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ECONOMIC DEVELOPMENTS IN 1985

Finland's economic performance in 1985 was marked by a continuation of steady, well-balanced growth. The volume of exports of goods and services grew only slightly as particularly exports of forest industry products, in keeping with the cyclical phase, started to slacken in the course of the year. Nevertheless, thanks to a pick-up in domestic demand, the growth of GDP remained at around the 3 per cent mark for the fourth successive year. During the second half of the year, the growth of total output decelerated appreciably on account of the slackening in exports. The level of employment rose by about one per cent in 1985. However, owing to an increase in the labour force participation rate, the unemployment rate rose slightly. Foreign trade prices turned down in the course of the year, and this was a major factor contributing to the deceleration in the rate of consumer price inflation to 5 per cent during 1985. The rise in domestic costs also slowed down, although labour costs still rose more rapidly than in competitor countries. So as to combat inflation, the overall stance of economic policy was kept fairly stringent throughout the year.

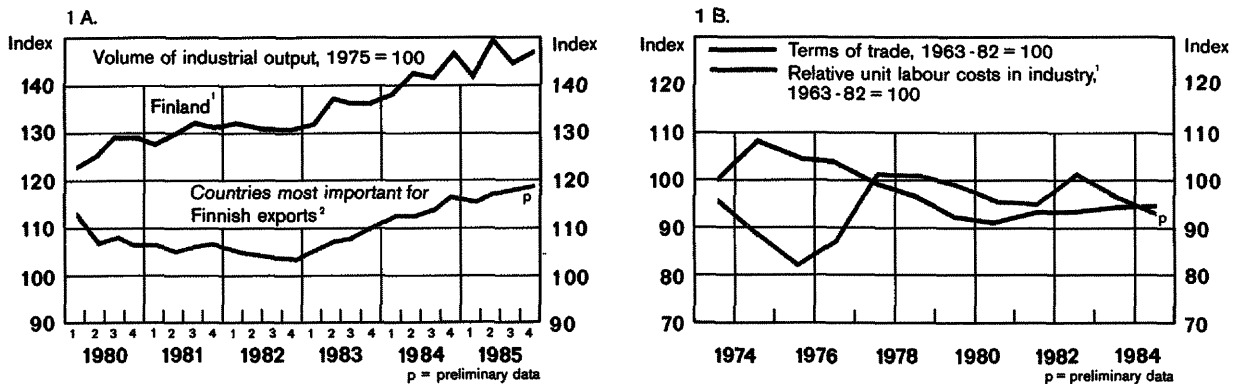
THE WORLD ECONOMY AND FINNISH EXPORT MARKETS

There was a general slowdown in the world economy in 1985 (Chart 1.A). The growth of output in the United States was muted by weakened price competitiveness due to the strong dollar. However, after reaching a peak in the first half of the year, the dollar began to fall. In spite of favourable export developments, domestic demand remained sluggish in Europe, and this contributed to a slowdown in the growth of total out-

put. Unemployment also remained high. The average volume of imports of the countries important for Finnish exports increased by about 6 per cent in 1985.

Inflation eased further in western industrial countries, reflecting the fall in import prices of raw materials and the continuation of economic policies restraining demand. Labour costs also continued to rise at a slow pace and companies' profitability improved. The international level of interest rates fell broadly in line with the fall in

Chart 1.
INTERNATIONAL BUSINESS CONDITIONS AND RELATIVE LABOUR COSTS



¹ Calculated from an adjusted working day series.
² An index weighted by the shares of these countries in Finnish exports.

¹ Ratio of 14 countries to Finland in terms of a common currency.

inflation. Real rates of interest remained at a high level.

ECONOMIC POLICY IN FINLAND

At the beginning of 1985, economic conditions in Finland were fairly favourable. The relatively rapid and well-balanced growth of the preceding few years was expected to continue. The most serious threat to this generally satisfactory situation was considered to be inflation, which was still faster than the rise in prices in competitor countries. It was felt that this would endanger Finland's competitiveness in the longer term. Accordingly, the curbing of inflation to at least the same level as that in competitor countries remained the major objective of economic policy.

In fiscal policy, the strengthening of the central government's financial position before the onset of the next recession was considered important, in addition to the containing of inflation. Fiscal policy continued to exercise a restrictive impact on demand throughout the year, albeit less so than in the previous year. The tight fiscal policy stance was reflected, inter alia, in an increase in the tax burden. Partly due to technical reasons relating to revisions in unemployment security, the net tax ratio rose by about one percentage point to more than 23 per cent of GDP. The net central government financing requirement fell in 1985 amounting to less than one per cent of GDP. Central government debt fell slightly in relation to GDP and amounted to 14 per cent at the end of 1985.

Reflecting the goal of curbing inflation, monetary policy was also kept fairly tight last year. Although both the base rate and particularly the call money rate were lowered in 1985, real interest rates remained high owing to the slowdown in inflation. The rather large differential between the call money rate and the base rate was reduced. Measures aiming at gradual liberalization of financial markets were continued by alleviating the regulation of average lending rates and abolishing the upper limit on lending rates at the end of the year.

