



BANK OF FINLAND

Monthly Bulletin

Taxation of financial
assets in Finland

The reform of business
taxation

Monetary and foreign exchange policy
measures from April 1985 to March 1986

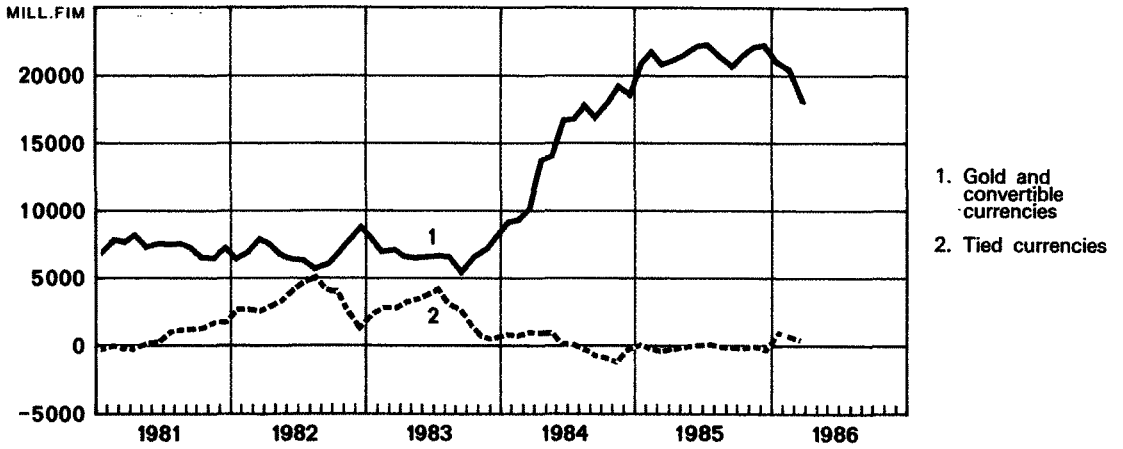
Committee proposes uniform banking
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The Bank of Finland sells its paper mill

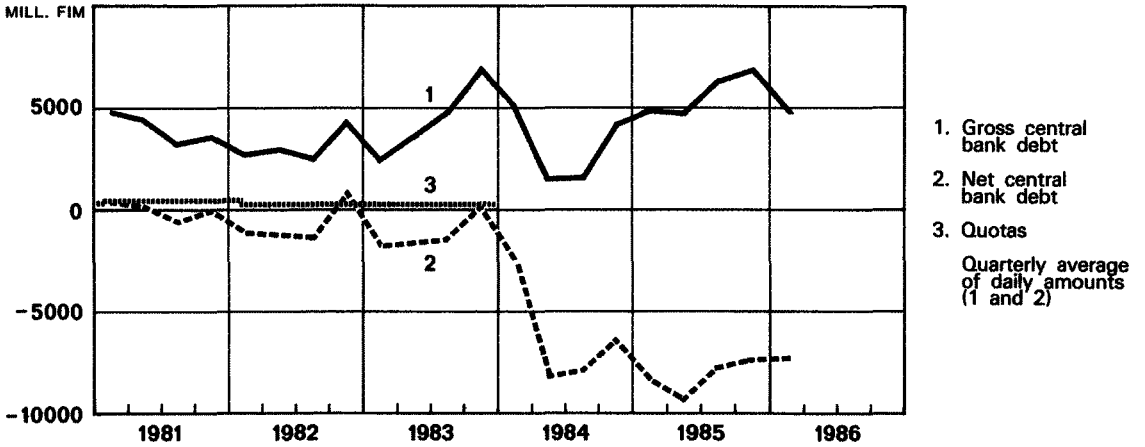
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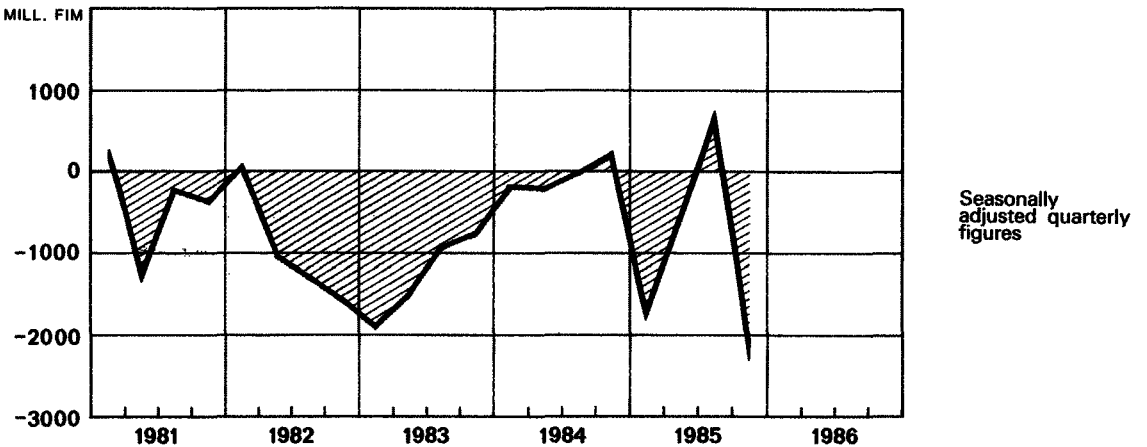
BANK OF FINLAND'S CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, 1981-86



DEPOSIT BANKS' CENTRAL BANK POSITION, 1981-86



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



TAXATION OF FINANCIAL ASSETS IN FINLAND

by **Sixten Korkman**, Head of Office
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The tax system is generally acknowledged to be an important determinant of financial saving and investment as well as of portfolio choice. In recent years increasing concern has been expressed in Finland that differential tax treatment of financial assets and liabilities may have undesirable consequences for financial behaviour and the structure of financial markets. The problems posed by tax effects were reinforced by the increase in tax rates and the rapid inflation experienced in the 1970s. The role of tax considerations is further being enhanced by the on-going development and integration of financial markets.

The main features of the present tax treatment of financial assets held by private individuals in Finland are as follows.

First, capital income is in principle taxable at normal income tax rates, but in practice most capital income is exempted from taxation by special provisions. The most important of these is a law which exempts standard bank deposits from taxation provided that they meet the requirements of the law. Basically, deposits should be made by private individuals with a domestic bank in an account which is used by at least two banking groups under similar terms. Almost all deposits held at present by households meet the requirements of the law. Deposits are tax exempt with respect to interest received in income taxation and with respect to principal in wealth taxation. The tax law is temporary but it has been continually renewed with only minor modifications since it was first enacted in the 1940s. The present law expires at the end of 1988.

Second, there is a similar law which makes it possible for the government to determine that

certain bonds are tax exempt as regards both interest and principal if held by individuals. Government bonds in Finland are therefore normally tax free.

Third, dividends received may be subject to double taxation as they are in principle taxed both at corporate level as well as when received by shareholders. Shares are also included in taxable wealth. In practice, taxation of dividend income is alleviated by, e.g., the deductibility of part of dividends distributed (currently 60 per cent, in certain cases 100 per cent) in corporate taxation.

Fourth, capital gains below a threshold of FIM 1 million are taxed upon realization only if the asset has been held for less than 5 years in the case of personal property or 10 years in the case of real or immovable property. In addition, capital gains on owner-occupied dwellings are tax-free after 1 year. For capital gains on assets held for more than 5 or 10 years the rule is that 20 per cent of the gain exceeding FIM 1 million is included in taxable income. Taxation is at normal income tax rates. However, when calculating the capital gain, it may always be assumed that the purchase price of the asset was at least 50 per cent of its selling price. In practice, the amount of the tax does not exceed 7 per cent of the selling price of the asset.

Fifth, private individuals are allowed to make a general capital income deduction of FIM 3 800 per annum (a somewhat larger deduction is allowed for income received from renting apartments). The deduction may be made for each member of the family. At the same time, interest expenses of households are deductible up to FIM 25 000. However, not more than FIM 10 000 is deductible for interest on loans

other than those taken to purchase an apartment or house used by the tax payer or his family.

All in all, taxation of capital income in Finland is fairly moderate in practice. However, tax treatment differs markedly depending on the characteristics of the asset. Bank deposits and government bonds, in particular, are in a privileged position owing to special tax laws. Furthermore, investment in owner-occupied dwellings is encouraged by the deductibility of interest on housing loans together with the very low valuation of dwellings (and therefore of imputed rent) for tax purposes. The yield on equity, by contrast, is tax exempt only if received in the form of long-term capital gains or if dividends are effectively relieved from taxation by use of the capital income deduction. Interest income on assets other than bank deposits and government bonds is in principle fully taxable. Clearly, the tax system lacks coherence and is far from neutral.

In recent years, it has increasingly been recognized that the consequences of the tax system are far-reaching and in certain respects quite problematic.

To start with, the tax treatment accorded to finance intermediated through the banking system is exceedingly favourable compared to that received by other financial instruments. This is certainly one of the main reasons why capital markets have remained largely undeveloped in Finland. (The capital income deduction for households introduced in 1981 has, in the past few years, given some scope for borrowers to issue private bonds and debentures.) The tax system, together with the rapid inflation and highly negative real interest rates experienced in the 1970s, is also a major factor explaining the weak solvency of Finnish enterprises; that is, the financial structure of companies probably reflects the favourable tax treatment of bank loans (and deposits) rather than internationally weak profitability.

Secondly, the present tax legislation effectively precludes competition between banks for

tax-free deposits, interest rates on which are, instead, based on an interest rate agreement between banks. The lack of competition is unlikely to enhance efficiency in financial intermediation. It is noteworthy that interest rates on bank loans have recently been drifting upwards relative to deposit rates. This is a consequence of the development of credit markets, with the implication that markets are increasingly being cleared through interest rates rather than through the volume of bank loans or the degree of credit rationing. In fact, bank profitability has so far increased because of the one-sided nature of the development towards competition and market-determined interest rates.

Thirdly, the asymmetrical tax treatment of the yield on assets (often tax free) and of interest expenses (generally deductible) means that there exists ample scope in Finland for financial operations undertaken purely for tax reasons or so-called "tax arbitrage". A rapid increase in financial operations caused by tax asymmetries would be an undesirable development not only from the point of view of the tax system but also for the functioning and transparency of financial markets.

Not surprisingly, these and other problems have raised the question of tax reform. As is well known, however, tax reforms are difficult to design and to implement. Future tax treatment of interest should not merely strive for neutrality between assets. It is also generally accepted that interest income should remain untaxed to the extent that it is only a compensation for inflation. Finally, practical considerations make it imperative to retain the large number of small deposit holdings (transaction balances of households) outside the sphere of taxation. In sum, a tax reform should ideally result in a system in which all assets are subject to the same tax treatment, only real returns are taxed and which is simple to administer.

March 24, 1986

	1985		1986			
	March 29	Dec. 31	March 7	March 14	March 21	March 27
Assets						
Gold and foreign currency claims	21 194	22 650	19 708	19 725	19 469	19 096
Gold	1 732	2 081	2 081	2 081	2 081	2 081
Special drawing rights	955	931	924	928	939	959
IMF reserve tranche	853	775	754	758	788	797
Convertible currencies	17 439	18 608	15 192	15 331	14 996	14 641
Tied currencies	215	255	757	627	665	618
Other foreign claims	2 835	2 645	2 658	2 658	2 623	2 623
Markka subscription to Finland's IMF quota	2 835	2 645	2 658	2 658	2 623	2 623
Claims on financial institutions	7 854	9 256	8 368	10 308	9 478	7 688
Banks' cheque accounts	8	—	—	—	—	—
Call money market advances	4 599	5 219	4 547	6 486	5 634	3 806
Till-money credits	1 273	1 925	1 603	1 593	1 633	1 657
Bonds	1 904	2 065	2 145	2 152	2 153	2 153
Other claims on financial institutions	70	47	73	77	58	72
Claims on the public sector	2 021	1 023	974	974	975	976
Government promissory notes	1 000	—	—	—	—	—
Bonds	156	118	70	71	71	71
Total coinage	847	891	900	900	901	902
Other claims on the public sector	18	14	4	3	3	3
Claims on corporations	4 934	4 679	4 803	4 840	4 805	4 838
Financing of exports	1 788	1 601	1 694	1 697	1 674	1 695
Financing of domestic deliveries	2 963	2 924	2 959	2 996	2 984	2 996
Bonds	100	81	78	75	75	75
Other claims on corporations	83	73	72	72	72	72
Other assets	142	146	147	149	147	147
Total	38 980	40 399	36 658	38 654	37 497	35 368
Liabilities						
Foreign currency liabilities	790	576	171	175	174	178
Convertible accounts	73	36	52	57	56	60
Tied currencies	717	540	119	118	118	118
Other foreign liabilities	3 745	3 494	3 499	3 503	3 462	3 471
IMF markka accounts	2 835	2 645	2 659	2 659	2 623	2 623
Allocations of special drawing rights	910	849	840	844	839	848
Notes and coin in circulation	6 972	8 072	7 491	7 713	7 636	7 840
Notes	6 269	7 304	6 745	6 962	6 885	7 082
Coin	703	768	746	751	751	758
Liabilities to financial institutions	15 595	12 153	11 526	11 963	10 904	10 775
Banks' cheque accounts	7	0	0	1	0	0
Call money market deposits	5 335	1 205	1 277	1 703	655	1 102
Cash reserve deposits	9 452	10 222	9 556	9 556	9 556	8 942
Capital import deposits	710	639	602	603	600	614
Other liabilities to financial institutions	91	87	91	100	93	117
Liabilities to the public sector	1 500	4 300	2 101	3 401	3 401	1 100
Cheque accounts	1	0	1	1	1	0
Government deposit account	1 400	4 300	2 100	3 400	3 400	1 100
Export deposits	99	—	—	—	—	—
Capital import deposits	—	—	—	—	—	—
Other liabilities to the public sector	0	0	0	0	0	0
Liabilities to corporations	3 268	4 267	4 427	4 413	4 414	4 446
Deposits for investment and ship purchase	2 362	3 841	3 807	3 806	3 807	3 847
Capital import deposits	903	424	605	604	604	597
Other liabilities to corporations	3	2	15	3	3	2
Other liabilities	15	14	19	15	15	15
Valuation account and reserves	780	1 639	1 540	1 587	1 607	1 659
SITRA's capital	400	400	400	400	400	400
Capital accounts	5 915	5 484	5 484	5 484	5 484	5 484
Primary capital	5 000	5 000	5 000	5 000	5 000	5 000
Reserve fund	764	764	484	484	484	484
Undisposed profits	126	—	—	—	—	—
Net earnings	25	-280	—	—	—	—
Total	38 980	40 399	36 658	38 654	37 497	35 368

