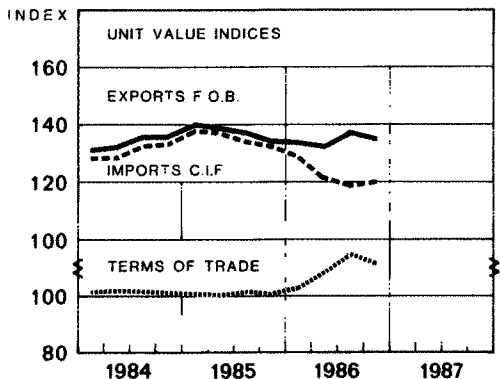
Jan.-Feb.			
Period	Exports f.o.b	Imports c.i.f.	Surplus of exports (+) or imports (-)
1986*	13 715	13 781	-66
1987*	13 103	12 452	+651

Period	Indices of exports and imports 1980=100				
	Volume		Unit value		Terms of trade
	Exports	Imports	Exports	Imports	
	1	2	3	4	5
1982	100	95	119	117	101
1983	104	98	127	125	101
1984	114	98	134	131	102
1985	115	104	138	135	102
1986	116	110	135	121	111

1984					
Period	Exports	Imports	Exports	Imports	Terms of trade
Oct.-Dec.	121	101	137	134	102

1985					
Period	Exports	Imports	Exports	Imports	Terms of trade
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*					
Period	Exports	Imports	Exports	Imports	Terms of trade
Jan.-March	113	110	134	130	104
Apr.-June	104	90	133	122	109
July-Sept.	117	119	138	119	116
Oct.-Dec.	129	116	136	119	114



FOREIGN TRADE BY MAIN GROUPS

Mill. FIM

Period	Exports, f.o.b.					Imports, c.i.f.				
	Agricultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Raw materials and intermediate goods	Fuels and lubricants	Finished goods		Other goods
								Investment goods	Consumer goods	
1	2	3	4	5	6	7	8	9	10	
1982	1 676	6 278	17 502	18 908	18 662	41 144	4 869	9 195	9 130	413
1983	1 723	6 944	19 327	20 211	21 487	44 757	5 006	10 860	10 572	333
1984	2 865	7 145	23 573	22 998	24 323	47 028	5 034	10 993	11 454	173
1985	2 678	6 728	25 030	24 412	25 179	50 944	5 502	11 675	12 967	432
1986*	2 478	6 947	24 600	26 115	22 439	45 413	3 949	12 898	15 069	273

1986*

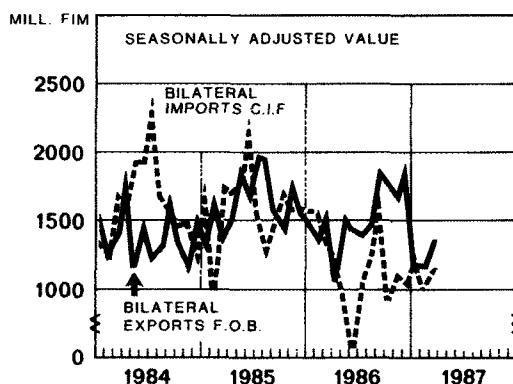
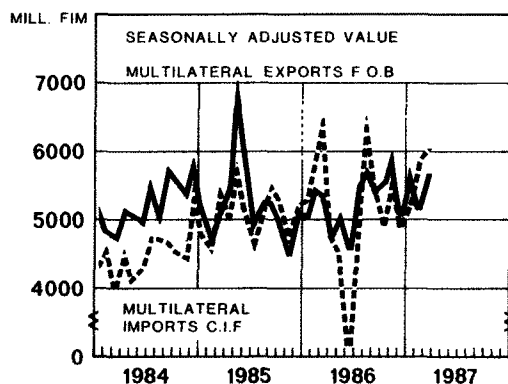
June	142	506	2 012	1 411	1 490	2 344	166	681	738	2
July	263	637	2 308	2 069	1 719	3 730	427	1 228	1 240	6
Aug.	236	545	2 072	1 819	1 799	3 563	421	1 047	1 422	25
Sept.	125	607	2 245	2 726	2 057	4 569	412	1 203	1 483	16
Oct.	154	702	2 444	2 396	2 239	3 771	337	1 123	1 275	94
Nov.	163	755	2 190	2 443	2 051	3 866	314	1 197	1 368	10
Dec.	179	626	1 992	2 964	1 713	3 948	238	1 426	1 181	42

1987*

Jan.	213	588	2 042	2 075	1 803	3 922	311	1 079	1 255	146
Feb.	202	513	2 079	1 826	1 762	3 263	100	928	1 426	22

Jan.-Feb.

1986*	624	976	3 683	4 140	4 292	8 596	796	1 926	2 449	14
1987*	415	1 100	4 122	3 900	3 566	7 185	411	2 007	2 680	169



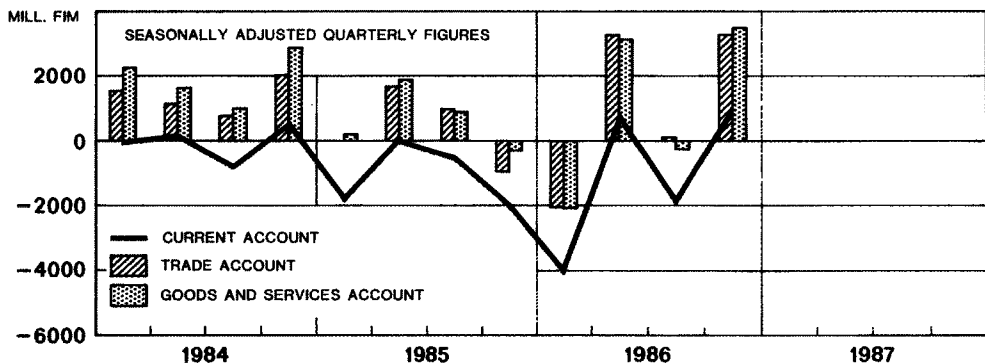
FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January-February				January-February			
	1986*		1987*		1986*		1987*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
OECD countries in Europe	62.3	8 545	67.0	8 788	56.2	7 746	62.4	7 768
Austria	0.9	120	1.1	144	1.1	155	1.2	151
Belgium and Luxembourg	1.8	241	1.7	225	2.0	278	2.7	335
Denmark	5.1	706	4.6	597	2.4	334	2.7	335
France	4.3	587	5.6	740	3.6	492	4.2	521
Federal Republic of Germany	9.9	1 362	11.0	1 440	15.6	2 145	18.1	2 256
Italy	2.2	303	2.5	328	3.5	479	4.1	516
Netherlands	3.7	504	4.1	540	2.9	395	2.9	359
Norway	4.7	649	4.1	542	3.0	409	2.3	291
Portugal	0.3	40	0.3	35	0.8	110	1.2	151
Spain	0.8	114	1.2	156	1.4	199	1.2	154
Sweden	14.8	2 031	16.2	2 124	12.2	1 688	12.6	1 564
Switzerland	1.7	240	2.0	260	1.6	217	2.0	249
United Kingdom	10.6	1 452	10.9	1 429	5.5	757	6.2	773
Other	1.4	196	1.7	228	0.6	88	0.9	113
OECD countries outside Europe	9.7	1 328	8.9	1 157	12.5	1 725	13.0	1 618
Canada	1.2	164	1.3	165	0.5	67	0.4	54
Japan	1.4	195	1.1	141	6.6	904	5.0	905
United States	5.9	812	5.5	726	5.0	695	7.3	625
Other	1.1	157	1.0	125	0.4	59	0.3	34
CMEA countries	18.8	2 583	15.4	2 022	20.4	2 816	16.9	2 105
Czechoslovakia	0.5	68	0.5	68	0.5	66	0.6	71
German Democratic Republic	0.4	60	0.5	62	0.5	74	0.5	58
Poland	0.3	40	0.4	57	1.0	143	0.7	83
Soviet Union	16.6	2 274	13.4	1 762	17.7	2 443	14.5	1 811
Other	1.0	141	0.6	73	0.7	90	0.7	82
Latin America	1.6	216	1.7	224	2.3	321	2.0	250
Argentina	0.1	12	0.1	14	0.1	12	0.1	7
Brazil	0.2	24	0.3	39	0.9	120	0.5	61
Colombia	0.1	16	0.1	8	0.5	75	0.6	71
Other	1.2	164	1.2	163	0.8	114	0.9	111
Other	7.6	1 043	7.0	912	8.5	1 173	5.7	711
GRAND TOTAL	100.0	13 715	100.0	13 103	100.0	13 781	100.0	12 452
of which								
EFTA countries	22.3	3 057	23.5	3 084	18.3	2 485	18.2	2 267
EEC countries	39.6	5 434	43.1	5 652	38.1	5 254	44.1	5 494
OECD countries	72.0	9 873	75.9	9 945	68.7	9 472	75.4	9 387