SUPPLY AND DEMAND

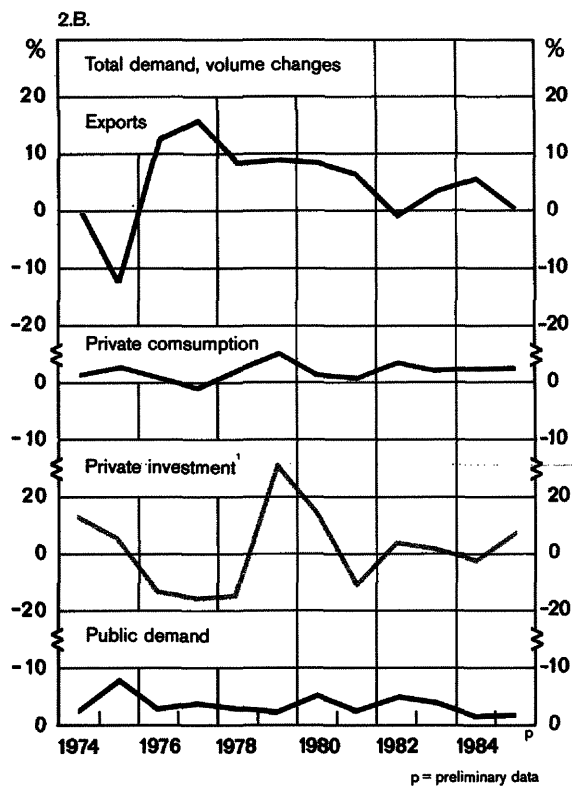
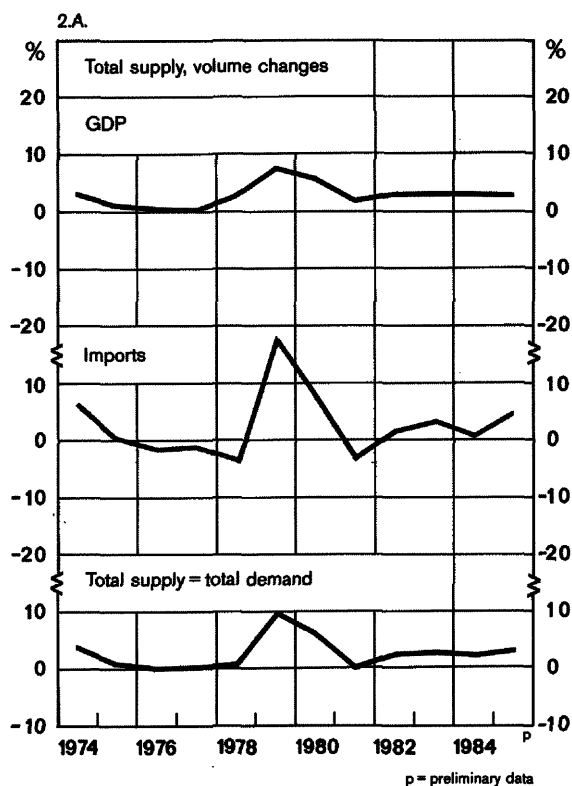
The volume of exports of goods and services grew by only 0.5 per cent in 1985 (Chart 2). Finnish exports of goods to western markets declined owing to a slackening in the growth of markets and a deterioration in competitiveness. Also contributing to the slowdown in the growth of exports was the fact that an exceptionally large amount of export deliveries of the heavy engineering industries had been concentrated in 1984. By contrast, bilateral exports increased rapidly, reflecting the increased export prospects made possible by the removal in the previous year of the imbalance in the bilateral clearing account between Finland and the USSR. In exports of services, both receipts from construction projects abroad and transport receipts decreased. There was also a widening in the deficit on the travel account.

Because of the fall in the value of the dollar, the export prospects of particularly the forest industries deteriorated. Export volumes stagnated in the timber industry and there was a marked slowdown in the growth of exports of paper industry products. Export prices of forest industry products, particularly sawn timber and pulp, fell substantially during 1985. This partly reflected the downward trend in world-market prices of raw materials. The profitability of the forest industries weakened, giving added impetus to rationalization in this sector.

Because of the stagnation in the growth of exports, the role of domestic demand in sustaining output and employment was accentuated. The volume of fixed investment grew by about 3 per cent. Analysed by type of capital goods, investment in machinery and equipment grew substantially. By contrast, building investment declined slightly with particularly residential construction experiencing a market fall in the latter half of the year. The weakening in the demand for dwellings was also reflected in a levelling off in the rise in dwelling prices during 1985.

In industry, the total volume of fixed investment

Chart 2.
SUPPLY AND DEMAND



¹Incl. stockbuilding and statistical discrepancy; N.B. different scale.

grew by almost 15 per cent in 1985. The growth of investment was vigorous in all major industrial sectors reflecting both the maintenance of fairly high capacity utilization rates and favourable income developments (Chart 3.B). Investment also continued to grow in the forest industries.

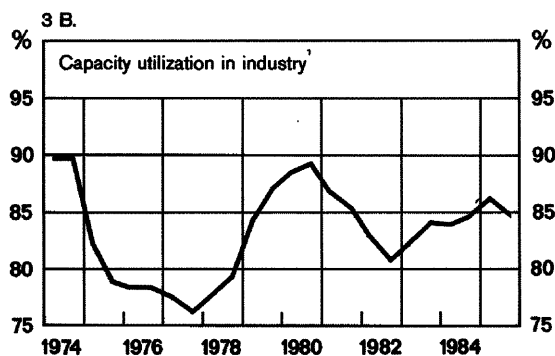
The ratio of stocks to turnover continued to fall in line with its longer-run trend, spurred in part by the high real rates of interest. Nevertheless, the weakening in demand led to unintended stockbuilding in, among others, the forest industries.