End of year or month	Foreign sector						Public sector			
	Gold, SDRs, IMF reserve tranche	Convertible currencies, net	Total convertible reserves (1+2)	Tied currencies, net	Other claims, net	Net claims (3 to 5)	Claims	Certificates of deposit and deposit account	Other liabilities	Net liabilities (8-7+9)
	1	2	3	4	5	6	7	8	9	10
1982	2 444	6 561	9 005	1 525	-1 447	9 083	1 040	1 700	50	710
1983	2 360	5 835	8 195	550	-794	7 951	2 178	3 000	0	822
1984	3 527	15 303	18 830	-337	-917	17 576	1 951	4 200	77	2 326
1985	3 787	18 572	22 359	-285	-849	21 225	1 023	4 300	0	3 277
1985										
March	3 540	17 366	20 906	-502	-910	19 494	2 021	1 400	100	-521
April	3 565	17 639	21 204	-321	-917	19 966	1 808	1 000	510	-298
May	3 537	18 128	21 665	62	-907	20 820	1 819	1 100	100	-619
June	3 547	18 743	22 290	253	-901	21 642	1 817	800	58	-959
July	3 498	18 842	22 340	269	-889	21 720	1 580	1 600	58	78
Aug.	3 468	18 032	21 500	-159	-873	20 468	1 575	1 500	58	-17
Sept.	3 463	17 391	20 854	-269	-865	19 720	1 297	1 500	58	261
Oct.	3 462	18 174	21 636	-283	-859	20 494	1 269	1 500	59	290
Nov.	3 447	18 811	22 258	-166	-853	21 239	1 320	4 400	0	3 080
Dec.	3 787	18 572	22 359	-285	-849	21 225	1 023	4 300	0	3 277
1986										
Jan.	3 797	17 353	21 150	1 090	-849	21 391	1 036	1 000	14	-22
Feb.	3 748	16 865	20 613	740	-833	20 520	972	1 500	0	528
March	3 837	14 581	18 418	500	-848	18 070	976	1 100	0	124

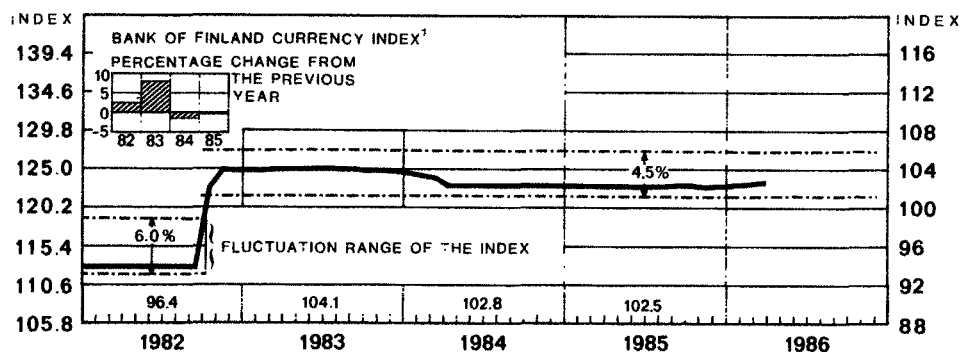
OFFICIAL FOREIGN EXCHANGE RESERVES

Mill. FIM

	Dec. 31. 1984	Dec. 31. 1985	Jan. 31. 1986	Feb. 28. 1986	March 27 1986
Gold	1 732	2 081	2 081	2 081	2 081
SDRs	936	931	930	916	959
IMF reserve tranche	859	775	786	751	797
Convertible currencies, net	15 303	18 572	17 353	16 865	14 581
Total convertible reserves, net	18 830	22 359	21 150	20 613	18 418
Tied currencies, net	-337	-285	1 090	740	500
Total reserves, net	18 493	22 074	22 240	21 353	18 918

End of year or month	Domestic financial sector						Corporate sector				Notes and coin in circulation
	Till-money credits	Claims on cheque accounts, net	Demand for call money by deposit banks	Supply of call money by deposit banks	Cash reserve deposits	Other liabilities, net	Net claims (1+2+3-4-5-6)	Permanent special financing schemes	Liabilities, net	Net claims (8-9)	
	1	2	3	4	5	6	7	8	9	10	11
1982	889	163	3 126	1 470	3 132	-1 042	618	4 302	999	3 303	6 062
1983	942	443	5 785	610	5 039	-1 555	3 076	4 529	1 282	3 247	6 574
1984	1 563	383	5 018	2 216	8 696	-1 235	-2 713	4 646	2 614	2 032	7 442
1985	1 925	0	5 219	1 205	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1985											
March	1 273	1	4 599	5 335	9 452	-1 173	-7 741	4 751	3 085	1 666	6 972
April	1 435	29	4 558	5 199	9 502	-1 170	-7 509	4 684	3 243	1 441	7 173
May	1 373	47	3 611	4 785	9 577	-1 175	-8 156	4 744	3 237	1 507	7 322
June	1 384	0	3 845	5 120	9 686	-1 163	-8 414	4 754	3 899	855	7 553
July	1 533	64	4 391	4 981	9 878	-1 203	-7 668	4 758	4 223	535	7 376
Aug.	1 371	52	5 553	4 692	9 928	-1 212	-6 432	4 734	4 040	694	7 342
Sept.	1 617	182	7 396	5 940	9 983	-1 352	-5 376	4 660	4 094	566	7 352
Oct.	1 567	-28	5 950	5 381	10 019	-1 384	-6 527	4 789	4 111	678	7 322
Nov.	1 450	-8	5 901	3 881	10 097	-1 992	-4 643	4 707	4 094	613	7 442
Dec.	1 925	0	5 219	1 205	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1986											
Jan.	1 558	0	1 852	1 734	9 828	-1 454	-6 698	4 654	4 434	220	7 455
Feb.	1 531	0	3 174	2 221	9 556	-1 530	-5 542	4 654	4 282	372	7 499
March	1 657	0	3 806	1 102	8 942	-1 494	-3 087	4 691	4 299	392	7 840

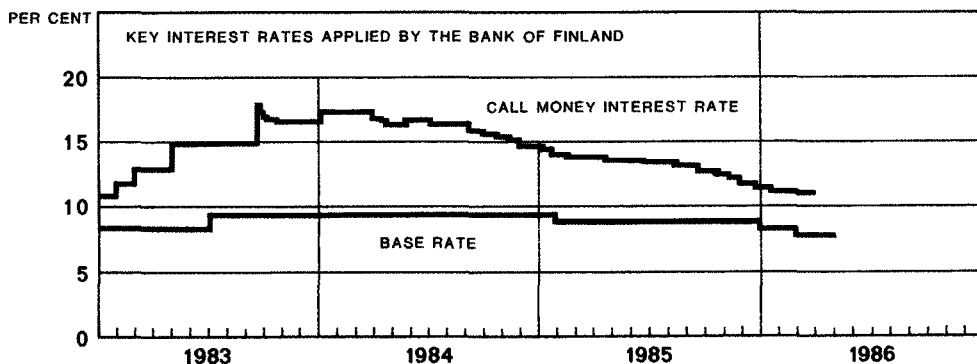
¹ The left-hand scale depicts movements in the external value of the markka under the index in use until December 31, 1983 (1974 = 100), and the right-hand scale movements in the external value of the markka under the revised index introduced on January 1, 1984 (1982 = 100).



MONETARY POLICY INDICATORS

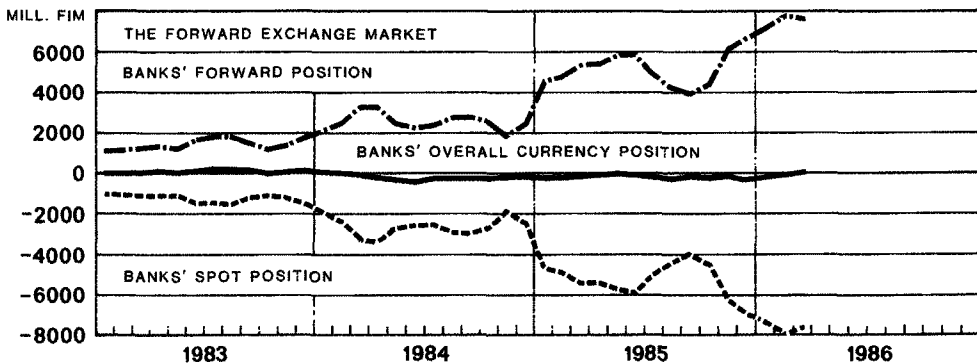
Average for period	Gross central bank debt of the deposit banks mill. FIM	Net central bank debt of the deposit banks mill. FIM	Cash reserve deposits of the deposit banks mill. FIM	Cash reserve requirement %	Call money credit extended by the Bank of Finland	Call money interest rate %	Average cost of gross central bank debt %	Base rate %	Average lending rate of the commercial banks ¹ %
	1	2	3	4	5	6	7	8	9
1981	4 095	-33	2 795	3.5	2 161	11.48	11.61	9.25	9.84
1982	3 201	-783	2 778	3.1	1 571	11.64	11.99	8.81	9.33
1983	4 539	-1 213	4 345	4.3	2 724	15.37	15.14	9.00	9.56
1984	3 176	-6 365	6 325	5.4	-39	16.53	16.53	9.50	10.49
1985	5 812	-8 293	9 578	5.6	1 285	13.37	13.37	9.04	10.41
1985									
Jan.	4 713	-7 902	8 700	5.6	798	14.57	14.61	9.50	10.69
Feb.	4 414	-9 319	8 815	5.6	-504	14.18	14.18	9.00	10.30
March	5 727	-8 143	9 262	5.6	1 119	14.00	14.00	9.00	10.36
April	5 483	-8 902	9 453	5.6	552	13.96	13.96	9.00	10.38
May	4 691	-9 268	9 504	5.6	236	13.80	13.80	9.00	10.37
June	4 337	-10 150	9 588	5.6	-562	13.77	13.77	9.00	10.37
July	5 444	-8 711	9 695	5.6	984	13.60	13.60	9.00	10.40
Aug.	6 153	-7 843	9 881	5.6	2 038	13.43	13.43	9.00	10.43
Sept.	7 771	-6 928	9 930	5.6	3 002	13.11	13.11	9.00	10.42
Oct.	7 516	-7 079	9 982	5.6	2 904	12.78	12.78	9.00	10.43
Nov.	6 407	-8 485	10 024	5.6	1 539	12.37	12.37	9.00	10.40
Dec.	7 084	-6 784	10 101	5.6	3 317	11.96	11.96	9.00	10.37
1986									
Jan.	5 280	-7 742	10 210	5.3	2 467	11.64	11.64	8.50	9.90
Feb.	4 242	-8 187	9 818	5.0	1 631	11.40	11.40	8.50	9.90
March	5 146	-5 927	9 457	4.7	3 530	11.21	11.21	8.00	..

¹End of period.