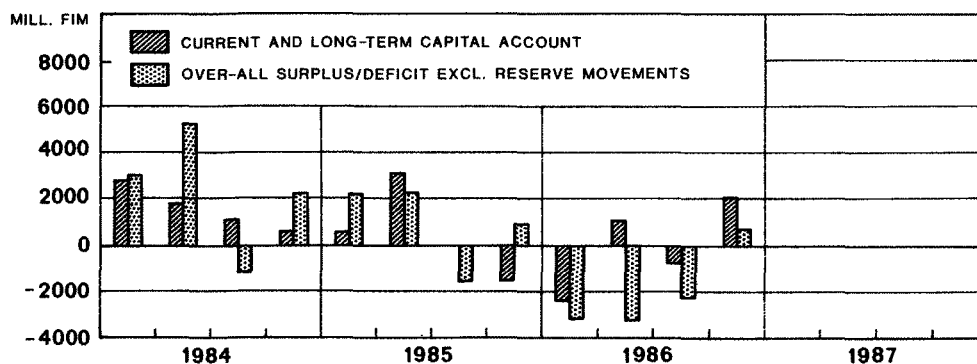
BALANCE OF PAYMENTS

Period	Exports f.o.b.	Imports c.i.f.	Trade account (1-2)	Transport. net	Travel. net	Other services. net	Goods and services account (3 to 6)	Invest- ment income. net	Un- requited transfers. net	Other. net	Current account (7 to 10)
	1	2	3	4	5	6	7	8	9	10	11
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



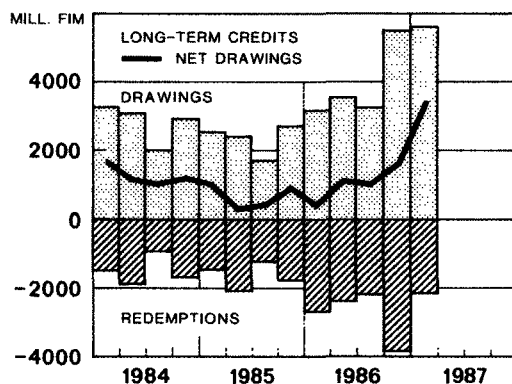
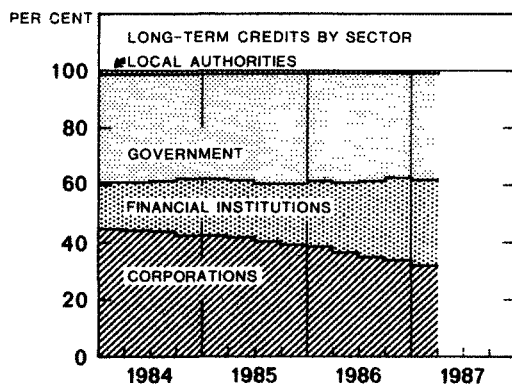
Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net	Long-term capital account (12 to 15)	Current and long-term capital account (11 + 16)	Prepayments and liabilities related to imports	Prepayments and receivables related 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 -

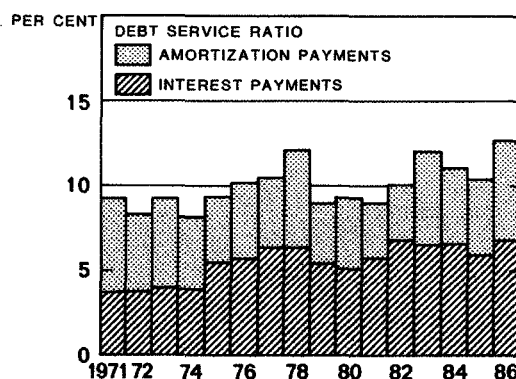
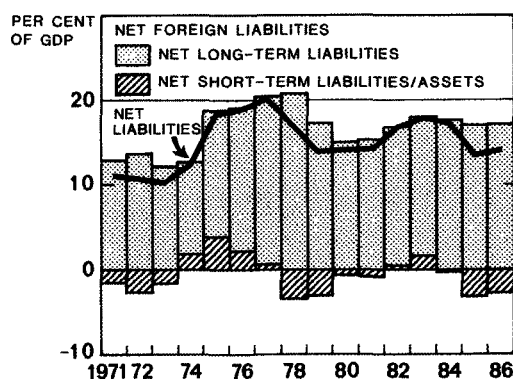


FINLAND'S FOREIGN ASSETS AND LIABILITIES

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	11 505	5 535
22 912	43 319	12 804	79 035	4 562	55 695	17 988	78 245	-790	53 232	11 594	4 613
25 183	38 775	18 155	82 113	4 070	51 374	16 103	71 547	-10 565	46 201	11 276	4 808
16 613	51 683	17 805	86 101	3 455	55 467	17 197	76 118	-9 983	51 390	13 392	6 185
14 740	25 724	15 374	55 838	3 657	37 966	15 571	57 193	1 355	46 782	3 533	1 462
20 705	31 935	14 978	67 618	3 775	47 084	16 836	67 694	76	48 481	2 451	1 178
21 064	34 621	14 727	70 411	4 815	47 882	17 431	70 128	-283	51 926	2 223	596
22 912	43 319	12 804	79 035	4 562	55 695	17 988	78 245	-790	53 232	3 387	1 377
24 785	44 984	15 869	85 638	4 535	59 386	18 402	82 323	-3 316	50 920	3 397	1 561
26 208	46 661	18 635	91 504	3 729	62 896	18 772	85 397	-6 106	51 678	2 791	1 039
24 770	44 927	18 183	87 880	4 240	59 370	17 880	81 490	-6 390	50 395	2 320	1 011
25 183	38 775	18 155	82 113	4 070	51 374	16 103	71 547	-10 565	46 201	2 768	1 197
21 647	40 424	18 037	80 109	3 659	50 424	17 392	71 475	-8 633	48 806	3 787	2 126
18 470	45 237	18 213	81 921	3 499	52 647	15 786	71 932	-9 988	49 899	3 163	1 176
16 168	51 576	18 143	85 887	3 565	54 990	17 018	75 573	-10 314	49 752	2 306	837
16 613	51 683	17 805	86 101	3 455	55 467	17 197	76 118	-9 983	51 390	4 136	2 046



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	150.5	153.9	148.2
1986										
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	150.6	154.1	148.3
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
1987										
Jan.	1 269	132.9	139.9	111.7	121.0	145.6	149.9	154.0	158.9	151.4
Feb.	1 271	133.2	140.3	111.8	120.9	146.2	151.0	154.3	158.9	151.8
March	1 274	133.3	140.6	111.0	120.6	146.6	151.4	155.8	165.2	151.4

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										
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
1987										
Jan.	142.2	145.1	152.9	130.9	134.6	137.7	170.3	135.0	146.3	154.3
Feb.	142.7	145.4	152.9	132.7	134.6	138.0	171.6	135.8	146.5	155.1
March	143.4	146.3	155.2	134.6	134.6	138.7	171.6	137.2	146.8	155.1

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	
1984	148.5	149.9	152.8	152.8	147.1	154.7	150.5	151.4	149.7	150.8
1985	160.6	161.2	168.8	165.1	158.8	166.7	163.5	164.2	162.2	163.5
1986*	175.2	170.7	178.3	178.1	169.6	180.1	174.5	176.5	171.8	174.8
1985										
Oct.-Dec.	166.8	163.1	174.0	167.1	160.4	168.3	167.1	167.1	165.3	166.4
1986*										
Jan.-March	177.2	166.7	175.5	173.9	166.6	176.1	169.6	171.8	167.9	170.4
Apr.-June	174.7	172.1	174.3	178.3	170.2	180.2	174.6	176.8	171.9	175.0
July-Sept.	172.2	171.5	178.8	179.3	170.6	181.2	175.5	177.8	172.4	175.9
Oct.-Dec.	176.7	172.6	184.5	180.9	170.8	182.9	178.1	179.8	174.8	178.0

PRODUCTION

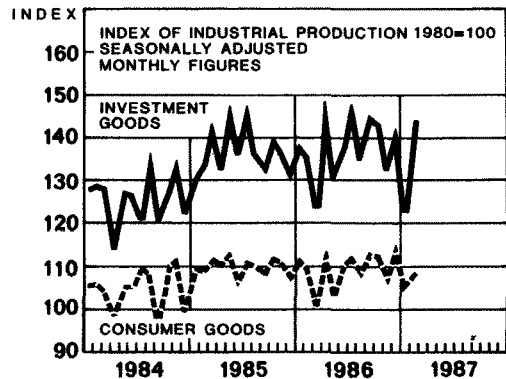
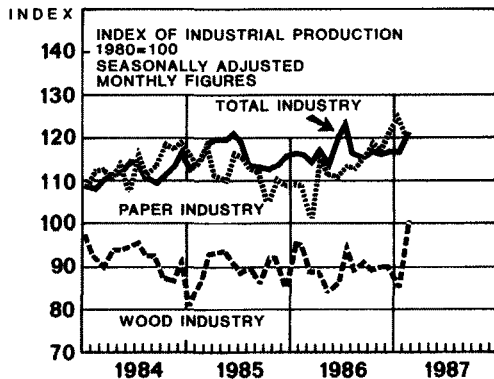
Volume indices of production 1980 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communication	Commerce	Public sector services	Others
1984										
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	109	71	96	80	97	109	103	120	122
Apr.-June	114	121	77	90	71	117	111	118	117	132
July-Sept.	116	110	181	39	111	117	116	119	121	130
Oct.-Dec.	127	129	85	105	139	117	130	126	123	139