Real wages rose fairly rapidly, but the growth of household disposable income was weakened to some extent by the tightening in the net tax burden. The propensity to consume increased slightly, and the volume of private consumption

continued to grow at the same rate as in the previous year, i.e. by about 3 per cent. In keeping with earlier trends, the growth of consumption was sustained mainly by purchases of consumer durables, particularly passenger cars. The rise in real interest rates and a moderation in inflation expectations increased interest in financial saving.

The growth of public sector demand accelerated slightly from the previous year. Contributing to the increase in the volume of central government's current expenditure were purchases of equipment by the armed forces. Local government consumption expenditure also grew faster than aggregate demand. In addition, capital outlays of the local government sector increased

Chart 3.
UNEMPLOYMENT AND CAPACITY UTILIZATION



¹According to the Bank of Finland investment inquiry.

fairly rapidly, boosted by the strong financial position of local authorities.

The volume of total output grew by less than 3 per cent in 1985, so that growth continued at a steady pace for the fourth year in succession. Growth was fastest in the metal and engineering industries and the service sector. The growth of output decelerated appreciably during the second half of the year. There was a particularly sharp drop in forestry output towards the end of 1985, after exceptionally heavy fellings in the first months of the year. In the forest industries, the volume of output already began to decline during the early part of the year, and output for the whole year was more than one per cent less than in 1984. Construction activity also slackened markedly in the course of the year and for the year as a whole was broadly unchanged from its level in the previous year.

The volume of imports grew by almost 6 per cent in 1985, reflecting a change in the pattern of domestic demand. Among the factors contributing to the increase in import volumes was the rapid growth of investment in machinery and equipment and brisk activity in the industrial sectors consuming imported raw materials. The increase in consumer spending also centred main-

ly on categories of commodities with a high import content. As a result, particularly the volume of imports from western markets increased, whereas bilateral imports declined.

EMPLOYMENT

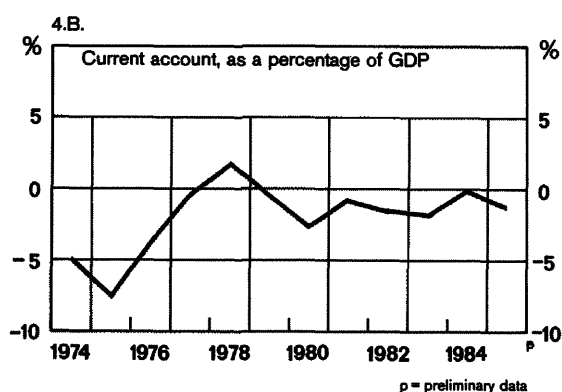
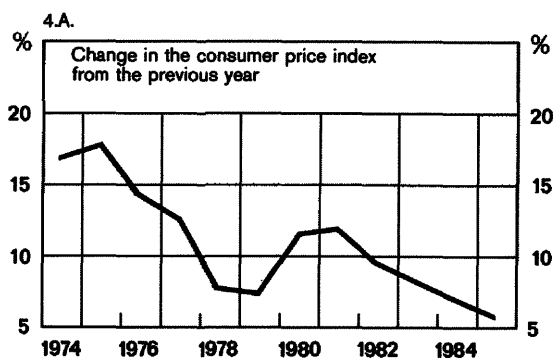
Total employment rose by 24 000, or one per cent, in 1985. Growth was concentrated in the service sectors, where employment increased by 42 000 from the previous year. In spite of faster-than-average growth of output in labour-intensive industries, overall employment in industry declined slightly. Employment continued to fall in construction and the primary sector.

Labour supply increased by more than one per cent, and the unemployment rate rose slightly. Unemployment averaged about 163 000 for the year as a whole, which was equivalent to an unemployment rate of 6.3 per cent (Chart 3.A). The growth of labour supply was boosted by a rise in the labour force participation rate and the continuation of the return of migrants.

PRICE DEVELOPMENTS

Foreign trade prices turned down in the spring of 1985 and the fall continued throughout the re-

Chart 4.
CONSUMER PRICES AND THE CURRENT ACCOUNT



mainder of the year. At the end of 1985, export and import prices were more than 3 per cent lower than one year earlier.

The domestic inflation rate also decelerated, and the consumer price index rose, on average, by less than 6 per cent higher from the previous year (Chart 4.A). In the course of the year, consumer prices rose by 5 per cent, and hence the inflation target set by the Government was attained. The fall in foreign trade prices was a major factor contributing to the slowdown in consumer price inflation, and in the latter part of the year the 12-month rise in the consumer price index was running at only just over one per cent.

By contrast, the rise in the level of earnings decelerated only slightly. Negotiated wage rates rose in line with the two-year incomes agreement in force since early 1984 in addition to which wage drift almost reached the same level as in the preceding few years. The average level of earnings of all wage and salary earners rose by about 8 per cent.

At the end of 1985, the inflation gap between Finland and the OECD countries still amounted to almost one percentage point, as measured in terms of consumer prices. Nevertheless, the cor-

responding gap in labour costs was clearly larger, thus causing a marked deterioration in Finland's price competitiveness (Chart 1.B).

The terms of trade remained broadly unchanged. The slight weakening in the terms of trade in western trade was offset by an improvement in the terms of trade in bilateral trade as a consequence of the fall in import prices of oil.