FORWARD EXCHANGE MARKETS IN FINLAND

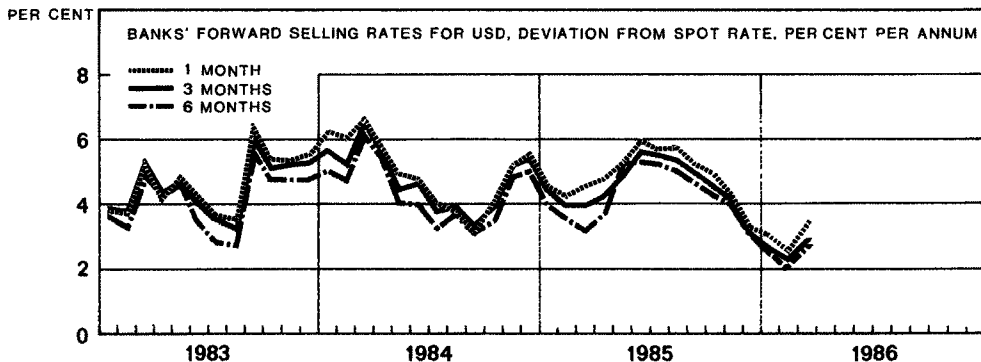
Period	Banks' forward positions in mill. FIM with						Banks' forward selling rates for USD		
	Domestic firms			Foreign banks	Bank of Finland	Overall	Deviation from spot rate, per cent per annum		
	Assets	Liabilities	Net	Net	Net	Net	1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
1984	22 921	1 394	21 527	2 002	-19 962	3 746	5.6	5.5	5.1
1985	16 982	1 733	15 249	708	-9 005	6 876	3.3	3.2	3.1
1984									
Oct.	22 267	1 741	20 526	1 914	-19 419	3 138	4.2	4.0	3.5
Nov.	22 383	1 786	20 597	1 790	-20 139	2 460	5.3	5.2	4.9
Dec.	22 921	1 394	21 527	2 002	-19 962	3 746	5.6	5.5	5.1
1985									
Jan.	23 207	1 450	21 757	2 949	-19 394	5 420	4.5	4.4	4.1
Feb.	22 602	1 592	21 010	2 971	-18 323	5 186	4.3	4.0	3.6
March	23 344	2 247	21 097	1 048	-16 848	5 575	4.6	4.0	3.3
April	22 987	2 219	20 769	1 640	-16 768	5 753	4.8	4.3	3.8
May	22 085	2 316	19 769	1 708	-15 704	5 865	5.3	4.9	4.5
June	21 221	2 259	18 962	1 941	-15 352	5 478	6.0	5.7	5.4
July	19 534	2 250	17 284	2 418	-14 224	5 558	5.7	5.6	5.3
Aug.	18 271	2 727	15 544	1 083	-12 493	4 163	5.8	5.4	5.1
Sept.	17 755	2 889	14 866	92	-11 101	3 811	5.3	5.0	4.7
Oct.	17 666	2 795	14 871	805	-9 813	5 986	5.0	4.6	4.3
Nov.	17 510	2 014	15 496	1 200	-10 032	6 702	4.3	4.1	4.0
Dec.	16 982	1 733	15 249	708	-9 005	6 876	3.3	3.2	3.1
1986									
Jan.	17 233	1 945	15 288	543	-8 349	7 457	3.1	2.7	2.6
Feb.	16 911	1 989	14 923	0	-7 015	7 952	2.7	2.4	2.1



FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange, FIM

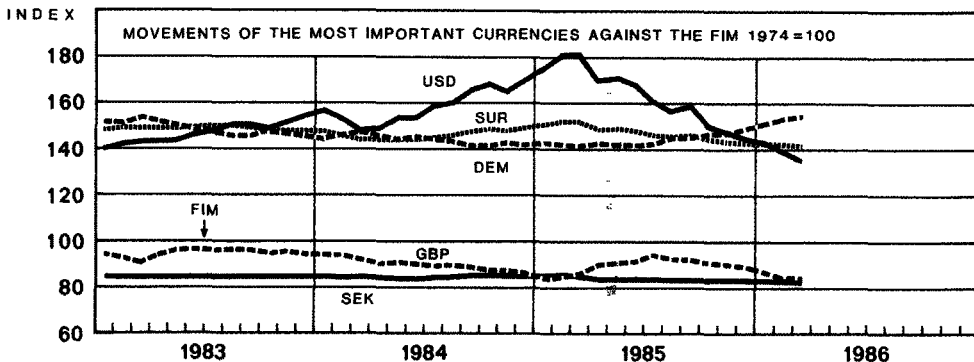
Period	New York 1 US \$ USD	Montreal 1 C \$ CAD	London 1 £ GBP	Dublin 1 Ir£ IEP	Stockholm 100 Skr SEK	Oslo 100 Nkr NOK	Copenhagen 100 Dkr DKK	Frankfurt 100 DM DEM	Amsterdam 100 Hfl NLG	Brussels 100 FB BEC	BEL
	1	2	3	4	5	6	7	8	9	10	11
1981	4.315	3.602	8.731	6.976	85.74	75.54	60.96	191.31	173.43	11.688	11.095
1982	4.820	3.913	8.423	6.854	77.03	74.84	57.93	198.76	180.66	10.584	9.859
1983	5.570	4.524	8.456	6.957	72.75	76.44	61.07	218.61	195.66	10.934	10.742
1984	6.010	4.645	8.023	6.533	72.77	73.84	58.16	211.65	187.72	10.428	10.274
1985	6.206	4.554	8.000	6.590	72.22	72.31	58.71	211.42	187.45	10.483	10.421
1985											
Feb.	6.853	5.078	7.525	6.496	73.69	72.64	58.28	208.47	184.09	10.385	10.342
March	6.861	4.962	7.688	6.486	72.97	72.56	58.11	207.80	183.82	10.341	10.286
April	6.445	4.732	8.028	6.562	72.05	72.52	58.32	209.55	185.32	10.405	10.354
May	6.477	4.716	8.091	6.533	72.14	72.47	58.00	208.44	184.60	10.365	10.319
June	6.371	4.665	8.172	6.535	72.10	72.40	58.06	208.37	184.78	10.347	10.298
July	6.099	4.516	8.402	6.570	71.95	72.29	58.26	209.37	185.97	10.398	10.316
Aug.	5.942	4.387	8.253	6.653	71.70	72.30	58.93	213.31	189.63	10.547	10.425
Sept.	6.025	4.404	8.232	6.611	71.89	72.39	58.60	212.50	188.92	10.510	10.431
Oct.	5.690	4.168	8.106	6.676	71.63	72.10	59.41	215.47	191.11	10.633	10.556
Nov.	5.579	4.060	8.042	6.668	71.60	71.66	59.53	215.40	191.26	10.654	10.608
Dec.	5.487	3.941	7.952	6.737	71.57	71.85	60.23	218.51	194.03	10.722	10.666
1986											
Jan.	5.419	3.860	7.747	6.772	71.49	71.90	60.64	222.15	197.11	10.875	10.733
Feb.	5.258	3.748	7.513	6.827	71.14	72.27	61.15	225.39	199.50	11.018	10.904
March	5.131	3.659	7.531	6.868	71.01	72.07	61.43	226.89	200.97	11.087	10.962



Average selling rates for foreign exchange. FIM

Zurich 100 Sfr CHF	Paris 100 FF FRF	Rome 100 Lit ITL	Vienna 100 ÖS ATS	Lisbon 100 Esc PTE	Reykjavik 100 lkr ISK	Madrid 100 Ptas ESB	Tokyo 100 Y JPY	Moscow 1 Cl Rbl SUR	1 special drawing right SDR	Currency index ¹
12	13	14	15	16	17	18	19	20	21	22
220.34	79.92	0.385	27.17	7.17	60.35	4.72	1.967	5.986	5.071 40	113.1
237.79	73.65	0.358	28.31	6.13	40.79	4.41	1.943	6.624	5.305 63	115.9
265.70	73.53	0.369	31.11	5.14	23.25	3.91	2.351	7.491	5.943 25	125.1
256.42	69.07	0.344	30.13	4.14	19.39	3.75	2.534	7.357	6.147 39	102.8
253.60	69.40	0.327	30.12	3.67	15.20	3.66	2.610	7.419	6.278 77	102.5
245.43	68.34	0.339	29.70	3.83	16.72	3.79	2.636	7.652	6.582 22	102.5
244.48	68.14	0.331	29.61	3.81	16.62	3.76	2.660	7.654	6.601 66	102.5
249.89	68.78	0.329	29.85	3.77	16.02	3.76	2.568	7.487	6.380 70	102.5
247.90	68.50	0.328	29.68	3.71	15.73	3.71	2.578	7.496	6.399 94	102.5
248.20	68.49	0.328	29.67	3.69	15.52	3.67	2.564	7.455	6.344 84	102.4
252.74	68.98	0.323	29.82	3.64	15.07	3.64	2.529	7.359	6.211 68	102.5
259.72	69.98	0.319	30.40	3.63	14.77	3.64	2.509	7.319	6.131 58	102.5
258.26	69.77	0.318	30.25	3.57	14.57	3.59	2.550	7.366	6.183 31	102.6
262.81	70.80	0.320	30.69	3.52	13.85	3.54	2.653	7.262	6.051 77	102.6
262.36	70.80	0.320	30.66	3.50	13.63	3.51	2.740	7.209	6.016 47	102.4
261.01	71.57	0.322	31.12	3.48	13.36	3.54	2.710	7.183	5.971 01	102.5
262.42	72.55	0.327	31.63	3.49	13.03	3.56	2.712	7.164	5.940 24	102.6
269.08	73.58	0.332	32.10	3.50	12.80	3.59	2.850	7.161	5.926 58	102.7
269.37	73.91	0.335	32.36	3.48	12.67	3.62	2.876	7.131	5.888 85	102.8

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



DEPOSITS BY THE PUBLIC

Mill. FIM

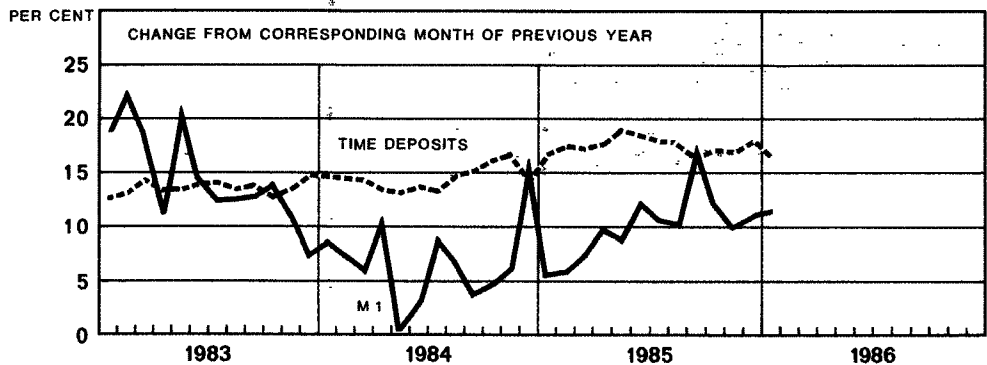
End of year and month	Demand deposits				Time deposits				Total (4 + 9)	
	Commer- cial banks	Savings banks & Co-op. banks	Posti- pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Posti- pankki		All deposit banks (5 to 8)
	1	2	3	4	5	6	7	8	9	10
1982	7 155	3 874	3 049	14 078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

1984*

Dec.	8 470	5 268	4 463	18 201	39 354	33 333	27 900	11 266	111 852	130 053
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1985*

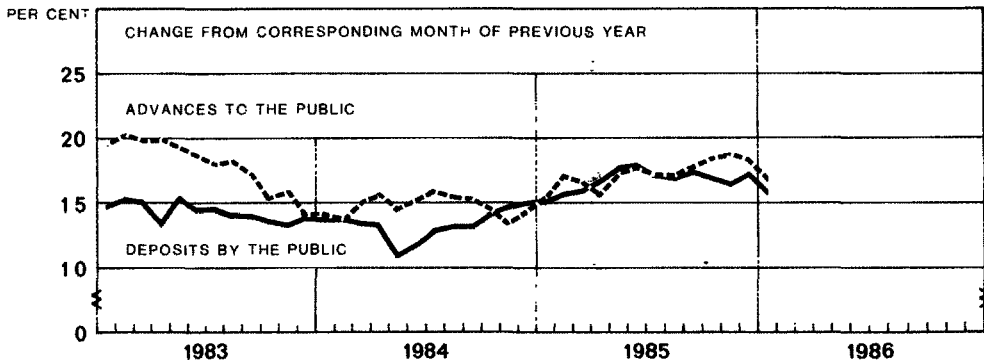
Jan.	7 742	4 442	4 655	16 839	40 372	34 040	28 637	11 762	114 811	131 650
Feb.	7 340	4 255	4 445	16 041	41 866	34 729	29 275	11 806	117 677	133 717
March	6 579	4 273	4 663	15 515	42 639	34 658	29 180	11 692	118 170	133 685
April	7 660	4 505	4 786	16 950	42 772	34 904	29 368	11 726	118 770	135 720
May	7 463	4 733	4 364	16 559	43 804	35 347	29 838	11 893	120 881	137 440
June	7 621	4 755	5 168	17 544	44 443	36 047	30 500	11 768	122 758	140 302
July	7 927	4 874	5 283	18 084	44 294	36 219	30 455	11 799	122 767	140 851
Aug.	7 222	4 917	5 739	17 878	44 796	36 551	30 741	12 083	124 171	142 049
Sept.	8 081	5 072	6 243	19 397	44 770	36 469	30 658	11 973	123 870	143 267
Oct.	8 281	5 194	5 547	19 022	45 896	36 825	30 892	12 366	125 979	145 001
Nov.	7 654	5 038	5 057	17 749	46 887	37 016	31 155	12 220	127 278	145 027
Dec.	9 382	5 988	5 027	20 397	49 240	38 167	32 133	12 671	132 210	152 607



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
1982	48 620	25 682	23 601	12 684	93 014	3 468	14 105	110 587	19 917	107 549
1983	56 162	29 276	27 322	13 471	104 627	4 350	17 253	126 231	21 427	121 906
1984*	65 965	32 705	31 164	14 687	118 924	5 233	20 363	144 520	24 945	141 658
1985*	81 669	36 991	35 751	16 745	140 139	6 313	24 704	171 155	27 694	166 652
1984*										
Dec.	65 965	32 705	31 164	14 687	118 924	5 233	20 363	144 520	24 945	141 658
1985*										
Jan.	68 756	33 087	31 445	15 369	120 263	6 014	22 380	148 658	23 357	143 069
Feb.	71 757	33 384	31 707	15 328	121 848	6 099	24 228	152 175	22 617	145 403
March	72 453	33 564	31 988	15 565	123 188	6 305	24 077	153 570	22 152	145 638
April	73 567	33 860	32 184	15 484	124 351	6 320	24 425	155 095	23 595	147 783
May	75 015	34 172	32 621	15 883	126 022	6 365	25 304	157 691	23 423	149 700
June	77 246	34 390	32 983	15 959	127 596	6 279	26 703	160 579	24 750	153 455
July	77 104	34 848	33 378	16 074	128 886	6 242	26 275	161 403	24 902	154 118
Aug.	77 677	35 276	33 824	16 082	130 846	6 333	25 680	162 859	24 783	155 013
Sept.	79 367	35 764	34 411	16 376	133 113	6 637	26 167	165 917	26 092	156 195
Oct.	80 304	36 141	34 826	16 442	134 924	6 333	26 456	167 712	25 607	158 054
Nov.	81 573	36 467	35 216	16 727	136 739	6 373	26 872	169 984	24 691	157 772
Dec.	81 669	36 991	35 751	16 745	140 139	6 313	24 704	171 155	27 694	166 652