PRODUCTION

Index of industrial production 1980 = 100

Period	Total	Investment goods	Consumer goods	Other producer goods	Special indices of manufacturing						Total adjusted for seasonal variations
					Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
	1	2	3	4	5	6	7	8	9	10	11
1984	111.8	126.8	105.6	111.9	109.3	92.4	114.3	111.5	108.4	120.0	112.1
1985*	116.1	137.8	110.3	114.7	111.3	89.4	113.1	115.1	109.7	129.9	116.5
1986*	117.1	138.7	110.3	116.2	109.8	90.3	113.6	118.7	103.6	132.9	117.3
1986*											
Feb.	111.0	133.4	107.9	108.2	91.9	87.4	104.2	110.6	83.2	124.1	116.3
March	107.5	126.4	104.0	105.5	90.7	86.2	95.5	122.3	81.4	120.6	115.0
April	125.6	157.6	117.8	123.4	113.8	115.9	119.2	134.1	98.7	149.1	117.9
May	118.6	159.1	109.7	115.5	103.1	102.4	106.6	122.0	98.3	148.0	114.3
June	118.0	152.6	104.7	118.0	106.3	96.0	101.6	114.5	102.8	141.7	120.5
July	86.1	71.1	75.0	93.8	103.3	45.6	126.1	84.0	71.4	72.1	124.1
Aug.	114.3	124.2	108.4	115.0	107.2	80.3	117.5	123.0	118.4	122.2	116.5
Sept.	125.4	148.4	117.8	124.7	111.4	105.2	115.6	125.7	139.5	145.2	115.7
Oct.	134.6	163.5	128.2	132.2	139.8	107.7	125.3	122.1	140.3	158.7	117.1
Nov.	124.3	144.9	118.7	122.9	129.4	92.4	123.3	126.0	116.0	140.9	116.5
Dec.	116.9	140.3	111.0	115.3	113.7	72.2	117.2	117.9	90.5	135.0	117.3
1987*											
Jan.	119.2	128.4	115.6	118.9	99.2	80.8	127.0	118.7	93.8	125.0	117.1
Feb.	115.2	141.7	107.4	113.9	89.7	92.4	115.3	109.5	89.0	130.8	121.3



LABOUR – TIMBER FELLINGS – INTERNAL TRADE

Period	Population of working age, 1 000 persons	Total labour force, 1 000 persons	Employed, 1 000 persons	Un-employed, 1 000 persons	Unemployment, % of total labour force	Commercial timber fellings, 1 000 solid cu. m	Retail sales volume index 1980 = 100	Wholesale volume index 1980 = 100
	1	2	3	4	5	6	7	8
1985*	3 710	2 600	2 437	163	6.3	43 349	114	110
1986*	3 716	2 612	2 431	182	7.0	38 832	117	115
1986*								
Jan.	3 714	2 553	2 360	193	7.6	4 232	110	103
Feb.	3 715	2 540	2 346	194	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	171	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	166	6.3	1 194	116	114
Sept.	3 715	2 600	2 428	172	6.6	2 143	116	126
Oct.	3 716	2 576	2 394	182	7.1	3 100	119	130
Nov.	3 717	2 567	2 392	175	6.8	3 626	110	115
Dec.	3 718	2 572	2 399	173	6.7	3 981	137	126
1987*								
Jan.	3 719	2 510	2 337	173	6.9	3 173	114	103
Feb.	3 718	2 486	2 346	141	5.7	4 912	..	..

CONSTRUCTION OF BUILDINGS

Period	Building permits granted					Buildings completed					Building-works under construction
	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	
Million cubic metres											
	1	2	3	4	5	6	7	8	9	10	11
1985*	48.17	18.17	6.70	16.53	3.41	44.74	17.40	4.94	15.97	3.35	49.64
1986*	47.77	16.84	6.19	17.18	3.97	39.43	14.92	4.97	13.25	3.44	54.20
1985*											
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.	12.77	4.35	1.27	4.79	1.28	11.63	3.89	1.83	3.82	1.27	57.01
Oct.-Dec.	8.82	2.70	0.76	3.44	1.24	14.32	5.24	1.88	4.92	1.11	52.40

EXPLANATIONS RELATING TO THE STATISTICAL SECTION

BANK OF FINLAND

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

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

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

MONETARY POLICY INDICATORS

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

Gross central bank debt of the deposit banks = call money credits and term credits extended to and certificates of deposit bought from the commercial banks and Postipankki. As from January 1984, the only source of central bank debt was the call money market. Three month term credits were introduced in December 1986 and open market operations in CDs were started in March 1987. Banks' borrowing from the central bank is monitored; a bank exceeding stipulated limits comes under the special surveillance of the central bank. The rate of interest on call money credits is set by the central bank. The rates of interest on term credits and deposits are 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 call money and term deposits and their holdings of CDs issued by the Bank of Finland. - All deposit banks' cash reserve deposits at the Bank of Finland.

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

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

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

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

FORWARD EXCHANGE MARKETS IN FINLAND

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

FOREIGN EXCHANGE RATES

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

DEPOSITS BY THE PUBLIC -

ADVANCES TO THE PUBLIC - MONEY SUPPLY

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

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

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

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

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

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

STATE FINANCES

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

FOREIGN TRADE

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

BALANCE OF PAYMENTS

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

Columns 1-7 The figures for the trade and goods and services accounts are in accordance with the System of National Accounts. Columns 12-13. Long-term loans comprise financial loans and import and leasing credits.

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

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

FOREIGN ASSETS AND LIABILITIES

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

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

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

Columns 22 and 23 during the year and the quarter.

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

PRICE INDICES

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

WAGES - PRODUCTION

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

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

LABOUR - TIMBER FELLINGS - INTERNAL TRADE - CONSTRUCTION OF BUILDINGS

Page 28. *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 1 155 to 1 809 Finland formed a part of the kingdom of Sweden. Connected from 1 809 with Russia, Finland was an autonomous country with the Emperor as Grand Duke until December 6, 1917. The date of Finland's declaration of independence. The republican constitution was adopted in 1919. The legislative power of the country is vested in Parliament and the President. The highest executive power is held by the President, elected for a period of 6 years. The President for the current term, January 27, 1982, to March 1, 1988, is Mauno Koivisto.

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

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

INTERNATIONAL ORGANIZATIONS

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

LAND

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

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

POPULATION

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

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

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

EMPLOYMENT (1986): Agriculture and forestry 11 %, industry and construction 32 %, commerce 15 %, transport and communication 8 %, financing, insurance, real estate and business services 6 %, community and personal services 26 %.

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

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

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

TRADE AND TRANSPORT

NATIONAL INCOME (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 296 771. Index of real domestic product : 14 (1980 = 100).

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

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

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

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

MERCHANT FLEET (March 31, 1987): Passenger vessels 166 (262 450 gross reg. tons), tankers 30 (467 476 gross reg. tons), dry cargo vessels 121 (393 062 gross reg. tons), other vessels 109 (41 321 gross reg. tons), total 426 (1 184 309 gross reg. tons).

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

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

FINANCE AND BANKING

CURRENCY. Since 1860, Finland has had its own monetary system. From 1877 until 1914 the country was on the gold standard, and returned to it in 1926. In 1931, the Central Bank's duty to redeem bank notes in gold was suspended and at the end of 1962 was entirely cancelled. The monetary unit is the markka (plural: markkaa), which is divided into 100 penniä (singular: penni). The abbreviation used for the markka is FIM. The last par value of the markka was set on Oct. 12, 1967 and was 0.21159 grams of fine gold per markka (equivalent, at the time, to 4.20 markkaa per U.S. dollar). Since Nov. 1, 1977 the external value of the markka has been officially expressed in terms of a currency index. This index is tradeweighted and as from Jan. 1, 1984 indicates the average change in the convertible currencies which are important in Finnish foreign trade. The present currency weights are SEK 20.4, DEM 19.3, GBP 14.3, USD 9.0, other currencies 37.0. 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 ½ % and 9 ½ %. Other credit institutions: time deposits 2 ½ %; 6 month deposits 4 %; 12 month deposits 5 ½ %; 24 month deposits 7 %.

THE FINNISH ECONOMY IN 1986 AND THE CURRENT OUTLOOK

by **Martti Lehtonen**, Head of Office
Economics Department
Bank of Finland

INTRODUCTION

After four years of steady growth at close to 3 per cent, the rate of expansion of total output slowed to just under 2 per cent in 1986. Activity remained particularly sluggish in the first half of the year. Apart from a normal cyclical downswing, this was due to the sharp drop in oil prices, which exacerbated structural demand shifts in export markets. In addition, output losses were incurred as a result of labour disputes in the spring. However, the second half of the year witnessed a marked upturn in activity with real GDP increasing by over 3 per cent from the same period in the previous year. Contributing to the growth was a rebound in activity following the settlement of the labour disputes and an unexpectedly strong recovery in exports to western markets.