FOREIGN AND DOMESTIC FINANCING

The surplus which had accumulated on the trade account during the first half of 1985 diminished towards the end of the year. For the year as a whole, western trade posted a surplus of only FIM 1.4 billion as against a surplus of FIM 8 billion in 1984. Bilateral exports increased considerably and the tied-currency trade account moved into a surplus of FIM 1.2 billion. Accordingly, the overall trade account showed a surplus of FIM 2.6 billion. The surplus on the services account shrank further, amounting to FIM 1.7 billion. The deficit on the investment income and unrequited transfers account narrowed slightly as the fall in both the dollar and international interest rates reduced debt service payments on Finland's external debt. All in all, the current account registered a deficit of FIM 4.0

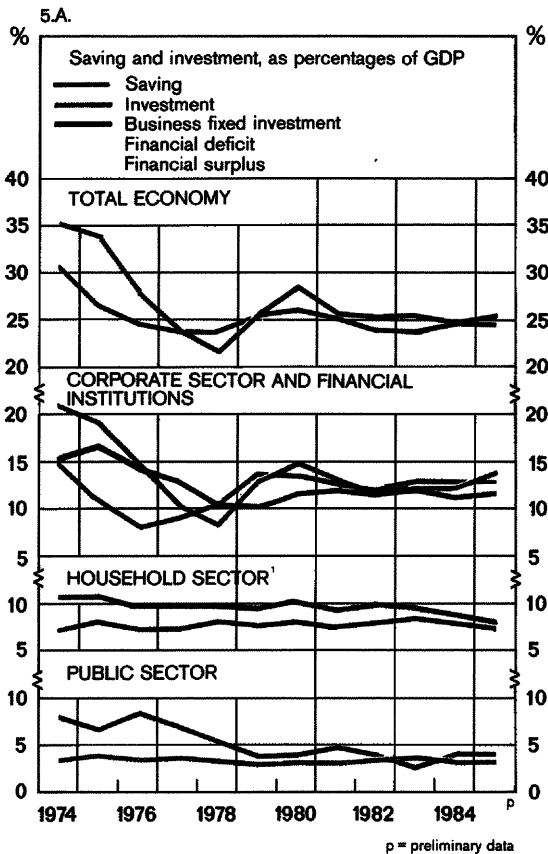
billion (Chart 4.B). Current transactions in tied currencies were in balance.

The financial balance of the economy was relatively good, even if domestic savings did not suffice to fully finance investment. The financial deficit of the corporate sector grew as the revival in investment increased companies' financing requirements. The surplus of financial institutions grew slightly, as a result of, among other things, a rise in social security contribution rates (Chart 5.A). Supporting the financial balance of the economy was the unchanged surplus of the

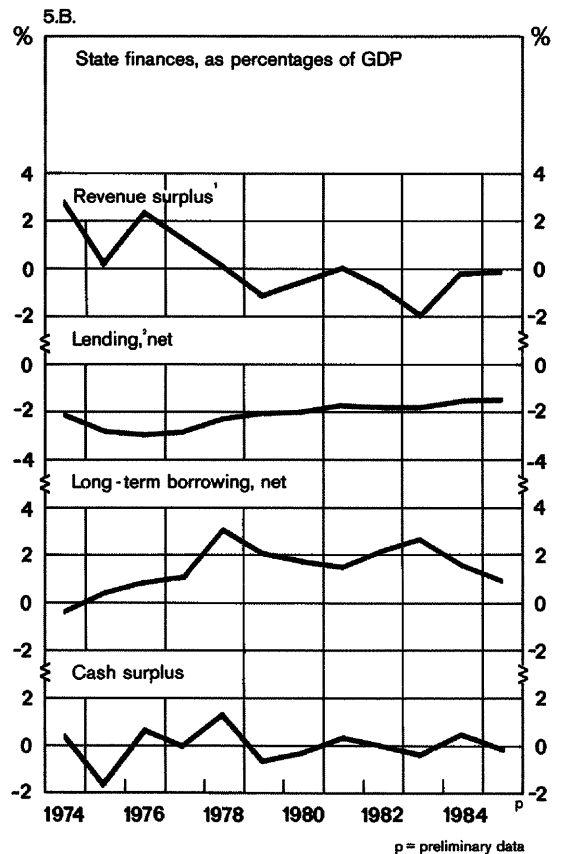
public sector and a continued decline in the household sector's deficit.

Owing to the fairly stringent fiscal policy stance, central government current revenue covered expenditure in 1985, excluding financial transactions (Chart 5.B). The net financing requirement was slightly smaller than in the previous year. The gross financing requirement grew as a result of an increase in repayments of state domestic debt. To cover its financing requirement, the central government raised long-term foreign capital amounting, in net terms, to FIM 1.4 billion and

Chart 5.
SECTOR FINANCIAL BALANCES



¹Incl. non-profit institutions.



¹Revenue less expenditure, excl. financial transactions.

²Incl. other financial investments.

placed debt domestically up to the value of FIM 1.3 billion, net.

The financial position of households improved along with a further fall in their investment ratio; the household savings ratio remained stable. Holdings of financial assets also increased as a result of a large number of business acquisitions. The major part of the increase in financial assets was placed in long-term deposit accounts; the share of central government bonds in financial savings remained virtually unchanged. The share of taxable bonds and debentures remained insignificant.