STATE FINANCES

Mill. FIM

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

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

FOREIGN TRADE

Mill. FIM

Period	Value, mill. FIM		
	Exports f.o.b	Imports c.i.f.	Surplus of exports (+) or imports (-)
	1	2	3
1981	60 308	61 269	-961
1982	63 026	64 751	-1 725
1983	69 692	71 528	-1 836
1984	80 904	74 682	+6 222
1985*	84 022	81 406	+2 616

1985*			
Period	Exports f.o.b	Imports c.i.f.	Surplus of exports (+) or imports (-)
Jan.	6 905	7 086	-181
Feb.	6 586	4 787	+1 799
March	6 616	6 945	-329
April	7 090	7 074	-16
May	8 569	7 153	+1 416
June	6 842	7 063	-221
July	7 107	6 734	+373
Aug.	6 659	5 788	+871
Sept.	6 901	7 020	-119
Oct.	7 467	8 155	-688
Nov.	6 727	6 636	+91
Dec.	6 552	6 965	-413

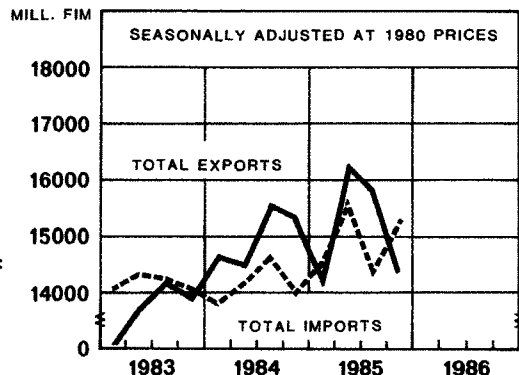
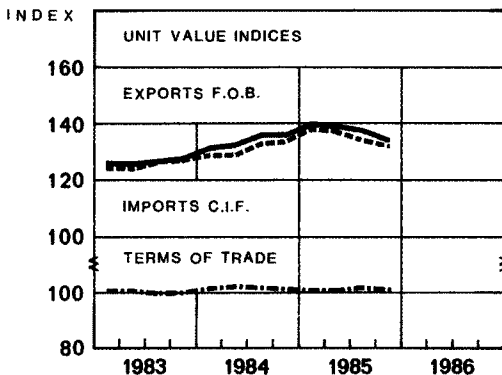
1986*			
Period	Exports f.o.b	Imports c.i.f.	Surplus of exports (+) or imports (-)
Jan.	6 798	7 471	-673

Period	Indices of exports and imports 1980 = 100				
	Volume		Unit value		Terms of trade
	Exports	Imports	Exports	Imports	
	1	2	3	4	5
1981	103	94	111	112	99
1982	100	95	119	117	101
1983	104	98	127	125	101
1984	114	98	134	131	102
1985*	115	104	138	135	102

1983					
Period	Volume Exports	Volume Imports	Unit value Exports	Unit value Imports	Terms of trade
Oct.-Dec.	115	108	128	128	100

1984					
Period	Volume Exports	Volume Imports	Unit value Exports	Unit value Imports	Terms of trade
Jan.-March	114	90	132	129	102
Apr.-June	113	99	133	130	103
July-Sept.	108	99	137	133	102
Oct.-Dec.	121	101	137	134	102

1985*					
Period	Volume Exports	Volume Imports	Unit value Exports	Unit value Imports	Terms of trade
Jan.-March	108	93	140	138	101
Apr.-June	121	106	139	137	101
July-Sept.	114	100	138	134	102
Oct.-Dec.	117	113	134	132	102



FOREIGN TRADE BY MAIN GROUPS

Mill. FIM

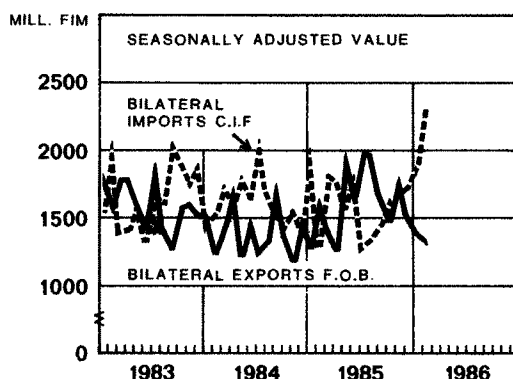
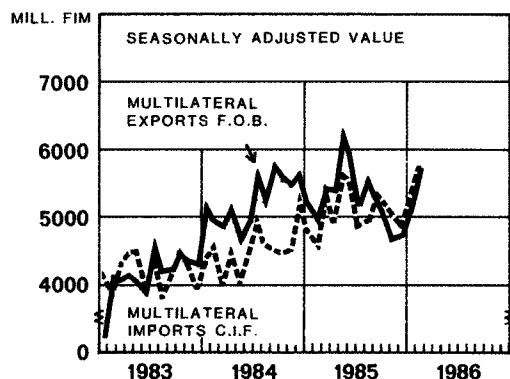
Period	Exports, f.o.b.					Imports, c.i.f.				
	Agri-cultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Raw materials and intermediate goods	Fuels and lubricants	Finished goods		Other goods
								Investment goods	Consumer goods	
1	2	3	4	5	6	7	8	9	10	
1981	2 036	6 852	17 127	14 858	19 435	39 156	5 115	8 877	8 015	106
1982	1 676	6 278	17 502	18 908	18 662	41 144	4 869	9 195	9 130	413
1983	1 723	6 944	19 327	20 211	21 487	44 757	5 006	10 860	10 572	333
1984	2 865	7 145	23 573	22 998	24 323	47 028	5 034	10 993	11 454	173
1985*	2 678	6 728	25 046	24 401	25 169	50 845	5 492	11 671	12 966	433

1985*

Jan.	282	622	2 050	1 834	2 117	4 740	274	878	1 013	181
Feb.	393	482	1 991	1 860	1 860	2 740	218	788	1 025	16
March	295	465	2 157	1 586	2 113	4 252	248	1 082	1 214	149
April	287	590	2 221	1 885	2 107	4 377	436	1 049	1 203	9
May	292	620	2 352	2 869	2 436	4 776	395	928	1 047	7
June	212	680	1 855	2 008	2 088	4 528	601	1 020	911	4
July	152	504	2 215	2 265	1 972	4 185	637	885	997	30
Aug.	142	507	2 251	1 830	1 929	3 435	491	833	1 020	9
Sept.	155	503	2 094	2 022	2 127	4 435	458	937	1 184	6
Oct.	185	629	2 165	1 963	2 526	4 987	742	1 169	1 251	5
Nov.	155	588	1 888	2 175	1 921	3 892	556	1 074	1 105	9
Dec.	128	538	1 807	2 104	1 974	4 498	436	1 027	996	8

1986*

Jan.	274	490	1 855	2 202	1 977	4 871	475	1 038	1 080	7
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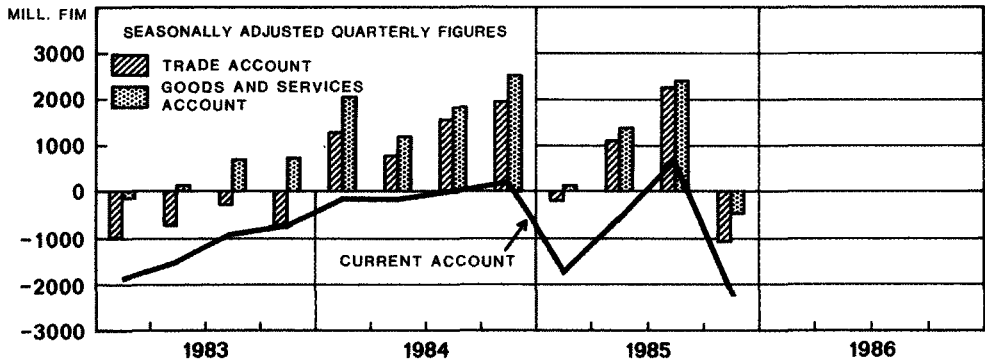
FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports, f.o.b				Imports, c.i.f			
	January				January			
	1985*		1986*		1985*		1986*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
OECD countries in Europe	56.6	3 910	61.7	4 193	54.6	3 878	51.2	3 827
Austria	0.7	47	0.8	51	0.9	66	1.0	74
Belgium and Luxembourg	1.8	127	1.7	115	1.8	124	1.9	140
Denmark	4.5	309	5.8	397	1.9	137	2.1	160
France	5.2	359	4.5	305	3.2	229	3.0	222
Federal Republic of Germany	8.9	616	9.3	633	12.9	914	14.1	1 054
Italy	2.0	140	2.3	153	3.0	216	3.1	231
Netherlands	2.5	173	3.0	203	2.2	157	2.5	185
Norway	3.1	216	4.3	289	6.0	428	3.6	268
Portugal	0.2	15	0.3	19	0.6	41	0.8	58
Spain	0.8	54	0.7	47	0.9	62	1.4	103
Sweden	13.0	895	15.4	1 049	11.6	826	11.1	832
Switzerland	1.5	102	1.6	106	1.4	102	1.3	97
United Kingdom	10.9	753	10.7	729	7.4	522	4.9	364
Other	1.5	104	1.4	97	0.8	54	0.5	39
OECD countries outside Europe	12.0	825	9.3	632	10.6	753	12.1	901
Canada	1.7	114	1.2	79	0.7	52	0.5	38
Japan	1.7	116	1.4	94	5.0	354	5.5	412
United States	7.0	482	5.1	349	4.8	342	5.6	416
Other	1.6	113	1.6	110	0.1	5	0.5	35
CMEA countries	18.7	1 295	19.3	1 311	25.9	1 837	22.8	1 703
Czechoslovakia	0.4	30	0.3	20	0.5	34	0.5	36
German Democratic Republic	0.7	50	0.4	25	0.4	31	0.6	44
Poland	0.4	25	0.2	15	1.2	83	1.1	80
Soviet Union	16.3	1 129	17.5	1 187	22.8	1 616	20.1	1 500
Other	0.9	61	0.9	64	1.0	73	0.6	43
Latin America	0.8	56	1.3	86	2.2	155	1.9	144
Argentina	0.1	5	0.1	10	0.1	8	0.1	4
Brazil	0.0	3	0.2	14	0.7	47	0.6	44
Colombia	0.2	13	0.1	8	0.6	45	0.6	42
Other	0.5	35	0.8	54	0.8	55	0.7	54
Other	11.9	821	8.4	576	6.7	475	12.0	896
GRAND TOTAL	100.0	6 907	100.0	6 798	100.0	7 098	100.0	7 471
of which								
EFTA countries	18.8	1 297	22.1	1 505	20.8	1 479	17.1	1 276
EEC countries	36.9	2 548	39.1	2 655	32.9	2 333	34.1	2 547
OECD countries	68.5	4 735	71.0	4 825	65.2	4 631	63.3	4 729

BALANCE OF PAYMENTS

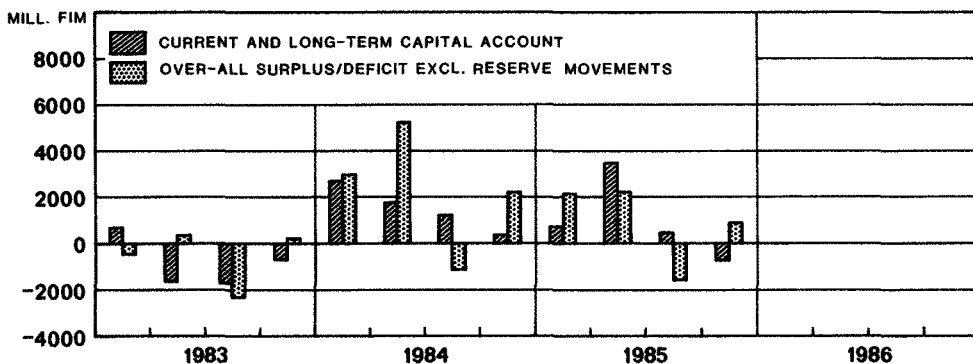
Period	Exports f.o.b.	Imports c.i.f.	Trade account (1-2)	Transport, net	Travel, net	Other services, net	Goods and services account (3 to 6)	Invest- ment income, net	Un- requited transfers, net	Other, net	Current account (7 to 10)
	1	2	3	4	5	6	7	8	9	10	11
1982	62 867	65 147	-2 280	+2 856	-277	+1 732	+2 031	-5 447	-643	+161	-3 898
1983	69 368	72 139	-2 771	+3 200	-748	+1 610	+1 291	-5 817	-797	+96	-5 227
1984*	80 608	75 099	+5 508	+3 909	-1 212	-393	+7 812	-6 781	-1 037	-244	-250
1985*	83 900	81 900	+2 000	+3 800	-1 600	-500	+3 700	-6 200	-1 150	-350	-4 000
1983											
Jan.-March	16 740	16 469	+271	+744	-292	+142	+865	-1 557	-243	+5	-930
Apr.-June	17 098	17 538	-440	+753	-229	+288	+372	-1 492	-176	+42	-1 254
July-Sept.	16 180	17 970	-1 790	+888	+45	+487	-370	-1 463	-174	+53	-1 954
Oct.-Dec.	19 350	20 162	-812	+815	-272	+693	+424	-1 305	-204	-4	-1 089
1984*											
Jan.-March	19 678	17 067	+2 612	+967	-370	-61	+3 148	-2 010	-272	-72	+794
Apr.-June	19 700	18 845	+855	+985	-326	-181	+1 332	-1 219	-190	-45	-121
July-Sept.	19 395	19 324	+71	+1 105	-123	-104	+949	-1 593	-267	-52	-963
Oct.-Dec.	21 834	19 863	+1 971	+853	-393	-47	+2 384	-1 959	-309	-76	+40
1985*											
Jan.-March	20 064	18 942	+1 123	+889	-490	-254	+1 268	-1 585	-349	-131	-798
Apr.-June	22 479	21 411	+1 068	+970	-444	-187	+1 406	-1 707	-289	-56	-646
July-Sept.	20 645	19 654	+991	+994	-247	-26	+1 712	-1 408	-222	-63	+19
Oct.-Dec.	20 712	21 893	-1 181	+948	-419	-34	-687	-1 500	-289	-100	-2 576



Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net	Long-term capital account (12 to 15)	Current and long-term capital account (11 + 15)	Prepayments and liabilities related to imports	Prepayments and receivables related to exports	Short-term capital of authorized banks, net	Miscellaneous, short-term capital items, incl. errors and omissions	Over-all surplus deficit excl. reserve movements (17 to 21)	Bank of Finland foreign exchange reserves
12	13	14	15	16	17	18	19	20	21	22	23
+10 213	-4 721	-1 239	-3 642	+611	-3 287	-914	+771	+1 493	+1 811	-126	+126
+10 112	-7 273	+423	-1 388	+1 874	-3 353	+3 273	-3 380	+1 266	+32	-2 162	+2 162
+14 087	-7 538	-1 682	+1 428	+6 295	+6 045	+695	+3 308	+2 086	-2 859	+9 275	-9 275
+13 009	-8 179	+1 354	+1 813	+7 997	+3 997	+2 000	-7 053	+4 800	0	+3 744	-3 744
+2 985	-1 271	+100	-182	+1 632	+702	-115	+654	-1 220	-503	-482	+482
+2 435	-2 895	+273	-204	-391	-1 645	+1 261	-343	+699	+425	+397	-397
+1 479	-1 269	+142	-129	+223	-1 731	+1 197	-1 662	-593	+476	-2 313	+2 313
+3 213	-1 838	-92	-873	+410	-679	+930	-2 029	+2 380	-366	+236	-236
+4 075	-1 887	-235	-47	+1 906	+2 700	-1 002	+1 135	+2 443	-2 290	+2 986	-2 986
+3 858	-2 351	+89	+276	+1 872	+1 751	+1 087	+161	+2 531	-308	+5 222	-5 222
+2 495	-1 185	-603	+1 475	+2 182	+1 219	+332	+6	-2 186	-511	-1 140	+1 140
+3 659	-2 115	-933	-276	+335	+375	+278	+2 005	-702	+251	+2 208	-2 208
+2 977	-1 738	+336	-49	+1 526	+728	+533	-1 027	+1 924	-6	+2 153	-2 153
+3 355	-2 709	+369	+3 111	+4 126	+3 480	+862	-1 693	+1 582	-2 003	+2 228	-2 228
+2 460	-1 621	+263	-627	+475	+494	-56	-965	-1 540	+501	-1 566	+1 566
+4 217	-2 111	+386	-622	+1 870	-706	+661	-3 368	+2 835	+1 509	+930	-930

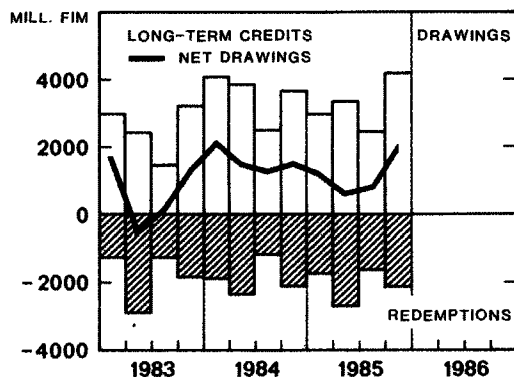
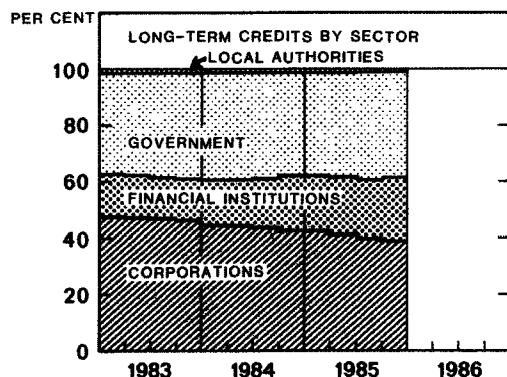
Assets: increase -, decrease +. Liabilities: increase +, decrease -

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

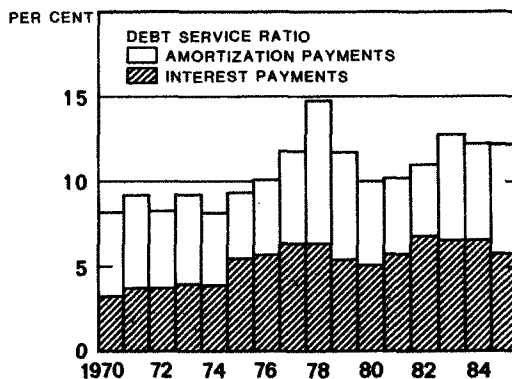
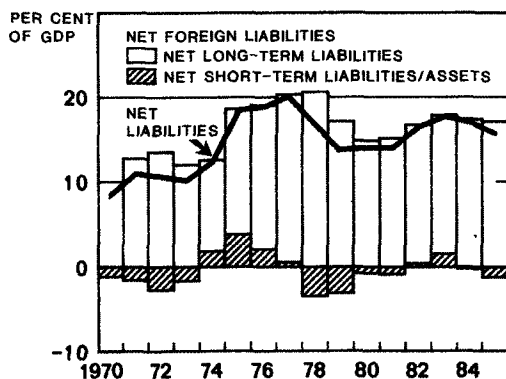


FINLAND'S FOREIGN ASSETS AND LIABILITIES

End of year and month	Long-term assets				Long-term liabilities						Net long-term liabilities (10-4)
	Export credits	Direct investment	Other	Total (1 to 3)	Financial loans	Import credits	Direct investment	Portfolio investment	Other	Total (5 to 9)	
	1	2	3	4	5	6	7	8	9	10	11
1982	6 628	4 626	3 796	15 050	47 547	4 608	2 223	..	752	55 130	40 080
1983	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1984*	8 920	8 689	1 915	19 524	63 958	3 865	2 646	2 013	805	73 287	53 763
1985*	6 566	10 553	2 787	19 906	64 598	2 927	3 010	6 277	1 065	77 877	57 971
1983											
March	6 672	5 003	3 892	15 567	49 897	4 759	2 288	..	846	57 790	42 223
June	6 458	4 998	3 956	15 412	49 921	4 462	2 306	..	812	57 501	42 089
Sept.	6 411	5 392	3 935	15 738	50 705	4 566	2 303	..	798	58 372	42 634
Dec.	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1984*											
March	6 658	6 687	3 539	16 884	54 014	4 225	2 354	987	731	62 311	45 427
June	6 827	7 435	3 230	17 492	57 198	3 937	2 393	1 640	729	65 897	48 405
Sept.	7 767	7 834	1 839	17 440	60 497	3 951	2 410	1 957	834	69 649	52 209
Dec.	8 920	8 689	1 915	19 524	63 958	3 865	2 646	2 013	805	73 287	53 763
1985*											
March	8 504	9 408	2 071	19 983	64 798	3 616	2 631	2 900	778	74 723	54 740
June	8 034	9 824	2 195	20 053	65 273	3 350	2 763	6 317	873	78 576	58 523
Sept.	7 200	10 290	2 179	19 669	64 060	3 080	2 809	6 210	867	77 026	57 357
Dec.	6 566	10 553	2 787	19 906	64 598	2 927	3 010	6 277	1 065	77 877	57 971



Short-term assets				Short-term liabilities				Net short-term liabilities (19-15)	Net liabilities (11+20)	Debt service flow	Of which amortization payments flow
Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (12 to 14)	Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (16 to 18)				
12	13	14	15	16	17	18	19	20	21	22	23
12 737	22 899	13 858	49 494	5 348	31 331	13 782	50 461	967	41 047	9 069	3 464
11 842	29 263	15 915	57 020	5 705	39 443	16 180	61 328	4 308	49 116	11 591	5 621
22 912	43 319	12 491	78 722	4 562	55 695	17 922	78 179	-543	53 220	12 878	5 896
25 183	43 990	16 854	86 027	4 070	60 506	16 980	81 556	-4 471	53 500	13 293	6 951
12 365	22 166	14 580	49 111	4 637	29 530	15 112	49 279	168	42 391	2 535	942
12 905	23 008	14 878	50 791	4 705	31 137	16 563	52 405	1 614	43 703	3 788	2 243
10 556	23 605	15 681	49 842	4 737	31 289	16 805	52 831	2 989	45 623	2 542	1 049
11 842	29 263	15 915	57 020	5 705	39 443	16 180	61 328	4 308	49 116	2 726	1 387
14 740	25 724	15 522	55 986	3 657	37 966	15 617	57 240	1 254	46 681	3 523	1 452
20 705	31 935	15 083	67 723	3 775	47 084	16 884	67 743	20	48 425	3 260	1 987
21 064	34 621	14 700	70 385	4 815	47 882	17 388	70 085	-300	51 909	2 448	821
22 912	43 319	12 491	78 722	4 562	55 695	17 922	78 179	-543	53 220	3 647	1 636
24 785	44 984	13 492	83 261	4 535	59 101	18 298	81 935	-1 327	53 413	3 301	1 688
26 208	46 661	14 605	87 473	3 729	62 282	18 558	84 570	-2 904	55 619	3 894	2 110
24 770	44 927	14 477	84 174	4 240	58 729	17 207	80 176	-3 999	53 358	2 976	1 542
25 183	43 990	16 854	86 027	4 070	60 506	16 980	81 556	-4 471	53 500	3 122	1 611



PRICE INDICES

Period	Wholesale price index 1949 = 100	Basic price index for domestic supply 1980 = 100						Building costs 1980 = 100		
		Total	Origin		Purpose			Total	Wages in building trade	Building materials
			Domestic goods	Imported goods	Raw materials	Consumer goods	Investment goods			
	1	2	3	4	5	6	7	8	9	10
1984	1 261	134.5	136.0	130.0	132.6	137.5	135.8	136.5	133.7	136.1
1985	1 324	140.5	143.1	132.8	137.5	145.8	142.4	144.3	144.4	142.8
1985										
July	1 330	141.1	144.2	131.4	137.7	146.9	143.2	144.9	145.8	143.1
Aug.	1 324	140.2	143.7	129.4	136.1	146.8	143.5	145.6	146.0	144.0
Sept.	1 326	140.8	143.6	132.3	137.0	146.7	143.9	145.8	146.2	144.2
Oct.	1 319	140.0	143.3	129.8	135.4	146.7	144.2	145.9	146.4	144.3
Nov.	1 314	139.5	143.1	128.7	134.5	146.8	144.6	146.1	146.0	144.7
Dec.	1 316	139.5	143.1	128.7	134.3	147.2	144.6	146.4	146.2	145.0
1986										
Jan.	1 312	139.0	143.2	126.2	133.2	147.4	144.9	148.4	150.8	146.1
Feb.	1 297	137.0	142.9	119.2	129.1	147.3	146.1	148.5	151.0	146.6

Period	Consumer prices 1981 = 100									
	Total	Food	Beverages and tobacco	Clothing and footwear	Rent, heating and lighting	Household goods and services	Health and medical services	Transport and communication	Education and recreation	Other goods and services
	1	2	3	4	5	6	7	8	9	10
1984	127.1	129.1	132.5	119.5	124.5	123.0	145.2	125.4	126.4	130.8
1985	134.6	139.1	140.3	126.1	130.9	129.7	155.7	130.4	132.5	140.4
1985										
July	135.4	141.3	139.7	125.2	132.6	129.6	154.4	131.1	132.2	140.4
Aug.	135.6	141.4	139.7	126.4	132.6	130.4	157.1	129.8	133.1	141.7
Sept.	135.8	140.0	141.4	128.0	132.8	131.1	157.2	130.1	134.0	142.1
Oct.	136.0	140.0	141.4	129.7	132.9	131.8	158.3	129.7	134.4	142.2
Nov.	136.1	140.0	141.4	130.2	133.0	132.0	159.0	129.4	134.9	142.7
Dec.	136.2	139.8	141.4	130.3	133.0	132.1	159.0	130.1	135.0	142.8
1986										
Jan.	137.2	141.4	144.7	126.6	133.2	132.6	162.5	130.1	136.0	146.1
Feb.	137.8	142.1	144.7	128.4	133.7	133.3	162.6	130.9	136.1	147.2