Unrest in the labour market and high pay agreements, together with certain unfavourable developments in the international environment, gave rise to speculative pressures against the markka from time to time. After a tightening in monetary policy, however, speculation abated towards the end of the year. As built-in stabilizers also exerted a restrictionary impact, the overall balance of the economy was satisfactory at the end of 1986. There was a modest fall in employment, but the seasonally adjusted unemployment rate was still slightly below 7 per cent at the end of the year.¹ Consumer price inflation decelerated to 3.4 per cent during the year, even if the slow adjustment of domestic costs prevented it from falling to the average level in competitor countries. Overall, the current account posted

a moderate deficit of 1.2 per cent of GDP, with a sizeable surplus in bilateral trade and a deficit of just under 3 per cent of GDP in multilateral trade. The central government's budget deficit was smaller than in 1985.

TABLE. PERFORMANCE OF THE FINNISH ECONOMY IN 1980-86, 1985-86 SEMI-ANNUAL FIGURES

	1980-85	1985		1986	
	average	I	II	I	II
GDP volume, Percentage change from previous year	3.2	3.6	2.2	0.5	3.1
Percentage change at annual rate from previous half year	.	4.6	0.2	0.7	5.8
Unemployment rate, per cent	5.7	6.2	6.4	6.8	7.1
Consumer prices, percentage change from previous year	9.1	6.5	5.3	3.8	3.4
Current account balance, per cent of GDP	-1.4	-1.1	-1.7	-1.9	-0.4

The outlook for the Finnish economy in 1987 appears fairly bright. The growth of exports to western markets is expected to maintain its momentum in the coming months. This will compensate for the sharp reduction in deliveries to the Soviet Union, which is necessary in order to balance bilateral trade at a level corresponding to the reduced value of oil imports. The major components of domestic demand are expected to continue growing at a steady pace. No serious problems seem likely to emerge in either the internal or the external balance of the economy, although the margin for manoeuvre is rather narrow, especially on the inflation front.

¹ Including recipients of unemployment pension, who were removed from the unemployment statistics from January 1987

MAIN FEATURES OF ECONOMIC POLICIES

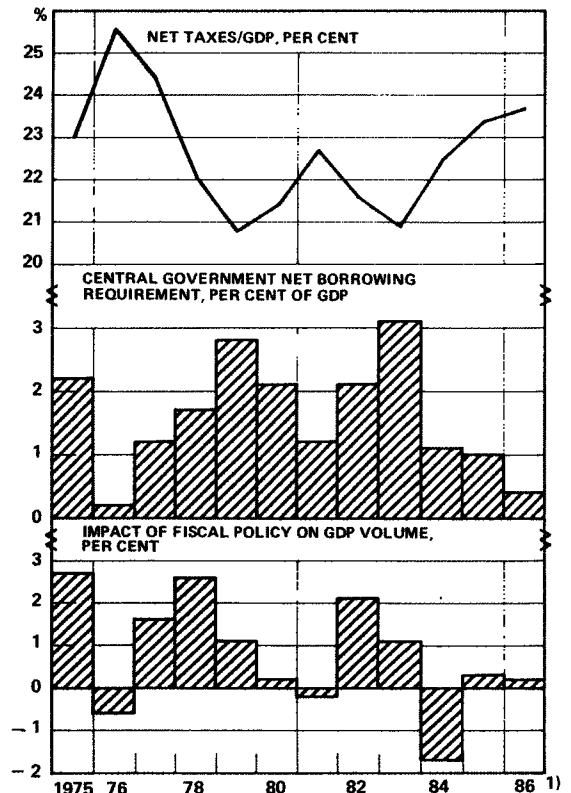
The export-led expansion of activity from the second half of 1983 until the first half of 1985 rendered necessary the maintenance of a relatively tight stance in both fiscal and monetary policies. As before, the prime aim was to curb inflation. The slowdown in economic growth during 1985 complicated the task of formulating economic policies. Expansionary fiscal measures were included in the Government's budget proposal for 1986 submitted in the autumn of 1985.

FISCAL POLICY AND PUBLIC FINANCE

Although the curbing of inflation remained the major objective of fiscal policy, it was also felt necessary to support demand for employment reasons. To reconcile these conflicting goals, the Government relied mainly on measures alleviating taxation, thereby seeking to reduce cost pressures and to support real incomes and demand in the private sector. To promote wage moderation, personal tax brackets for 1986 were adjusted by clearly more than the projected increase in consumer prices and social security contribution rates for insured persons were reduced. The reform of business taxation, involving a cut in the corporate income tax rate in central government taxation from 43 to 33 per cent, and the reform of energy taxation introduced on August 1, 1986 sought to permanently enhance cost competitiveness in industry, and especially in the open sector (Chart 1).

In the event, the tax concessions did not have any marked moderating effect on nominal wage developments in 1986. On the other hand, the impact of the budget on economic activity was less expansionary than anticipated. Owing to a rapid increase in household income and private consumption, the resultant rise in tax revenue partly neutralized the impact of the tax cuts. Another reason for the decline in the public sector deficit was the postponement of tax refunds—equivalent to 0.8 per cent of GDP—from December 1986 to January 1987 as a result of a

CHART 1. CENTRAL GOVERNMENT FINANCES



1) The figures for 1986 have been corrected for the postponement of tax refund payments from December 1986 to January 1987.

strike by civil servants in the spring. If the effect of this largely technical shift over the turn of the year is eliminated, the government sector exercised a slightly expansionary impact on GDP growth.

CENTRAL BANK POLICY AND FINANCIAL MARKETS

The expansionary tone of fiscal policy underlined the need to maintain a relatively tight stance in monetary policy. Since the fixed exchange rate provides an anchor for price expectations in Finland, the maintenance of the external value of the markka assumed a central role in combatting inflation. Nor was a change in the exchange rate of the markka deemed necessary from the point of view of competitiveness or the current account.

During the early months of 1986, the cautious easing of central bank policy was continued.

This was attributable both to the slowdown in economic activity and the easing of inflation. Accordingly, the base rate and the call money rates were lowered.

Because of the still rather uncertain economic prospects in the spring of 1986, the devaluation of the Norwegian krone in May provoked uncertainty about the external value of the Finnish markka. Speculative capital flows led to a rapid decline in the convertible foreign exchange reserves. The steps taken by the Bank of Finland to counter the speculative forces—a temporary rise in the call money rate and allowing the currency index to rise by 2 per cent within its band—only succeeded in calming the foreign exchange market for a short while. The late summer saw a resumption of speculation and the Bank of Finland was forced to raise the call money rates sharply. Thereafter, confidence in the markka was gradually restored, and in the early months of the current year the external reserves have increased rapidly while interest rates have fallen back to normal levels (Chart 2).

Partly owing to the increased volatility in financial markets, the Bank of Finland decided to enlarge its range of monetary policy instruments by providing banks longer-term central bank financing in addition to the call money facility. Accordingly, the Bank started to extend three-month credits from the beginning of December 1986 and three-month deposits were introduced in February of this year. Then,

CHART 2. MONETARY POLICY INDICATORS

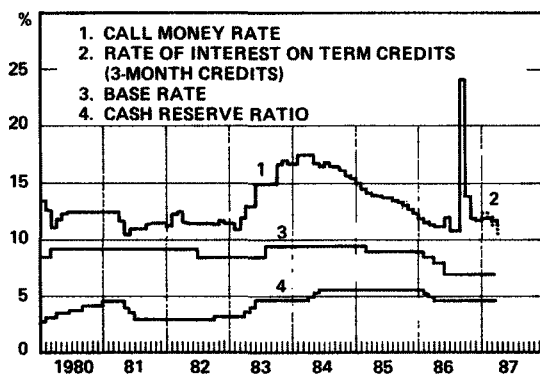
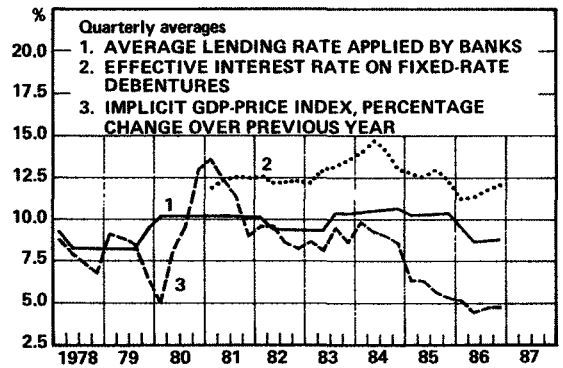


CHART 3. INTEREST RATE DEVELOPMENTS



in March, the central bank commenced open market operations in three-month paper.²

Real interest rates in Finland increased slightly, on average, during 1986. However, high real rates did not impede investment activity as badly as was feared in many quarters. The fiscal concessions aimed at firms and evidently also the ready availability of credit largely offset the adverse impact of high interest rates on corporate investment (Chart 3).