The revival in investment activity increased firms' external financing requirements, despite the fact that corporate income developments continued to be fairly favourable. Borrowing centred on the domestic market more than in the previous year, in addition to which finance was acquired by running down financial assets. Firms' willingness to borrow abroad was reduced by the narrowing in the differential between domestic and foreign rates of interest. Although capital imports by the corporate sector, both directly and through banks, amounted, in net terms, to about FIM 3 billion, this figure includes domestically issued bonds and debentures sold to international investors up to the total value of more than FIM 4 billion. Firms' forward exchange assets with banks began to fall sharply from the middle of the year, and the corporate sector's forward position fell by a total of almost FIM 7 billion in the course of the year.

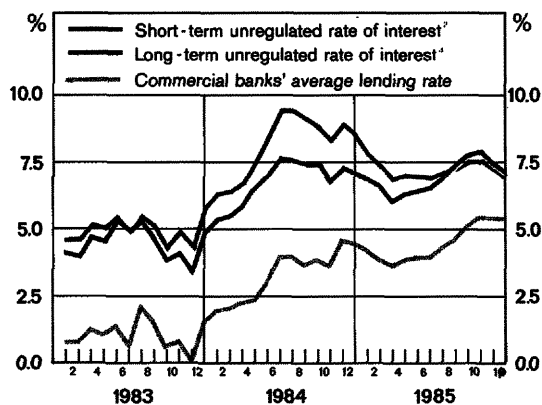
Developments in the foreign exchange reserves during 1985 were fairly steady. According to the Bank of Finland's Balance Sheet, the convertible foreign exchange reserves grew by FIM 3.5 billion and amounted to FIM 22.4 billion at the end of the year. In addition, the Bank of Finland had forward purchase commitments equivalent to FIM 9 billion, some FIM 11 billion less than at the end of the previous year. At the end of 1985, the tied currency position showed a net liability of FIM 0.3 billion.

In the course of the year, domestic nominal rates

of interest were reduced in line with the slow-down in inflation. Real rates of interest — both regulated and unregulated — calculated on the basis of the actual rate of inflation fell during the early part of 1985 from their high level at the end of the previous year as a result of a fall in the base rate and the call money rate. Towards the end of the year, real rates of interest on regulated lending and debentures rose again owing to the rapid deceleration in the rate of inflation (Chart 6). After the middle of the year, long-term unregulated rates of interest did not follow the downward trend in the call money rate as closely as before, and towards the end of the year they reached the level of short-term rates of interest. The level of interest rates on government bonds, which fell by 0.5 percentage point in the course of the year, was also reflected to some extent in rates of interest on taxable bonds and debentures.

Bank lending continued to expand at a rapid rate. Markka-denominated credits grew at a rate of 17 per cent. There was no further change in the breakdown of markka-denominated lending from the end of 1984 onwards, with lending in the form of bonds and debentures growing in 1985 at the same pace as lending subject to the Bank of

Chart 6.
DOMESTIC REAL RATES OF INTEREST¹



¹ Nominal rate of interest less actual 12-month change in consumer prices.

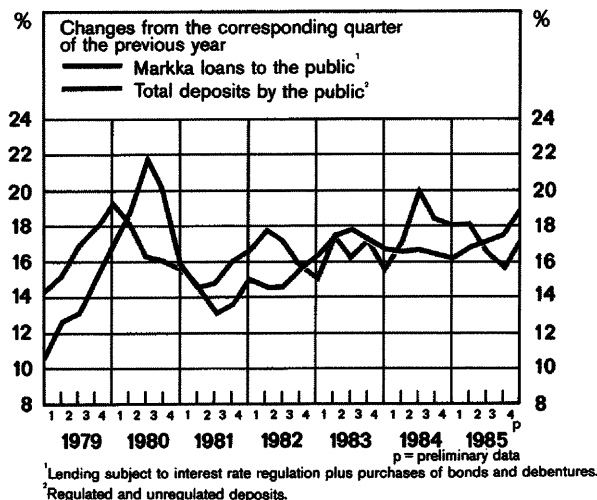
² Unregulated deposit rate.

³ Effective yield on debentures.

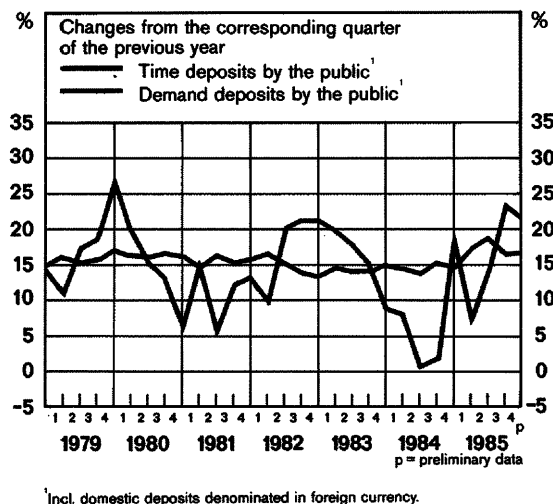
p = preliminary data

Chart 7.
BANK LOANS AND DEPOSITS

7.A.



7.B.



Finland's regulation of average interest rates (Chart 7.A).

The rate of growth of banks' total deposits decelerated slightly towards the end of the year reflecting a fall in the stock of unregulated deposits. At the end of the year, unregulated deposits on the balance sheets of banks totalled FIM 14.0 billion, an increase of FIM 2.7 billion from the previous year. As compared with nominal

income developments in the household sector, the growth in time deposits was particularly rapid (Chart 7.B). Contributing to the increase in bank deposits was a large number of business acquisitions, which were financed by bank lending to the corporate sector and in which certificates of deposit were used as instruments of payment. This partly explains the very rapid growth of deposits in relation to economic developments in general.