WAGES

Index of wage and salary earnings 1980 = 100

Period	By industries				By institutional sectors			All salary earners	All wage earners	All employees
	Wage earners in			Employees in services	State employees	Municipal employees	Employees in private sector			
	Agriculture	Industry	Construction							
1	2	3	4	5	6	7	8	9	10	
1983	132.1	137.3	138.2	138.8	137.3	140.0	137.3	138.4	136.9	137.8
1984*	148.5	149.9	152.8	152.8	147.1	154.7	150.5	151.4	149.7	150.8
1985*	160.6	161.5	167.8	164.6	158.0	166.1	163.1	163.6	161.9	163.0
1984*										
Oct.-Dec.	154.6	152.7	158.0	155.2	149.2	156.5	154.2	154.3	153.4	154.0
1985*										
Jan.-March	150.6	157.0	164.3	160.3	154.2	162.5	157.4	158.3	157.2	157.9
Apr.-June	163.2	163.0	168.6	165.7	159.2	167.0	164.5	164.7	163.5	164.3
July-Sept.	161.9	162.2	168.3	165.9	159.1	167.3	164.3	165.0	162.6	164.1
Oct.-Dec.	166.6	163.7	170.1	166.5	159.4	167.6	166.3	166.2	164.5	165.6

PRODUCTION

Volume indices of production 1980 = 100

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

PRODUCTION

Index of industrial production 1980 = 100

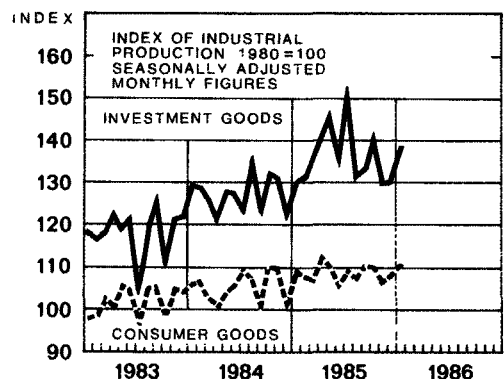
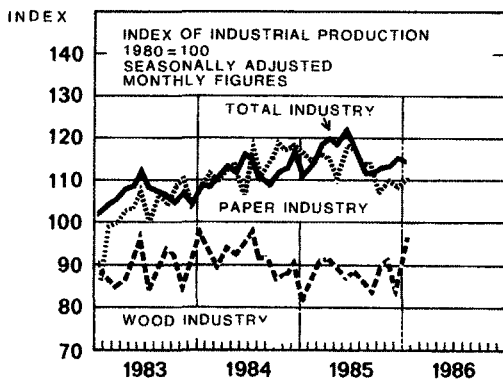
Period	Total	Investment goods	Consumer goods	Other producer goods	Special indices of manufacturing						Total adjusted for seasonal variations
					Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
	1	2	3	4	5	6	7	8	9	10	11
1983	107.1	119.0	102.6	107.1	108.9	89.9	103.5	106.2	115.0	114.5	107.1
1984*	112.4	127.8	106.0	112.5	110.1	92.4	114.3	110.8	109.2	121.6	112.7
1985*	115.8	137.0	109.0	115.0	109.4	87.8	113.9	115.0	112.9	130.1	116.2

1985*

Jan.	118.9	134.0	115.8	117.4	103.3	78.7	119.0	109.7	109.2	130.0	111.8
Feb.	110.4	128.9	106.2	108.9	89.9	77.1	110.3	109.6	88.2	121.8	114.3
March	122.3	149.6	113.6	121.5	105.5	98.0	123.3	125.7	113.1	138.2	118.9
April	120.1	147.7	112.0	119.0	106.7	107.6	105.4	129.8	103.9	138.8	121.2
May	128.7	175.4	117.5	125.6	114.1	115.9	108.2	126.8	125.3	160.3	119.2
June	115.2	153.1	103.3	114.0	102.8	93.7	106.7	108.2	115.5	138.0	122.8
July	80.9	66.7	71.7	87.7	102.5	40.2	127.5	76.7	71.6	67.8	118.5
Aug.	115.1	127.6	108.5	115.8	112.5	81.9	119.7	121.1	132.3	123.4	112.3
Sept.	118.2	134.0	111.9	118.1	107.8	94.5	112.9	121.7	137.1	132.2	112.1
Oct.	129.4	157.5	124.5	126.5	136.6	108.1	113.0	126.2	138.5	150.4	113.5
Nov.	123.1	142.9	120.0	120.7	128.0	95.4	117.7	116.0	121.1	139.0	113.8
Dec.	106.8	126.8	102.5	105.1	103.0	62.0	103.6	108.3	99.1	121.4	115.8

1986*

Jan.	122.0	143.3	118.1	119.8	103.7	92.1	112.0	120.8	103.8	139.0	115.0
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LABOUR – TIMBER FELLINGS – INTERNAL TRADE

Period	Population of working age, 1 000 persons	Total labour force, 1 000 persons	Employed, 1 000 persons	Un-employed, 1 000 persons	Unemployment, % of total labour force	Commercial timber fellings, 1 000 solid cu. m	Retail sales volume index 1980 = 100	Wholesale volume index 1980 = 100
	1	2	3	4	5	6	7	8
1984*	3 700	2 572	2 414	159	6.2	41 288	109	109
1985*	3 710	2 600	2 437	163	6.3	43 483	114	109
1984*								
Dec.	3 705	2 544	2 386	158	6.2	5 134	130	113
1985*								
Jan.	3 706	2 531	2 360	171	6.8	4 241	102	99
Feb.	3 707	2 534	2 363	171	6.7	4 581	98	96
March	3 706	2 528	2 355	173	6.8	6 031	108	109
April	3 707	2 565	2 394	171	6.6	5 882	110	111
May	3 709	2 611	2 461	150	5.7	4 598	121	115
June	3 708	2 761	2 594	167	6.1	2 407	115	102
July	3 708	2 780	2 621	159	5.7	1 121	120	95
Aug.	3 712	2 631	2 481	150	5.7	1 212	117	108
Sept.	3 714	2 563	2 405	158	6.2	1 951	111	113
Oct.	3 714	2 556	2 396	160	6.3	2 962	118	124
Nov.	3 714	2 580	2 409	171	6.6	3 768	116	117
Dec.	3 714	2 563	2 406	157	6.1	4 729	134	119
1986*								
Jan.	3 714	2 553	2 360	193	7.6	4 232

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
1983	51.78	19.67	6.44	18.34	3.64	47.37	18.43	5.91	16.33	3.54	51.44
1984*	49.69	19.93	5.65	17.45	3.14	44.24	17.65	5.13	15.76	2.83	52.13
1984*											
July-Sept.	12.91	4.85	1.28	4.68	1.04	9.70	3.66	1.67	2.74	0.90	55.86
Oct.-Dec.	10.28	3.44	0.81	4.65	0.72	14.40	5.84	1.96	5.00	0.65	52.13
1985*											
Jan.-March	9.15	3.44	1.10	3.17	0.86	8.46	3.77	0.55	2.87	0.73	48.36
Apr.-June	17.09	7.24	3.08	4.80	0.75	9.82	3.96	0.70	3.39	1.02	52.99
July-Sept.	11.82	4.37	1.60	4.00	0.93	9.27	3.51	1.63	2.78	0.71	56.74
Oct.-Dec.	9.45	2.86	0.89	4.24	0.86	15.03	5.38	1.77	6.15	0.78	50.24

EXPLANATIONS RELATING TO THE STATISTICAL SECTION

BANK OF FINLAND

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

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

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

MONETARY POLICY INDICATORS

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

Gross central bank debt of the deposit banks = The commercial banks' and Postipankki's cheque account overdrafts + Call money credit. Prior to January 1964 the average monthly amount of cheque account overdrafts at base rate was restricted by the quota granted to each bank. The banks could obtain central bank credit in excess of the quota by borrowing on the Bank of Finland's call money market. As from January 1984, the quotas were abolished and the only source of central bank debt is now the call money market. There is no longer any absolute ceiling on call money credit. However, banks' borrowing is monitored and a bank whose borrowing exceeds a certain limit comes under the special surveillance of the central bank. The interest charged on call money credit, the call money rate, is adjusted by the central bank in line with monetary policy objectives at the time.

Net central bank debt of the deposit banks = Gross central bank debt of the deposit banks - The commercial banks' and Postipankki's deposits on the call money market - All deposit banks' cash reserve deposits at the Bank of Finland.

Cash reserve deposits of the deposit banks equal the total amount of cash reserve deposits at the Bank of Finland made by the deposit banks under the Cash Reserve Agreement of March 8, 1983. The deposit banks consist of the commercial banks, co-operative banks, savings banks and Postipankki.

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

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

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

FORWARD EXCHANGE MARKETS IN FINLAND

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

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

FOREIGN EXCHANGE RATES

Pages 8-9. *Exchange rates* are annual and monthly averages of the Bank of Finland's daily quotations. *Currency index* is annual and monthly average of daily index numbers. The chart at the bottom of page 8 shows the banks' forward selling rates for the US dollar as deviations from the spot rate.

DEPOSITS BY THE PUBLIC - ADVANCES TO THE PUBLIC - MONEY SUPPLY

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

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

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

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

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

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

STATE FINANCES

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

FOREIGN TRADE

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

BALANCE OF PAYMENTS

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

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

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

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

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

FOREIGN ASSETS AND LIABILITIES

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

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

Column 22. Debt service = Net investment income of short-term and long-term assets and liabilities + net amortisation payment of long-term foreign assets and liabilities, excl. amortisation payments of the Bank of Finland's reserve and oil credits.

Columns 22 and 23 during the year and the quarter.

Chart Debt service ratio: Debt service as a per cent of current account earnings. Debt service does not include amortisation of the Bank of Finland's reserve and oil credits.

PRICE INDICES

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

WAGES - PRODUCTION

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

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

LABOUR - TIMBER FELLINGS - INTERNAL TRADE - CONSTRUCTION OF BUILDINGS

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

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

SYMBOLS USED: * Preliminary, 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 1983 is as follows: Social Democratic Party of Finland 57, National Coalition Party 44, Centre Party 38, Democratic League of the People of Finland 27, Finnish Rural Party 17, Swedish People's Party 11, Christian League of Finland 3, The Greens 2 and Finnish People's Constitutional Party 1.

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

INTERNATIONAL ORGANIZATIONS

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

LAND

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

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

POPULATION

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

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

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

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

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

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

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

TRADE AND TRANSPORT

NATIONAL INCOME (1984), in million FIM: Gross domestic product at factor cost by industrial origin: agriculture and fishing 12 849 (5%), forestry 10 004 (4%), manufacturing 82 263 (30%), construction 21 786 (8%), trade, restaurants and hotels 30 337 (11%), transport and communication 21 419 (8%), banking and insurance 11 676 (4%), ownership of dwellings 17 688 (6%), other services 65 583 (24%), total 273 606. Index of real domestic product '1' (1980 = 100).

FOREST RESOURCES (1983). The growing stock comprised of 1 660 million m³ (solid volume with bark) of which 45% was pine and 37% spruce the remaining 18% being broad-leaved trees chiefly birch. Of the growing stock 656 million m³ was up to the standard required for logs, 51% of these being pine. The annual growth was 68 million m³ and the total drain calculated on the basis of roundwood consumption was 49.4 million m³.

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

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

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

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

MOTOR VEHICLES (Dec. 31, 1984): Passenger cars 1 473 975, lorries and vans 173 784, buses 9 069, others 11 159, total 1 667 987.

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 0.21 159 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 19.8, DEM 19.0, GBP 15.1, USD 9.9, other currencies 36.20. The permissible range of fluctuation is about 2.25 per cent on either side of the theoretical arithmetic mean. The fluctuation limits are 106.0 and 101.3.

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

OTHER CREDIT INSTITUTIONS (Dec. 31, 1984). There are two big and eight small commercial banks with in all 942 offices, 263 savings banks, 370 co-operative banks, five mortgage banks, Postipankki and three development credit institutions. The co-operative stores accept deposits from their members. The Social Insurance Institution and 48 private insurance companies also grant credits.

RATES OF INTEREST (March 1, 1986). The Bank of Finland's base rate is 8%. The interest rates for domestic lending other than bank financing by the Bank of Finland vary between 5½% and 10½%. Other credit institutions: time deposits 3½%, 6 month deposits 5%, 12 month deposits 6½%, 24 month deposits 7½% and sight deposits ¼%.

THE REFORM OF BUSINESS TAXATION

by Lasse Aarnio, Financial Counsellor
Ministry of Finance

This article first presents various statistical data on the relative importance of business taxation in Finland. It then goes on to discuss certain problems relating to business taxation which have come to the fore in discussions on taxation. Finally, it describes the measures for reforming business taxation decided upon by the government in the autumn of 1985.

THE IMPORTANCE OF BUSINESS TAXATION

A characteristic feature of taxation in Finland in recent decades has been the comparatively large share of personal income taxes and indirect taxes in total tax revenue. Hence, for example, the share of income taxes paid by corporations in the total tax revenue of the public sector has been relatively small as compared with many other countries. In recent years, corporate income tax revenue has accounted for just over 1.5 per cent of GDP and for a little more than 4.0 per cent of total tax revenue (Table 1). These ratios were slightly higher in the early 1970s, but they subsequently fell and have varied very little in recent years.