THE INTERNATIONAL ENVIRONMENT AND FINNISH EXPORTS

Despite a number of favourable developments in the world economy, in particular the collapse of oil prices, activity in the industrial countries did not improve as much as was generally anticipated in early 1986. Measured in terms of the volume of imports, Finland's western export markets grew by less than 4 per cent in 1986, one percentage point slower than in the previous year. Some strengthening of demand took place towards the end of the year, however.

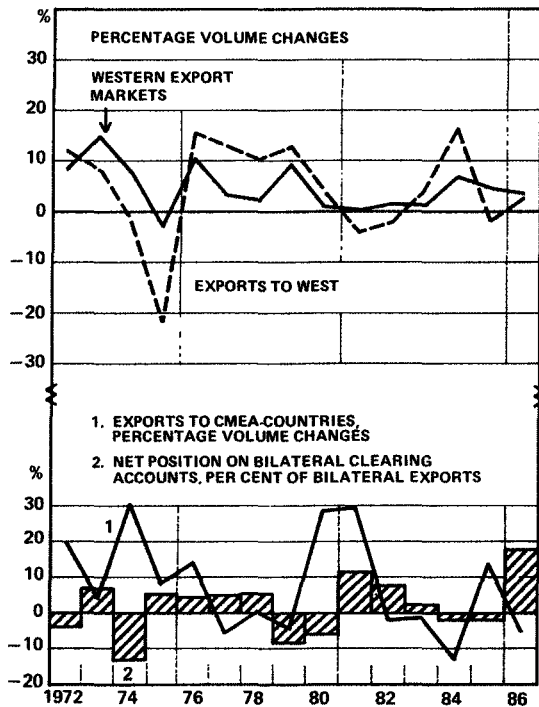
Owing to the dominant share of oil in Finland's imports from the Soviet Union and the balancing requirement in bilateral trade, the fall in the oil price was expected to severely limit the scope for exports to this country. On the other hand, it was judged that the terms-of-trade gains to real incomes in the domestic sectors and the higher activity in western markets

² See front article in this issue of the Bulletin.

resulting from lower oil prices would at least partly offset the adverse effect on demand. As, in addition, the weakening of the dollar worsened the competitive position of the Finnish forest industry vis-à-vis North American producers, it was estimated that the changed external environment would weaken Finland's relative position, especially in the short run.

The slowdown in western exports, which had begun in the previous year, sharpened in early 1986. Lower oil prices encouraged expectations of lower prices for other world commodities. This, in turn, prompted a rundown in stocks of, inter alia, forest products in major markets, and thus also reduced Finnish exports. There was nevertheless a strong upturn in the latter half of the year and the volume of western merchandise exports increased by 2.5 per cent for the year as a whole (Chart 4).³

CHART 4. GROWTH OF MARKETS AND EXPORTS



³ This figure is derived using the unit value index of exports as the price deflator. There is an indication that this index overestimates the rise in export prices by about 1 1/2 to 2 percentage points. A higher volume estimate is implied by National Accounts statistics, but these do not allow disaggregation by market areas.

Viewed by market areas, exports to OPEC and developing countries contracted markedly. As the competitiveness of Finnish exports weakened in US markets along with the slide of the dollar, exports to this area declined as well. The main impetus to growth came from markets in Western Europe, which take about 60 per cent of Finland's exports. The EMS currencies in the basket used for determining the external value of markka appreciated. Hence, improved price competitiveness in relation to European competitors contributed to the good export performance in this region.

Finland's exports to the Soviet Union in 1986 took place more or less in keeping with the annual trade agreement concluded in 1985 before the oil price collapse, and consequently the fall of more than a quarter in the value of bilateral imports was not yet reflected in full in exports. Even so, bilateral exports declined by 6 per cent in volume terms, while Finland's outstanding claim on the clearing account rose to about one-fifth of the corresponding value of exports.

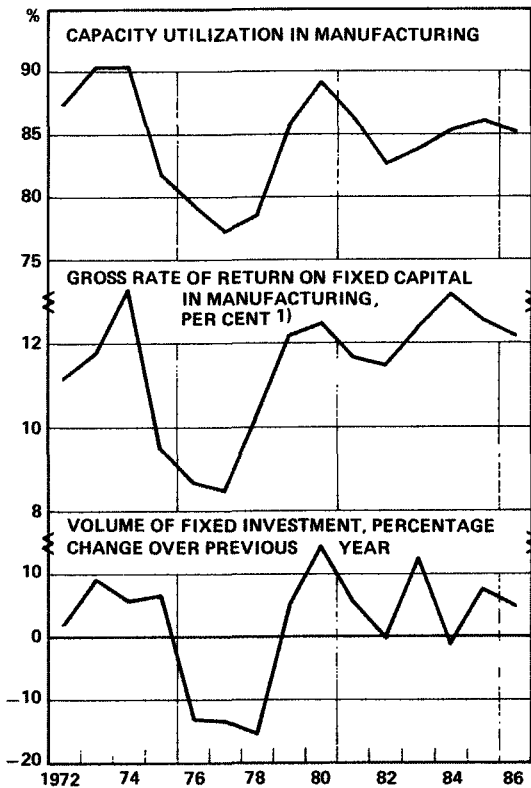
The volume of total exports of goods and services increased by slightly less than 2 per cent in 1986. As in previous years, there was a further decline in the volume of service exports. In particular, this trend reflects the reduction in construction projects abroad and the rapid decline in the size of the Finnish merchant marine.

DEVELOPMENTS IN THE CORPORATE AND HOUSEHOLD SECTORS

Uncertainty about the economic outlook for 1986 was especially reflected in expectations concerning business fixed investment. After a modest revival in investment activity in 1985, prospects for a continuation of investment growth in 1986 appeared to have deteriorated significantly. It was feared that the slackness of exports, falling export prices and high real interest rates would act as a brake on investment. Moreover, it was felt the fiscal incentives to investment would have little impact in the prevailing situation.

The terms-of-trade gains in 1986 supported income developments especially in the energy-intensive branches. In addition, energy costs in industry were reduced by the reform of energy taxation, under which industrial energy use was exempted from indirect taxes.⁴ More important, however, was the fact that companies, on a fairly broad front, strived to keep their production costs in check. A major part of the rise in hourly labour costs was matched by a rapid increase in labour productivity. In the forest industries, stumpage prices were closely linked to export prices and hence moved lower in response to the fall in world-market prices. High interest rates provided an incentive to companies to reduce the share of external finance in their capital structures. In the sheltered sectors, companies were also able to widen their profit margins on account of strong domestic demand (Chart 5).

CHART 5. NON-FINANCIAL CORPORATE SECTOR INDICATORS

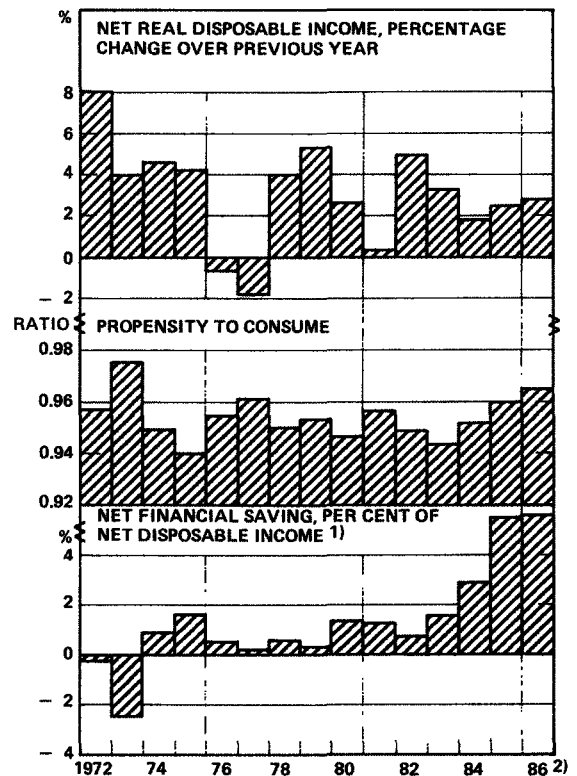


1) Gross operating surplus as per cent of gross capital stock.

The 5 per cent growth of fixed investment recorded in the manufacturing industry was greater than expected. In addition, outlays on research and development continued to grow faster than conventional types of investment. Even though the strike losses in the construction industry were not fully made up in the course of 1986, fixed investment in the sheltered corporate sector also exceeded the level of the previous year. At the end of 1986, construction work in progress, excluding dwellings, was running at a clearly higher level than a year earlier.

The rapid increase in real earnings as well as the easing of income taxation supported the growth of household disposable income, and private consumption turned out to be the most expansive demand component. The sharp rise in the call money rate in the late summer also pushed up interest rates on consumer credit

CHART 6. HOUSEHOLD SECTOR INDICATORS



1) On the basis of flow-of-funds statistics.