CENTRAL BANK POLICY

In recent years, the prime goals of the Bank of Finland's central bank policy have been the lowering of inflation permanently to at least the same level as in competitor countries, the development of financial markets, in particular, through the gradual alleviation of interest rate regulation, and the bringing up to date of exchange control. From the point of view of these objectives, developments in 1985 were favourable. Inflation declined and the role of interest rates in clearing financial markets was enhanced. Nevertheless, in the summer the Bank of Finland was forced to temporarily tighten exchange control. The external balance remained good, so that the liquidity sterilized at the Bank of Finland in the form of forward purchase commitments could be gradually released. The fluctuation limits of the official currency index were kept unchanged throughout the year. With the deceleration in inflation, it was possible to gradually lower interest rates, and, as in the previous year, this was implemented chiefly through the call money rate. Towards the end of the year, monetary policy was adjusted cautiously to the conditions of weakened demand. The end of the year also saw the total revision of the Foreign Exchange Regulations, which primarily involved the restructuring and simplification of the provisions.

MONETARY POLICY

Main features of monetary policy

The base rate was lowered in February and the call money rate several times during the early part of the year. However, the reductions were small, because the Bank wanted to ensure that the deceleration in inflation continued. During the second half of the year, the call money rate was also lowered because of a weakening in economic prospects. The interest rate changes implemented by the Bank of Finland did not have an immediate impact on the rates of interest applied by banks to new loans, because in most banks the setting of lending rates was not restricted by the regulation of average lending rates. In fact, rates of interest on new loans did not start to fall until the final months of the year. Nevertheless, they maintained a notably higher level than the average lending rates applied to outstanding loans. Although nominal rates of interest fell somewhat, the level of real rates of interest in Finland remained high, even by international standards.

The high call money rate and the reduced rate of inflation, coupled with the relaxation in interest rate regulation, improved equilibrium in the finan-

cial markets. The rate of interest assumed an increasingly important role in the allocation of finance, while the significance of the quantitative regulation of credit continued to decline.

Notwithstanding the high rates of interest, banks' markka-denominated lending expanded rapidly. Deposits also continued to grow at a brisk pace. However, despite the high growth figures for deposits and lending, conditions in financial markets cannot be described as easy. The growth figures can largely be attributed to structural change in financial markets. Bonds, debentures and foreign currency loans, together with other unregulated lending, had expanded vigorously in previous years. As a result of the easing in interest rate regulation, differences in the growth figures for the various types of lending evened out in 1985. In total deposit-taking, the narrowing in the interest rate differential between unregulated deposits and normal tax-exempt deposits resulted in an increase in the share of the latter. The growth of financial markets was also swelled by the fact that credit continued to be raised on a large scale to finance acquisitions of financial assets rather than physical investment. Numerous company acquisitions also contributed to the increase in the growth figures for deposits and

lending. It is worth noting that, in spite of the rapid growth of lending, conditions in the housing market remained fairly quiet.

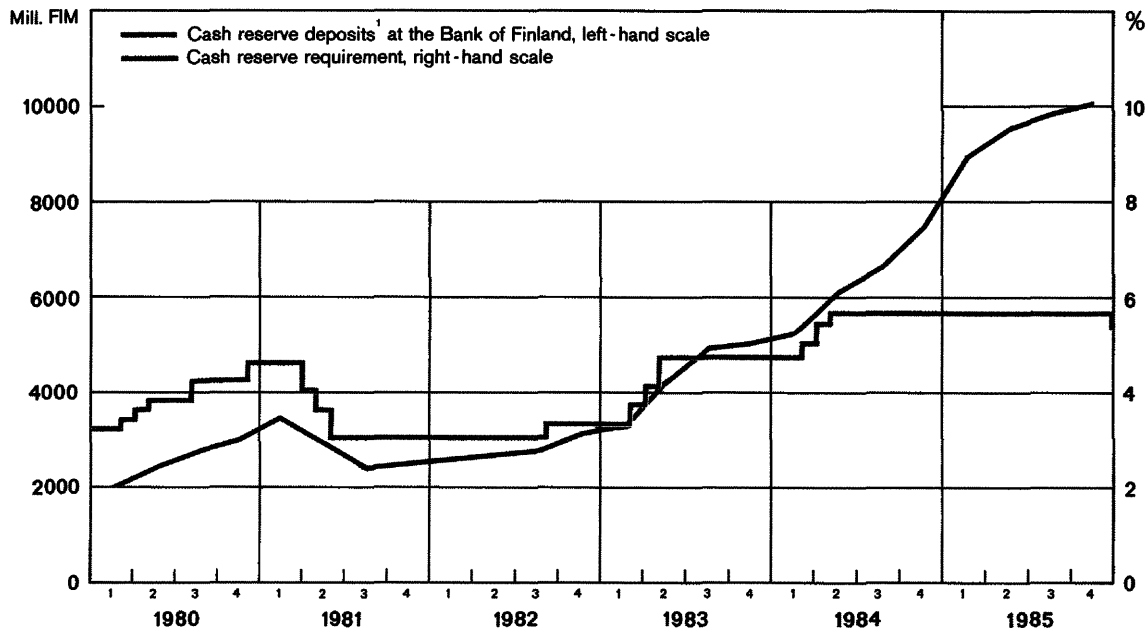
The state of the financial markets can also be assessed by examining to what extent banks have utilized short-term liabilities for the maintenance of their liquidity. In this respect, however, the position of banks is no longer indicated solely in terms of their debt to the central bank. Account should also be taken of the banks' money market liabilities to the public. These consist of unregulated deposits and short-term markka-denominated liabilities arising mainly as a result of forward contracts concluded with companies. In the course of 1985, sales of forward currency by the corporate sector fell, thereby substantially reducing the short-term markka-denominated debt. The banks' central bank position weakened, however, the amount of call money advances increased to some extent (Chart 9) and the Bank of Finland's

markka-denominated claim on banks in the form of outstanding forward purchase commitments declined markedly. The state of the financial markets did not change significantly during 1985, if it is analysed in terms of the combined total of the commercial banks' and Postipankki's money market liabilities to the public and their central bank positions.