TABLE 1. CORPORATE INCOME TAXATION AS A PERCENTAGE OF GDP AND TOTAL TAX REVENUE

	1970	1975	1980	1981	1982	1983	1984
Per cent of GDP	1.7	1.5	1.5	1.7	1.6	1.6	1.6
Per cent of total tax revenue	5.5	4.2	4.4	4.7	4.5	4.4	4.3

The concept of business taxation can be understood in a broader sense than just the taxation of corporate enterprises. If we examine the direct taxes (including the wealth taxes of self-employed business and professional people and partnerships) levied on all business and professional income, it can be observed that limited companies and co-operative societies pay about half of the total (Table 2). Individuals carrying on business or professional activities account for about one-third of business tax revenue and other business undertakings for the remainder. Defined in this way, business tax revenue represented more than 2 per cent of GDP in 1982 - 1984. Whereas business taxation had accounted for about 6.5 per cent of total tax revenue in 1982 - 1983, its share fell to 5.7 per cent in 1984. Of the total amount of business tax revenue, about one-half accrued to the central government sector

TABLE 2. BUSINESS TAXATION BY CATEGORY OF TAXPAYER IN 1982 - 1984

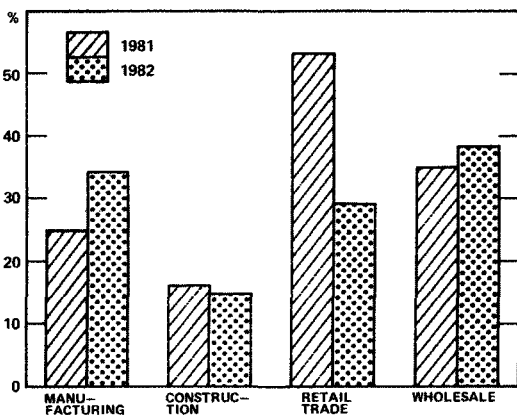
	1982		1983		1984	
	FIM mill.	per cent	FIM mill.	per cent	FIM mill.	per cent
Self-employed businessmen and professional persons	1 845.8	32.3	1 953.9	31.6	2 106.3	32.9
Partnerships	709.6	12.4	817.5	13.2	917.1	14.3
Limited companies	2 912.1	50.9	3 141.8	50.7	3 097.8	48.3
Co-operatives	157.1	2.7	164.9	2.7	163.7	2.6
Others	96.0	1.7	111.2	1.8	122.2	1.9
Total	5 720.6	100.0	6 189.3	100.0	6 407.1	100.0

while the other half represented taxes levied in favour of other recipients of tax revenue, mainly local authorities.

It is not possible on the basis of tax statistics to estimate the tax burden - i.e. the ratio of taxes paid to income - of various industrial sectors or types of enterprise. Below are given some indicators of the level of business taxation as estimated by the Ministry of Finance by means of a random sample obtained from enterprise statistics containing data on income statements and balance sheets. The data covers manufacturing, construction and wholesale and retail trade.

Chart 1 shows the shares of direct taxes in enterprises' net profit for 1981 and 1982. The concept of profit used here is book profit before reserves and taxes. There are differences in the ratios of taxes to net profit between the industrial sectors examined. However, a cross-section analysis over such a short period of time does not permit far-reaching conclusions to be drawn concerning, for example, sectoral differences in tax ratios, because the sectors examined may have been in different cyclical phases. In fact, sectoral differences in profitability would seem to be one factor explaining these differences. According to the same study, in the period examined profitability, as measured in terms of net profit,

CHART 1. DIRECT TAXATION AS A PERCENTAGE OF NET PROFIT IN SELECTED INDUSTRIAL SECTORS IN 1981 AND 1982



was highest in construction, the sector with the lowest tax ratio. The differences may also be due to the fact that the distribution of business undertakings by size and type of enterprise differs between the various industrial sectors.

Chart 2 shows the ratio of taxes to net profit in enterprises of different sizes in all the industrial sectors examined above. The size of enterprises is measured in terms of the number of persons employed. Differences between the various size categories are divergent in the two years examined, so that it is not possible to draw any definite conclusions about the incidence of taxation in enterprises of different size. Nevertheless, the tax ratio of the two largest size categories seems to be somewhat lower than that of the smaller enterprises.

CHART 2. DIRECT TAXATION AS A PERCENTAGE OF NET PROFIT BY SIZE OF ENTERPRISE IN 1981 AND 1982

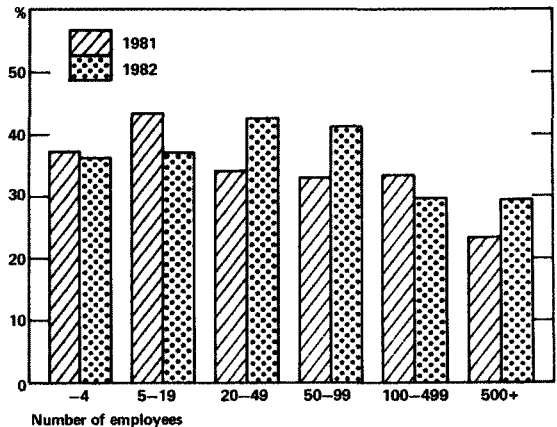
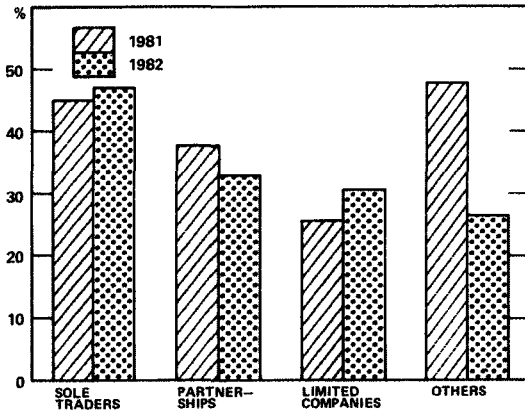


Chart 3 shows the relationship between taxes and net profit in different types of enterprise. There are clear differences between the tax ratios of sole entrepreneurs, partnerships and limited companies. Most of these differences can be attributed to different rules for calculating profits and to different taxation rules. A sole trader is not allowed to deduct his own entrepreneurial income in his accounts, whereas owner-managers in other types of business enterprise are allowed to allocate their income between remuneration deductible in the com-

CHART 3. DIRECT TAXATION AS A PERCENTAGE OF NET PROFIT BY TYPE OF ENTERPRISE IN 1981 AND 1982



pany's accounts and shares in profits or dividends. Sole entrepreneurs and partnerships are taxed according to the progressive rates for individuals while a proportional tax is applied to limited companies.

The sectoral differences in tax ratios presented above can, to a certain extent, be explained by the differences in tax ratios among different types of enterprise. In retail trade, which had a particularly high tax ratio in 1981, more than one-third of enterprises were sole traders. Limited companies accounted for about three-quarters of enterprises in manufacturing and wholesale trade and for almost three-fifths in construction. The fact that about four-fifths of the largest enterprises were limited companies may also have contributed to differences in tax ratios by category of size.

THE DEBATE ON BUSINESS TAXATION

One of the main issues in the debate on taxation in the early 1970s was the likely impact on investment of the rather generous depreciation rules and inventory reserves introduced as means of evening out fluctuations in business income. There were doubts that these measures, coupled with a high rate of income tax, could distort investment by encouraging so-called tax pressure investments. These were investments made by enterprises

to defer taxation and which, it was thought, would lead to inefficient allocation of capital and an excessively rapid replacement of the capital stock. The effects of the normal depreciation rules in taxation were augmented by certain tax relief laws designed to influence the pattern of investment which further increased the opportunities for depreciation, even in the form of free depreciation.

The debate did not lead to any changes in the tax system and it died down in the late 1970s as investment weakened along with the slackening in overall economic activity. Nevertheless, the debate can be considered to have stimulated the introduction of a new investment reserve scheme in 1979. Under this scheme, companies are allowed, as an alternative to deductions in the form of depreciation, to make tax-free transfers of profits to investment reserves, which can later be used for financing real investment. As investments financed out of reserves may no longer be written down in taxation, the scheme in fact offers an opportunity for advance depreciation.

Finnish companies have generally been regarded as being rather heavily indebted. It is not possible here to discuss at any great length the problems associated with companies' indebtedness. Suffice it to say that it seems quite evident that developments in this respect have depended on both the tax system and institutional factors pertaining to the Finnish financial markets. In the tax policy debate, this problem has frequently been passed over by considering the possibility of placing companies' equity financing on a more equal footing with their debt financing in taxation.

So as to alleviate the double taxation of a limited company and its shareholders, the so-called split-rate system is applied in Finland. This has been implemented by granting limited companies deductions in central government taxation based on dividends paid out to shareholders. Since 1977, this deduction has been equivalent to 60 per cent of distributed profits. In addition, a company is allowed to deduct in full dividends paid on new, paid-up share

capital during the first six years of payment. However, the annual deduction may not exceed 20 per cent of the paid-up share capital.

In the debate on taxation in recent years, attention has been drawn to the fact that enterprises of different sizes are not in an equal position in taxation. To some extent, this reflects the differential tax treatment of different types of enterprise referred to above. The majority of small enterprises are sole traders or partnerships, whereas most of the larger enterprises are limited companies or co-operative societies. On the other hand, it has also been suggested that only large companies whose activities are based on extensive use of physical capital are able to fully utilize the generous allowances for depreciation and inventory reserves or the benefits linked to the use of physical capital contained in certain tax relief acts. Analogous to this has been the claim that the tax deductions associated with the use of physical capital and inventory holding benefit primarily manufacturing companies, whereas the possibilities of companies in other industrial sectors to exploit these advantages are more restricted. This criticism is supported by a number of studies on the position of companies in taxation conditions.

Two types of measures have been used so as to make the tax treatment of companies of different sizes and in different industrial sectors more equal. In central government income taxation, companies declaring a small taxable income have been taxed according to a more lenient schedule of tax rates than the standard rate. Since 1979, the range of application of this schedule has been extended in several stages.

The other measures have involved developing new opportunities to create reserves for companies engaged in activities in which physical investment or inventories do not play a significant role. This has been carried out by means of an operating reserve, which was introduced in 1979. The operating reserve is calculated on the basis of the wage bill for the preceding twelve months. The maximum amount of the

reserve has been gradually increased, and in 1985 it amounted to 20 per cent of the wage bill. In connection with the introduction of the operating reserve, certain limits were imposed on the maximum amount of the inventory reserve. Thus, a company which sets up an operating reserve in its books is allowed to make an inventory reserve up to a maximum of 35 per cent, whereas otherwise it is permitted up to 50 per cent of the unreduced acquisition cost of inventories valued according to the FIFO (first-in-first-out) principle.

The taxation of capital gains has also for long been a subject of discussion. This issue attracted special attention in the 1980s when a number of large takeovers received widespread publicity because of the tax exemption of the capital gains arising from these transactions. The tax exemption of large capital gains was viewed mainly as a question of the equality of taxation. Prior to 1985, no practicable solution for amending the taxation of sales proceeds could be found.

THE REFORM OF BUSINESS TAXATION IN 1986

In 1984, the government appointed a committee to prepare a programme for developing business taxation. The time allotted to the committee was relatively short, and it therefore concentrated mainly on drawing up a wide-ranging programme of measures based on earlier reform proposals. Before appointing the committee, the government gave assurances of its intention to develop business taxation. Great hopes were therefore placed on the work of the committee. Once the committee had submitted its report at the end of 1984, the government set about preparing legislation, on the basis of which certain amendments to business taxation were also agreed upon when drafting the central government's budget proposal for 1986. The relevant bills were presented to Parliament in September 1985, and were passed before the end of the year. The new legislation entered into force at the beginning of 1986.

The changes made to business taxation have several objectives. The alleviation of the taxation of limited companies is designed to make it easier for companies to utilize internal financing. The reduction in tax rates is also aimed at mitigating the distortive effects of taxation arising from both high tax rates and tax allowances in the form of depreciation and reserves.

The reform of capital gains taxation is primarily to be seen as a measure to improve the equality of taxation by restricting the tax exemptions of large property incomes. The above-mentioned committee proposed the more comprehensive taxation of capital gains than that entailed by the changes in legislation actually implemented. As a counterbalance, the committee had proposed the total abolition of wealth taxation. However, the government did not feel that this was possible, and settled instead for a substantial alleviation in wealth taxation.

REDUCTION IN CORPORATE TAX RATES

Up till 1985, limited companies and other corporate enterprises paid central government income tax at the rate of 43 per cent. In addition to central government income tax, corporations pay local government income tax and church tax. The combined tax rate for these two types of tax is on average about 17 per cent, so that the total income tax rate levied on corporations has averaged about 60 per cent.

From the beginning of 1986, the central government income tax rate for corporations was cut to 33 per cent, so that the total tax rate is now about 50 per cent. The reduction in the tax rate has not had an immediate impact on tax payments by corporations, since tax prepayments for 1986 are being collected at the old rate of 43 per cent. This means that corporations will receive very substantial tax refunds at the end of 1987. The government's decision to maintain the former rates for advance tax payments was motivated by the desire to retard the impact of the reduction in tax rates on central government tax revenue.