2) The figures for 1986 have been corrected for the postponement of tax refund payments from December 1986 to January 1987.

⁴ For details, see the front article in the August 1986 issue of the Bulletin.

and as a result the consumption boom levelled off towards the end of the year. Adjusted for the postponement of tax refunds, the propensity to consume rose by about half a percentage point, but households' financial saving nevertheless increased. In view of the growth of household real income, the contraction of nearly 10 per cent in residential investment seems strikingly large. The downward trend in recent years can be traced to demographic factors, while high real interest rates have accelerated the decline by directing household savings away from dwellings to financial assets. Admittedly, the effects of the strikes were also clearly evident in residential investment (Chart 6).

INTERNAL AND EXTERNAL BALANCE OF THE ECONOMY

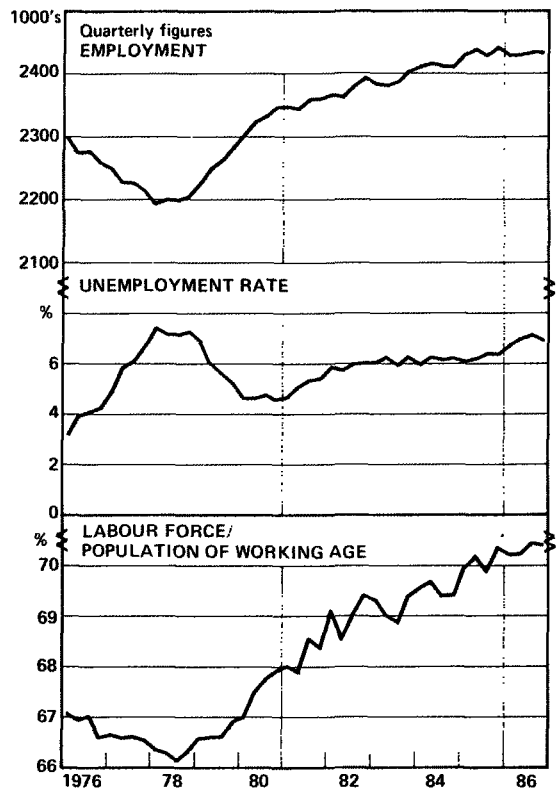
EMPLOYMENT

The long upward trend in the level of the employment was broken in 1986, and there was a small decline in the employed labour force. The high wage settlements and the strain on profitability caused by high real interest rates undoubtedly contributed to cuts in the labour force. Employment decreased in the primary sector and in industry. A new feature was a marked deceleration in the growth of employment in the service industries (Chart 7).

The supply of labour increased by 0.5 per cent in 1986, which was clearly less than in the previous year. Contributing to the slowdown were the increased opportunities to take an early retirement. The average unemployment rate nevertheless rose to 7.0 per cent from 6.3 per cent in the previous year. The rise in unemployment took the form of an increase in the number of persons on unemployment pension.⁵

⁵ From January 1987 onwards, the unemployment figures include only those unemployment pension recipients who are seeking a job. Previously all unemployment pensioners were classified as unemployed. This change of definition lowers the average unemployment rate by about 1 1/2 percentage points (for details see the item in this issue of the Bulletin).

CHART 7. LABOUR MARKET

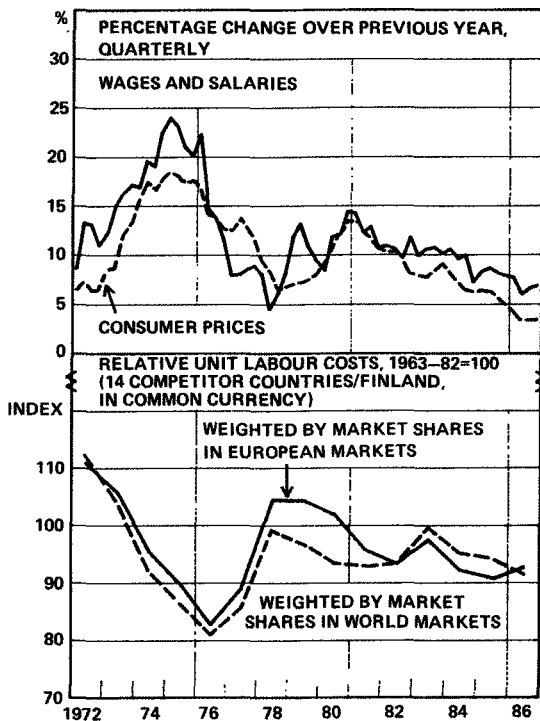


INFLATION

The deceleration in the rate of increase in wage costs and prices continued last year. However, the inflation differential vis-à-vis competitor countries persisted. The disinflationary impulses stemming from foreign trade prices had relatively little impact on wage demands, which perhaps to a greater degree than before reflected competition between trade unions. Several of the agreements were reached only after protracted strikes. The two-year centralized agreements provided for a general pay increase of 2 1/2 per cent on average in the spring of 1986 and again in March 1987. Most individual sectors subsequently agreed on pay increases which were somewhat higher than those in the basic agreement. Including the carry-over from previous settlements and wage drift, earnings increased by 6.8 per cent, on average, in 1986. Taking into account a shortening of working hours, hourly labour costs rose by just over 8 per cent.

An increase in productivity amounting to over 4 per cent absorbed a significant proportion of the higher labour costs in industry. Notwithstanding this, unit labour costs continued to rise at a slightly faster pace than in the industrial sectors of competitor countries on average. As noted above, the competitive position of Finnish industry in Europe improved as a result of the depreciation of the markka in relation to most European currencies and the energy tax reform (Chart 8).

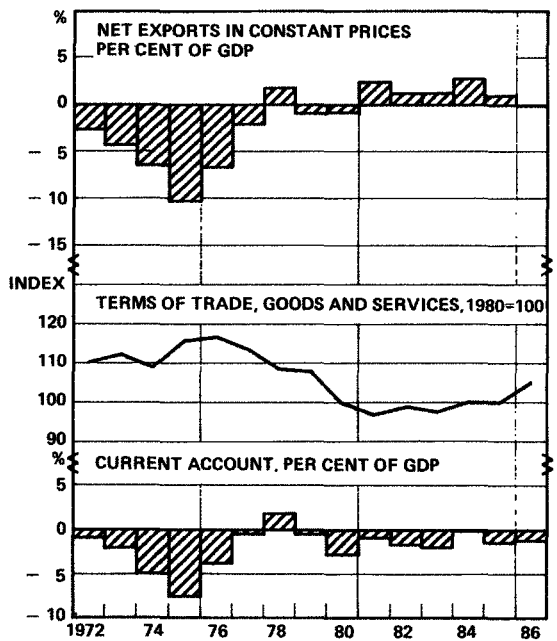
CHART 8. INFLATION AND PRICE COMPETITIVENESS



EXTERNAL BALANCE

Although the buoyancy of domestic demand boosted the volume growth of imports last year, the value of imports fell and the trade account surplus widened. With the services account in balance and a large deficit in the factor income account, the current account registered a deficit of just over FIM 4 billion, equivalent to 1.2 per cent of GDP (Chart 9).

CHART 9. EXTERNAL BALANCE



The convertible currency reserves came under pressure at times during 1986, when speculation against the markka was at its height. There were heavy currency outflows in the spring and especially in the late summer. However, following the temporary raising of the call money rates, the capital outflow was checked. Subsequently, confidence in the markka was gradually restored as economic prospects improved. In the early months of 1987, the convertible reserves increased rapidly and in mid-April amounted to FIM 20 billion. This enabled a resumption in the cautious lowering of short-term interest rates.

THE CURRENT OUTLOOK

Growth in the OECD area is expected to continue at a rather modest pace of 2 to 2 1/2 per cent in 1987. Lower oil prices have not boosted activity to the extent that was anticipated and the rapid realignment of exchange rates has caused adjustment problems, especially in the open sectors of economies.

The expectations of Finnish exporters were, on the whole, fairly optimistic in the early months

of the current year. This situation, which seems to be somewhat at variance with the prospect of a sluggish international environment, is mainly attributable to the continuation of relatively strong domestic demand so far in European markets.