Monetary policy measures in 1985 centred mainly on interest rates. The use of the cash reserve requirement as a monetary policy instrument was insignificant during 1985. As part of an adjustment in monetary policy stance in an easier direction, the Board of Management of the Bank of Finland decided in December to lower the cash reserve requirement from 5.6 to 5.3 per cent of the total stock of deposits at the end of December and to 5.0 per cent of the total stock of deposits at the end of January 1986 (Chart 8).

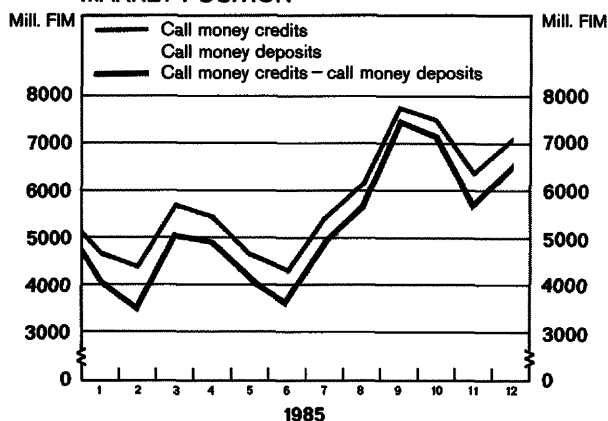
Chart 8.

BANKS' CASH RESERVE DEPOSITS



¹ Quarterly average of daily amounts.

Chart 9.
COMMERCIAL BANKS' CALL MONEY
MARKET POSITION



In September, the Bank of Finland issued new guidelines to the financial institutions on the granting of personal credits, which were nevertheless essentially the same as the old guidelines in all key respects. According to the new guidelines, concerning housing loans, first-time buyers were still required to provide 25 per cent of the purchase price of a dwelling, while for homeowners changing dwellings the respective share of prior savings was not to be less than one-third. For other fairly large personal credits, a bigger proportion of prior savings was required than in the case of housing loans. Recommendations on the length of the loan period were no longer issued.

Interest rate policy

As in the previous year, the major instrument of interest rate policy was the call money rate. In the first months of the year, the cautious stance of minor adjustments adopted earlier was continued. In the course of January, the call money rate was lowered twice from 14.8. to 14.2. per cent. After further reductions in February and April, the call money rate stood at 13.8 per cent. From August onwards, the call money rate was lowered at more frequent intervals than previous-

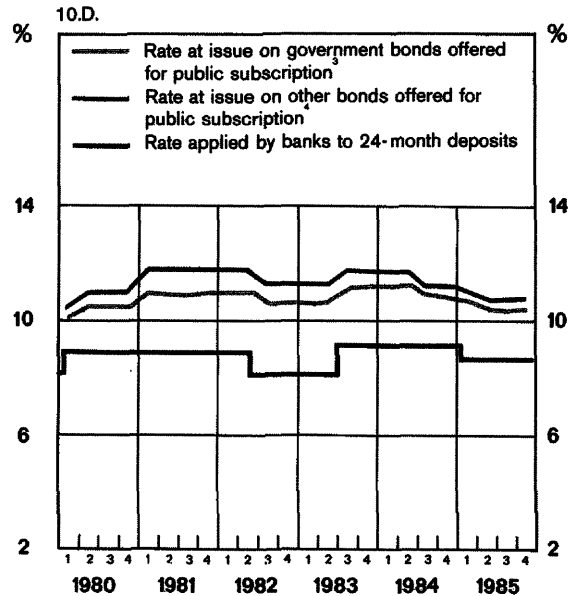
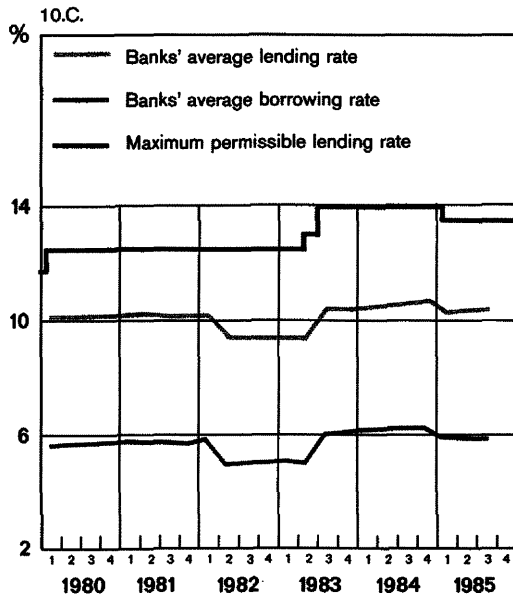
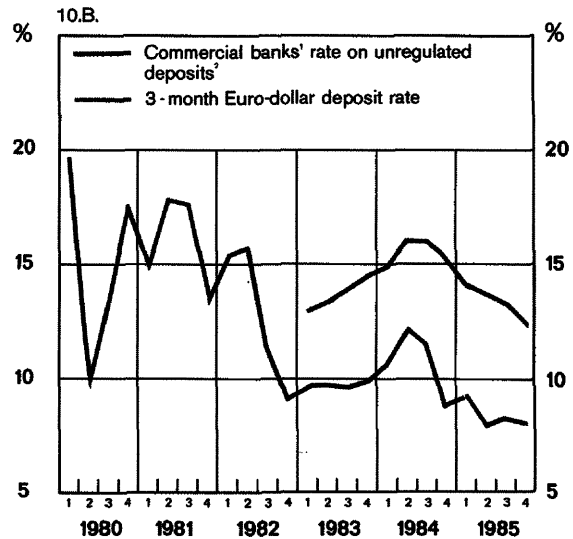
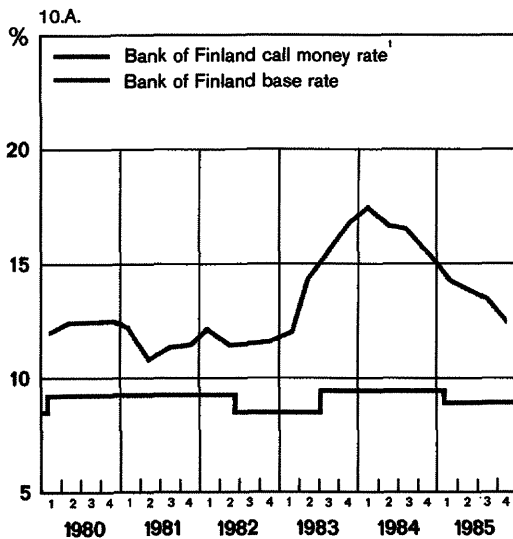
ly. Thus, in the course of the summer and the autumn, the call money rate fell seven times in all by a total of 2.1 percentage points to 11.7 per cent (Chart 10.A).