ALLEVIATION OF WEALTH TAXATION

Individuals and partnerships pay wealth tax according to a progressive tax scale. The tax is based on net wealth (assets less liabilities) at the end of the year. In 1985, the lower limit of the wealth tax scale stood at FIM 275 000, of which FIM 130 was collected in tax. The tax rate rises gradually and the highest rate in 1985, 1.7 per cent, was levied on wealth exceeding FIM 1 130 000. During the 1980s, the wealth tax has ceased to be of great significance. For the 1984 tax year, about 130 000 persons (some 3 per cent of income recipients), roughly 3 700 partnerships (some 10 per cent of partnerships) and about 4 900 estates of deceased persons (some 3 per cent of such estates) paid wealth taxes. In 1984, wealth tax brought in about FIM 260 million, which represented about one per cent of total central government revenue from income and wealth taxation.

At the beginning of 1986, the wealth tax scale was eased. The lower end of the scale was raised to FIM 800 000, and the highest tax rate (1.7 per cent) is now payable on wealth exceeding FIM 3 000 000.

The distribution of taxable wealth is highly skewed. Hence, the greatest significance of the revision in the tax scale is the fact that the majority of tax payers formerly liable to pay wealth tax are now exempted. In its bill, the government estimated that the number of persons liable to pay wealth tax would fall to about one-tenth of the former number. From the point of view of business taxation, the alleviation in wealth taxation has a direct impact on the taxation of sole entrepreneurs and partnerships. In addition, the taxation of shareholders of limited companies will of course be eased.

REFORM OF THE TAXATION OF CAPITAL GAINS

In principle, capital gains are taxable income in normal income taxation. Since inflation is not taken into account in the calculation of capital

gains, taxation focuses on nominal gains. In the case of the taxation of business and professional income, proceeds from the sale of business property are taxable income, but the acquisition expenses of assets not written down can be deducted for the selling year, so that even in this respect taxation centres on nominal capital gains received from the sales of assets.

The taxation principles described above apply only to short-term capital gains. Long-term capital gains have been entirely tax-exempt. In the case of movable property (e.g., securities), the limit has been a period of ownership of five years and in the case of real estate a period of ownership of ten years. In the case of business property these exemption limits apply to assets other than investment and trading assets. Moreover, the taxation of privately-owned real estate has been gradually reduced after five years of ownership. These time limits have in fact meant that capital gains have only seldom been taxed, because owners have generally endeavoured to postpone their sales for as long as is necessary to obtain full tax exemption.

The full tax exemption of long-term capital gains is now restricted by the tax reform introduced at the beginning of this year. The changes vary slightly as between private capital gains and those derived in connection with business and professional activities.

Under the new legislation, 20 per cent of a private individual's long-term capital gains in excess of FIM 1 million is regarded as taxable income. The new act stipulates that, when calculating the amount of sales proceeds in excess of FIM 1 million, account must also be taken of the imputed gains deriving from the sales of assets received as inheritances, bequests or gifts, which previously were always tax-exempt.

The regulations on the taxation of short-term sales proceeds remain unchanged. However, in connection with the reform, the method for computing sales proceeds was amended by

introducing the concept of assumed acquisition price, which is 50 per cent of the selling price of an asset unless the taxpayer can prove that it is greater. In certain cases, this regulation also eases the taxation of short-term sales proceeds.

The tax exemption of long-term capital gains derived from the sale of assets pertaining to business and professional activities was also partly restricted. Twenty per cent of the proceeds from the sale of such assets is now regarded as taxable income and there is no lower limit in markka terms. Of this amount, the acquisition expense is deductible in taxation up to the amount of taxable sales proceeds. Capital losses are always deductible.

All in all, the reform of capital gains taxation does not entail any significant tightening in taxation. In the case of large private capital gains, the tax may at most amount to about 7 per cent of the selling price of the asset, if the highest marginal personal tax rate (about 70 per cent) is used in the calculation. In the case of sales of assets pertaining to business and professional activities, the new regulations mean that 0 - 20 per cent of the selling price is added to the taxable income of the enterprise. The exact percentage depends on the relation between the selling price and the purchase price of the asset.

OTHER CHANGES IN BUSINESS TAXATION

Certain regulations governing reserves in the taxation of business and professional income were also revised at the beginning of 1986. The upper limit on an operating reserve was raised to 25 per cent. As from the beginning of 1987, the upper limit on this reserve will be further raised to 30 per cent. So as to shift the emphasis of the reserve system more in favour of labour-intensive enterprises, the upper limit on inventory reserves was restricted to 40 per cent of acquisition cost.

The annual adjustment to personal taxation also included the raising of the upper limit on

deductions for certain types of property income, such as dividends. In 1985, this deduction meant that the first FIM 3 000 of dividends received were tax-exempt. From the beginning of 1986, this amount was raised to FIM 3 800. This revision is of particular importance for the taxation of small shareholders.

THE OVERALL IMPACT OF THE REVISIONS

It is very difficult to estimate the impact of the changes in business taxation on the tax revenue of the central government and other tax recipients. This is because enterprises will endeavour to adopt their activities and tax planning to the changed conditions. The information and methods needed for estimating behavioural changes are not available, and hence any assessment of the impact of the revisions must necessarily remain highly qualitative. Furthermore, some of the revisions are such that their impact on the public sector's tax revenue will be felt only after a fairly long lag.

The main emphasis in the changes in business taxation is on measures alleviating taxation. For example, the imputed loss in tax revenue resulting from the reduction in the corporate tax rate, without any behavioural changes, is put at FIM 450 - 500 million. The alleviation in wealth taxation is estimated to reduce tax revenue by about FIM 150 million. This amount would account for about 50 per cent of the revenue which would have otherwise accrued from wealth taxation for 1986. No estimates have been made in markka terms of the effect on tax revenue of the reform of capital gains taxation, but the overall impact will be to tighten taxation. Although the changes in the regulations governing inventory reserves have tightened taxation, the full impact will not be felt until 1989. In the case of operating re-

serves, however, the amendment has increased the opportunities for making reserves, and its imputed impact, excluding behavioural changes, is estimated to be a fall of about FIM 60 million in tax revenue.

FUTURE PROSPECTS FOR THE REFORM OF BUSINESS TAXATION

Although it seems unlikely that all the changes proposed by the 1984 committee will be implemented, those introduced at the beginning of this year can be regarded as marking the first stage in a more comprehensive reform programme. As regards future measures, the view at the political level was made clear in September 1985 when the government, in deciding upon these measures, announced that it intended to continue with the development of business taxation. As a concrete step, the government announced that in 1986 it would present a bill to Parliament designed to regulate the tax treatment of inter-company subsidies within groups of companies.

As regards other aspects of business taxation, the government announced that it was to carry out studies which would serve as the basis for bills to be presented to Parliament in 1986 and 1987 concerning future measures relating to the reform of business taxation. The most important of these studies concerns the alleviation of the double taxation of profits distributed by limited companies. Precisely in what manner the alleviation of double taxation will be implemented has not yet been decided upon. Several committees have emphasized the need to look into the possibility of introducing an imputation system, and this will certainly be the object of special attention in future work.

MONETARY AND FOREIGN EXCHANGE POLICY MEASURES FROM APRIL 1985 TO MARCH 1986

1985

April

Payments Agreement between Finland and Bulgaria. In keeping with an agreement concluded between the Finnish and Bulgarian authorities in November 1984, the US dollar clearing account between the two countries is replaced by a Finnish markka clearing account as from April 1, 1985.

Export deposits. On April 3, the Council of State decides to repay export deposits. The export deposits collected on sawn wood are to be repaid during June and those on pulp during November.

Call money market. The Bank of Finland lowers the call money rate from 14.0 to 13.8 per cent as from April 26.

June

Investment reserves. On June 13, the Council of State decides to release, as from October 1, 1985 investment reserves made by companies for accounting periods ending in 1983 or earlier. In the Greater Helsinki area, such reserves may not be used until April 1, 1986. The utilization period is to expire on December 31, 1987.

Sale of Finnish bonds abroad. The Bank of Finland prohibits, until further notice, the sale abroad of bonds and debentures quoted on the Helsinki Stock Exchange as from June 24.

Call money market. The Bank of Finland lowers the call money rate from 13.8 to 13.6 per cent as from June 26.

August

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

September

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

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

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

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

October

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

November

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

December

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

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

1986

January

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

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

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

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

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

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

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

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

securities transactions between residents and non-residents.

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

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

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

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

February

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

March

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

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

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

ITEMS

Committee proposes uniform banking legislation for deposit banks. In its report submitted in February, the Banking Committee, chaired by Dr. Markku Puntila, acting member of the Board of Management of the Bank of Finland, proposes the introduction of uniform banking legislation that would provide equal operating conditions for all deposit banks, i.e. commercial banks, co-operative and savings banks and Postipankki. The new act would replace existing banking regulations, which are contained in various, partly uncoordinated, banking acts. Apart from unifying banking legislation, the Committee also seeks to bring it up to date.

In the proposed legislation, key prominence is given to provisions concerning the solvency of banks. Special attention is also drawn to the formation of groups of financial institutions owned by the banks and to the risks attaching to the internationalization of banking. Other objectives include the promotion of interbank competition and the improvement of customer protection.

A considerable amount of further preparatory work will be required before the proposed legislation can be enacted.

The Bank of Finland sells its paper mill. In April, the Bank of Finland sells its 95.7 per cent shareholding in Tervakoski Oy to Enso-Gutzeit Oy. Tervakoski Oy was owned by the Bank of Finland from 1928 to 1986. One of the paper mill's special products is banknote paper.

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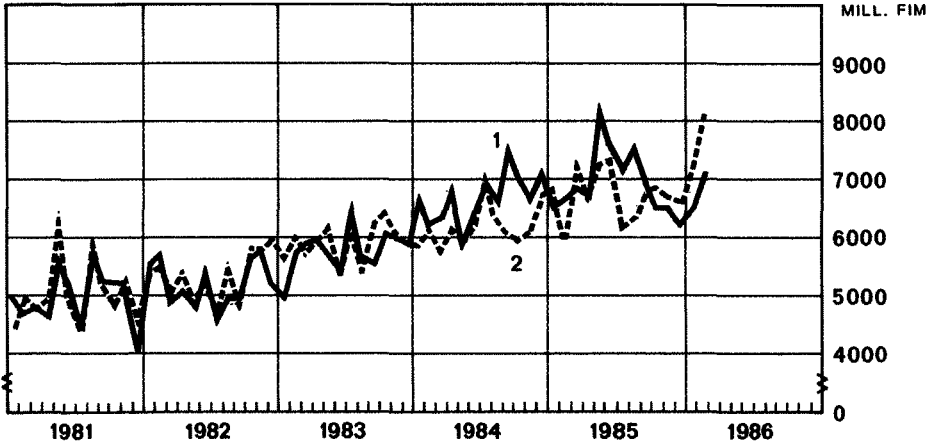
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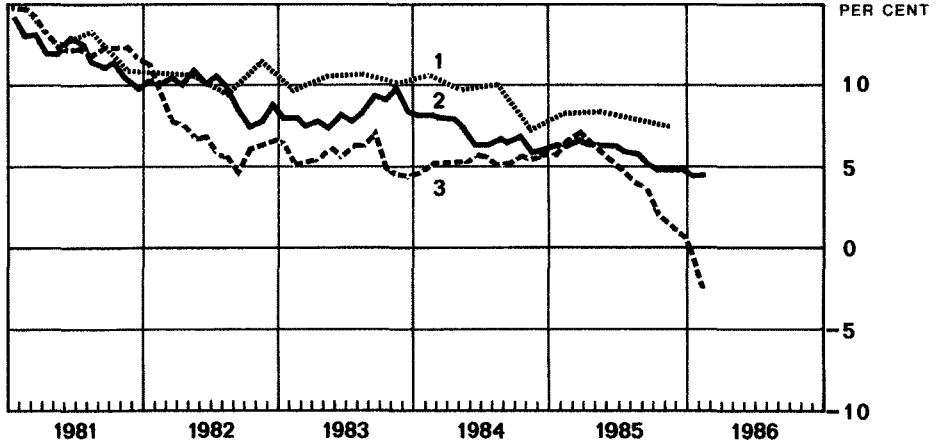
FOREIGN TRADE, 1981-86

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



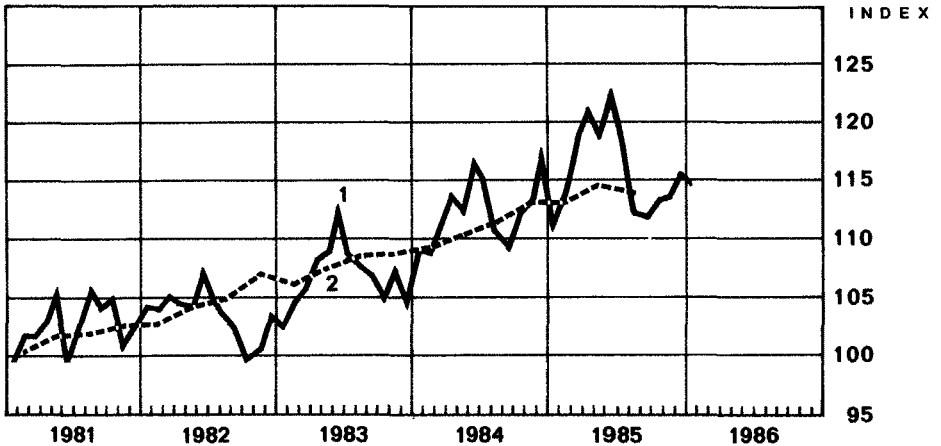
PRICES AND WAGES, 1981-86

- 1. Index of wage and salary earnings 1975 = 100, quarterly figures
- 2. Consumer price index 1981 = 100, monthly figures
- 3. Basic price index for domestic supply 1980 = 100, monthly figures
- Percentage change on previous year



PRODUCTION, 1981-86

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



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