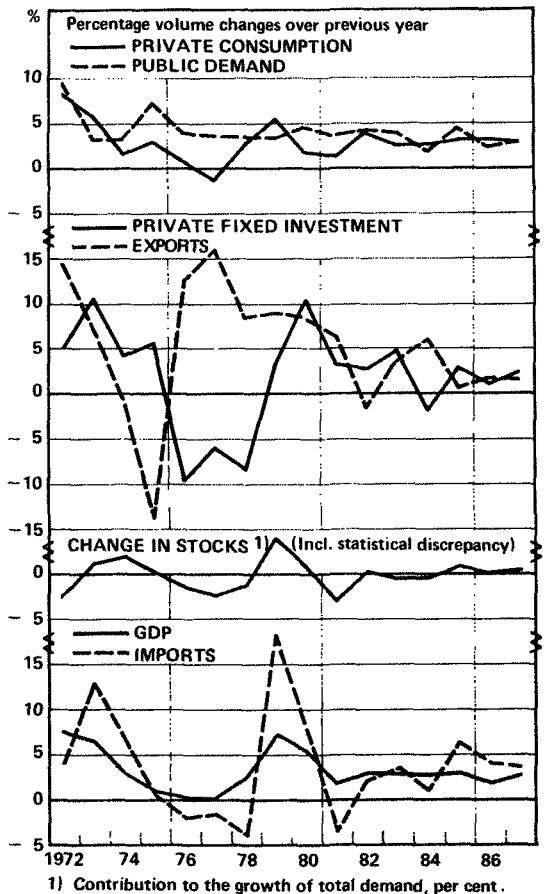
Finnish exports to western markets are projected to continue growing at a rapid pace, with the volume of merchandise exports increasing by an estimated 7 to 8 per cent for the year as a whole. The high growth rate partly reflects a positive contribution from stockbuilding. Another factor behind the favourable export performance in western markets is likely to be the efforts of exporters to use the capacity released as a result of the contraction in bilateral trade to find new outlets in the West. Because of the large bilateral trade surplus which accumulated for Finland last year, exports to the CMEA countries, notably the Soviet Union, are expected to fall by about one-fifth this year. Despite this sharp cutback, total exports are projected to increase by 2 per cent in volume. An additional positive contribution will come from an improvement in the terms of trade of about 2 per cent.

A further easing of taxation implemented in 1987 implies a shift towards an expansionary stance in fiscal policy. Excluding the technical impact of the postponement of tax refunds, the central government net borrowing requirement in relation to GDP is estimated to increase by slightly less than one percentage point. The major discretionary measures were concessions in personal income taxation and a temporary one percentage point reduction in the rate of employers' social security contributions.

With the further strengthening in confidence in the markka in the early months of 1987, short-term interest rates fell to just under 10 per cent by the middle of April. Even so, the tight monetary policy stance is likely to be maintained in the near future.

The major components of domestic demand are expected to continue to expand at a

CHART 10. COMPONENTS OF TOTAL DEMAND AND SUPPLY



relatively steady pace during 1987. Satisfactory capacity utilization rates and profitability levels should help to sustain a moderate expansion in fixed business investment. Part of the growth will be due to the impact of strikes on investment activity in 1986. Private consumption is forecast to grow at approximately same rate as in the previous year. Public sector demand is likely to contribute slightly more to GDP growth than in 1986 (Chart 10).

Given the developments in demand outlined above, GDP growth should be in the region of 2 1/2 to 3 per cent in the current year, a fairly satisfactory performance by international standards. Though short-term cyclical factors will contribute to this, more important, particularly from the longer term perspective, will be the rapid adjustment of exports to changes in

international markets and the positive response of corporate investment activity to adjustment requirements. By supporting productivity growth, these factors have also helped the economy to absorb the major part of the increase in domestic costs.

In the short run, the internal and external balance of the economy should remain satisfactory. Unemployment is expected to stabilize along with the levelling off in labour supply. However, with the turnaround in oil prices, consumer price inflation has passed its lowest point. In the open sector, the rise in unit labour costs is expected to decelerate to close to the average rate in competitor countries. Thanks to the rapid growth of western exports and the terms-of-trade gains, the current account deficit in convertible currencies is likely to

diminish. But, with a smaller surplus in bilateral trade than in 1986, the overall current account deficit should be broadly the same as last year.

On the domestic side the most serious risks, especially concerning the prospects for next year and beyond, attach to developments in costs and prices. The higher level of activity in Finland in relation to competitor countries could easily be reflected in higher nominal income claims. Problems would be aggravated if the rather large differences in sectoral wage developments in the current year were to trigger compensatory claims in next year's pay round. As Finland's export markets are likely to grow rather slowly over the next few years, price competitiveness will play a key role in determining Finland's economic performance.

MONETARY AND FOREIGN EXCHANGE POLICY MEASURES FROM JUNE 1986 TO MAY 1987

1986

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

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

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

September

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

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

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

March

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

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

Banks' central bank financing. On March 17, 1987, the Bank of Finland complements the system of monetary control by introducing

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

April

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

May

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

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

ITEMS

The new government. Following the Parliamentary elections held in March, the President of the Republic invited Mr. Harri Holkeri (Conservative), Member of the Board of Management of the Bank of Finland, to form a new government. On April 30 the President appointed a majority government with Mr. Holkeri as Prime Minister. The right-left coalition, which replaces the former centre-left government, consists of the Social Democratic Party (eight ministerial posts), the conservative National Coalition Party (seven), the Swedish People's Party (two) and the Rural Party (one). The Deputy Prime Minister and Minister for Foreign Affairs is Mr. Kalevi Sorsa (Soc. Dem.), the Minister of Finance is Mr. Erkki Liikanen (Soc. Dem.), the Minister of Trade and Industry is Mr. Ilkka Suominen (Con.), and the Minister for Foreign Trade is Mr. Pertti Salolainen (Con.).

According to the government's programme, the key aims of economic policy are to reduce unemployment, to bring down inflation below the international level and to maintain the stability of the markka. These goals can be achieved through the pursuit of long-term, coherent and growth-oriented policies.

The programme notes that a prerequisite for a significant reduction in unemployment is that the firms are able to compete successfully in international markets. The aim is to achieve greater flexibility in incomes policy mechanism in cooperation with the labour market organizations. Competition will be fostered with a view to curbing inflation and diversifying the supply side.

The government is to cooperate with the Bank of Finland in bringing down interest rates from their present level. The programme notes that it is important for allocational reasons and so as to improve financial structures that real rates of interest should stay positive.

The growth of public expenditure is to be kept within the limits set by a stable tax ratio and economic growth. The share of borrowing in financing central government expenditure will not be permanently increased. The emphasis in expenditure will be on employment, R & D, education, housing, families with children and services for the adult population.

The government is to prepare a comprehensive tax reform so that first measures can be introduced in the 1989 budget and the reform completed by the end of the current parliamentary term. The point of departure for the reform will be the uniform taxation of different income sources.

The present system of tax allowances is to be simplified and, where necessary, allowances will be replaced by income transfers. Marginal tax rates are to be lowered in all income brackets. The tax revenue of central and local government will be secured and average tax rates in different income brackets will remain unchanged. Moreover, the programme stresses that income distribution must not be changed to the detriment of low and middle income groups or families with children.

Reference rates. The Bank of Finland has decided to reduce the restrictions on the use of money market rates as reference rates for bank loans. In addition, the Bank of Finland has started to publish money market rates, called HELIBOR.

As from May 1, the banks may use money market rates as reference rates for all types of loans, except housing loans. When the use of money market rates as reference rates was first allowed in December 1986, it was restricted to loans with maturities of less than 5 years. The rates on housing loans may, as before, only be linked to the Bank of Finland's base rate.

The Bank of Finland recommends that the banks follow a uniform practice of using HELIBORs as reference rates. Several banks have already adopted this practice.

HELIBOR (Helsinki Interbank Offered Rate) is the average of bid rates for certificates of deposit as quoted by the five largest banks each day at 1 p.m. The Bank of Finland started publishing 1, 2, 3, 6, 9, and 12-month HELIBOR on May 4. HELIBORs are quoted daily on the Bank of Finland's REUTERS page and will be published monthly in a statistical report.

Unemployment statistics. The method of calculating unemployment in the Finnish Labour Market Survey was changed from January 1987. The change concerns the classification of recipients of unemployment pension. Previously all those on unemployment pension were included in the official unemployment statistics, but from the beginning of this year only those recipients of unemployment pension who report as job-seekers are regarded as unemployed. This is estimated to have removed about 90 per cent of those on unemployment pension from the unemployment statistics. Owing to the change, as from January 1987, the figures for unemployment and the unemployment rate shown in the table on page 23 are not comparable with the figures prior to that date.

The Finnish unemployment pension system was introduced in the early 1970s, but the number of recipients has only reached significant proportions in the 1980s. The purpose of the system is to facilitate the early retirement of long-term unemployed persons who are nearing the normal retirement age. At present, all long-term unemployed aged between 55 and 64 years are allowed to apply for unemployment pension, but the lower age limit will be progressively raised to 60 years by the end of the decade. Unemployment pension is granted on condition that the beneficiary is

prepared to accept work even after having retired, and for this reason those on unemployment pension were previously classified as unemployed. In practice, though, retirement on unemployment pension has usually meant a final exit from the labour force.

The number of unemployed has been reduced significantly as a result of the change of definition. Last year, the number of those on unemployment pension exceeded, on average, 60 000. However, the decline in the number of unemployed in the official statistics from the previous year is estimated to be about 40 000, since recipients of unemployment pension are underrepresented in the Labour Market Survey, which is a sample survey. Under the old classification, the unemployment rate for 1986 is estimated to be 5.4 per cent, whereas it is 6.9 per cent when measured using the old definition. The picture of developments in unemployment in the 1980s also changes when analysed using the new definition. During this period, the growth in the number of those on unemployment pension has almost matched the growth in unemployment, and thus, according to the new method of classification, unemployment has increased only slightly since the beginning of the decade. On the other hand, it is evident that, because of the unemployment pension scheme, companies have focussed reductions in their workforces on employees in the older age groups.

TABLE. ESTIMATE OF THE EFFECT OF THE CHANGE IN THE DEFINITION OF UNEMPLOYMENT ON UNEMPLOYMENT STATISTICS IN 1981-1986.
SOURCE: CENTRAL STATISTICAL OFFICE

	Old definition (incl. all recipients of unemployment pension)		New definition (incl. only those recipients of unemployment pension who are seeking a job)	
	1000 persons	%	1000 persons	%
1981	127	5.1	121	4.9
1982	149	5.9	135	5.4
1983	156	6.1	138	5.5
1984	158	6.2	133	5.2
1985	163	6.3	129	5.0
1986	181	6.9	140	5.4

(continued from page 2)

tinue to depend on developments in the economy as a whole and decisively on the fiscal and incomes policies pursued.

The monitoring of monetary policy has been affected by the increase in financial intermediation at market-related terms and the decline in the importance of the call money rates. In future, there will be grounds for paying primary attention to general money market rates, such as buying and selling rates for banks' certificates of deposit. Naturally, it will be necessary to proceed on the assumption that, in addition to monetary policy, interest rates may reflect many other forces influencing the market situation at any time.

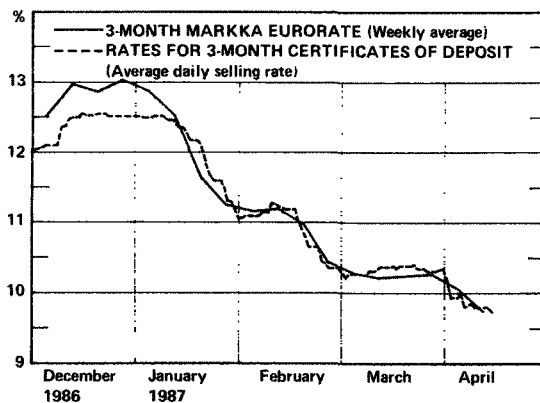
RECENT DEVELOPMENTS IN FINANCIAL MARKETS

In the latter half of last year, the money market was exceptionally tight. This largely reflected doubts about the external value of the markka. At the end of the year, the Bank of Finland's convertible foreign exchange reserves amounted to FIM 10.6 billion. Since then, however, the situation has rapidly changed.

Confidence in the markka has clearly been restored in recent months and as a result of heavy capital inflows the convertible foreign exchange reserves have increased rapidly. In mid-April, they amounted to FIM 20 billion. Among the factors contributing to this development have been the recovery in western exports and an improvement in economic performance in general.¹

The currency inflow has been reflected in a marked easing in banks' liquidity. At the begin-

CHART. SHORT-TERM INTEREST RATES



ning of last December, the banks' call money liabilities to the Bank of Finland amounted to FIM 9 billion. Subsequently, call money liabilities declined, first as a result of the growth in term credits extended by the Bank of Finland and then because of the strengthening in the foreign exchange reserves and the easing of banks' liquidity. In March, the call money market was already close to equilibrium and the banks' net positions were small.

The easing of the money market has also been evident in a clear lowering in interest rates. Rates on banks' certificates of deposit and Euromarkka rates declined by some 3 percentage points from January to mid-April to just below 10 per cent. Since mid-February, Finnish short-term rates have been lower than in other Nordic countries. The fall in long-term rates (for example, the effective yield on 5-year bonds) was notably less. Rates on new loans granted by banks also remained at a relatively high level and bank lending continued to slow down. No changes have been made to the base rate or the cash reserve requirement since the spring of 1986.

April 27, 1987

¹ See the back article in this issue of the Bulletin.

BANK OF FINLAND

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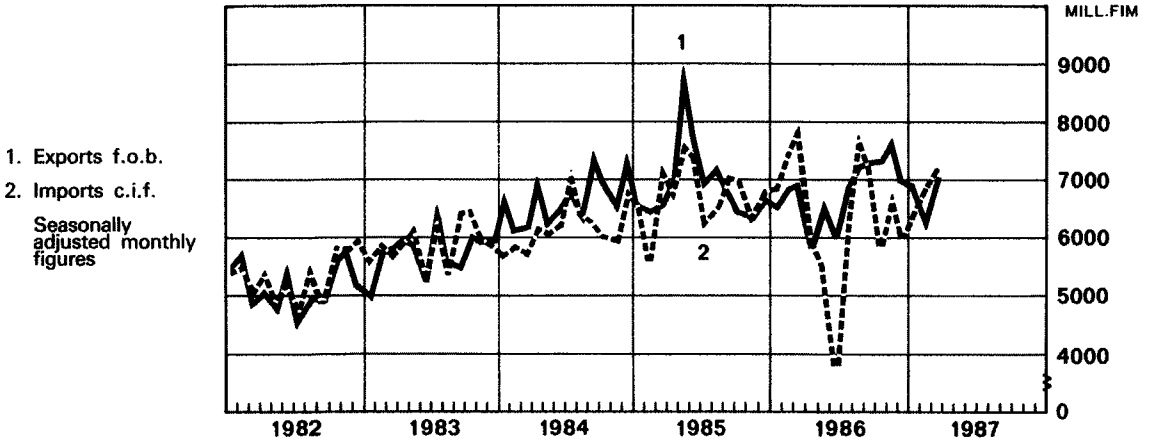
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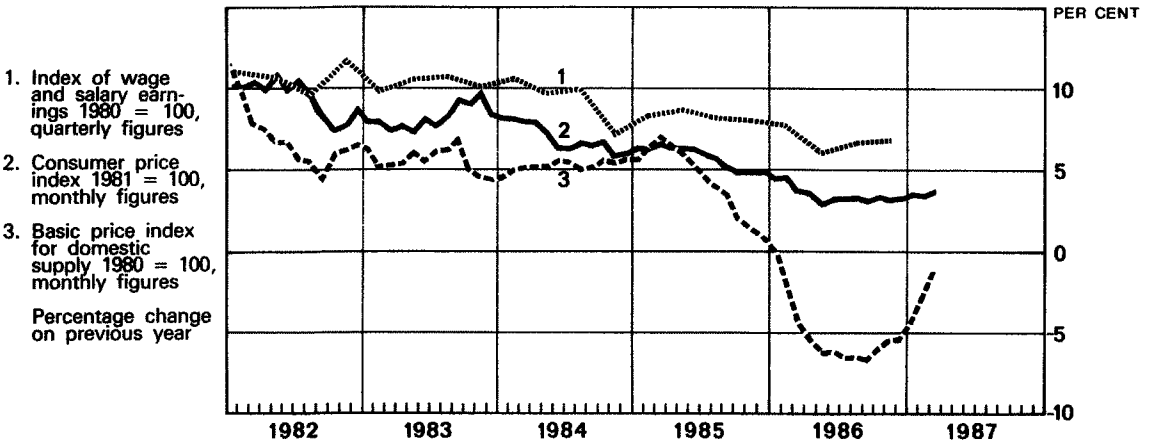
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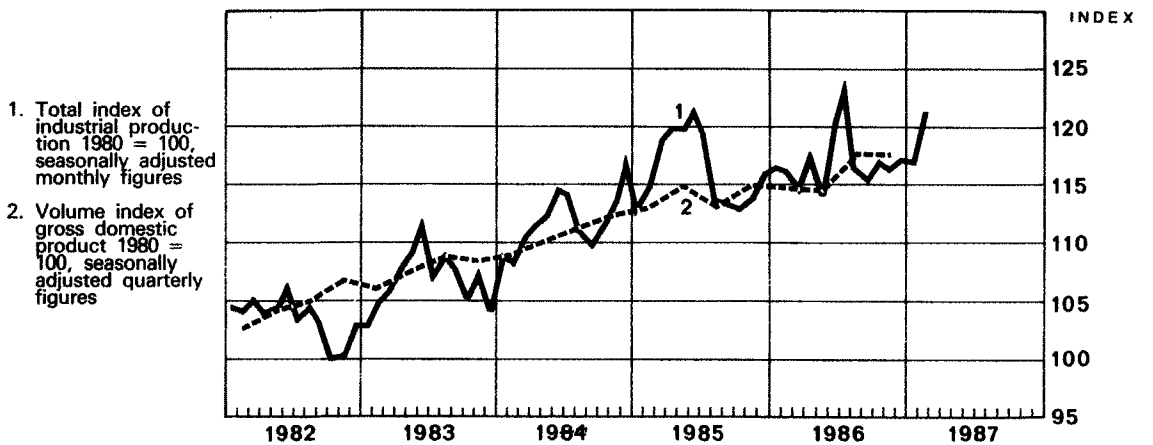
FOREIGN TRADE, 1982-87



PRICES AND WAGES, 1982-87



PRODUCTION, 1982-87



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