Movements in unregulated interest rates closely followed those in the call money rate. Thus, for example, the rate of interest applied by banks to unregulated deposits fell by about 3 percentage points in the course of the year, approximately the same amount as the fall in the call money rate (Chart 10.B). Companies' decisions on the acquisition and use of funds in respect of, for example, fixed and inventory investment, also depended, to an increasing extent, on unregulated rates of interest.

At the beginning of February 1985, the base rate was lowered by 0.5 percentage point to 9 per cent. In December, the Bank decided on a further 0.5 percentage point reduction to take effect from the beginning of 1986. The Bank of Finland required that the rates of interest applied to both outstanding loans and tax-exempt deposit accounts should be lowered by the same amount as the base rate. Mainly because of the high rates of interest on new loans and fixed rates of interest on commercial bills, the average lending rate fell in February by 0.1 percentage point less than the base rate. After February, the average lending rate rose by about 0.1 percentage point to almost 10.5 per cent by the end of the year (Chart 10.C).

The upper limit on banks' average lending rates remained so high throughout the year that it did not significantly restrict the setting of rates by banks and hence their credit supply. The fall in the base rate was not reflected in the rates of interest applied by banks to new loans, which continued to rise up till June. By then, they had risen, on average, by nearly 12 per cent. Towards the end of the year, rates of interest on new loans fell as the overall demand for credit weakened and the cost of alternative unregulated finance declined. At the end of the year, the average rate of interest on new loans was slightly more than 11 per cent.

Chart 10.
RATES OF INTEREST



¹Average calculated from daily amounts.
²Included in the statistics as from January 1, 1983.
³Weighted by sales of bonds.
⁴Weighted by issues of bonds.

The call money rate fell substantially more than the base rate in the course of 1985. The differential between these interest rates narrowed from 5.3 percentage points to 2.7 percentage points.

At the same time, the differential between unregulated and regulated interest rates diminished, so that arbitrage operations taking advantage of the interest rate differential were no

in privately placed issues by the central government, half was due to the fact that the figures for 1985 also include central government promissory notes, which were not previously included in bond issues.

Rates of interest on bond issues fell in the course of the year. The fixed rate of interest on 10-year tax-exempt public bond issues floated by mortgage banks and the central government was 11.25 per cent in the first issues of the year and 10.75 per cent in issues floated following the reduction in the Bank of Finland's base rate. The rate of interest on the 5-year tax-exempt government bond issues offered for public subscription was similarly lowered from 10.25 to 9.75 per cent (Chart 10.D). The rate of interest on new taxable bond issues offered for public subscription averaged 13.44 per cent in January and 11.88 per cent in December. Above all, these changes reflected the substantial fall in the call money rate and expectations of falling rates. Developments in rates of interest on privately placed issues were uneven.

Special counter-cyclical deposits

The bulk of the special counter-cyclical deposits with the Bank of Finland consisted of deposits which companies had made under the investment reserve scheme. In the course of the year, new deposits were made to the value of FIM 1.8 billion, while existing deposits were released to the value of FIM 100 million. The stock of deposits grew by more than 80 per cent from the previous year and amounted to FIM 3.8 billion at the end of the year. The major part of the deposits, FIM 1.3 billion, were made in the first half of the year. Apart from favourable corporate income developments, this was attributable to the Council of State's decision to raise maximum transfers to investment reserves from 50 to 70 per cent of profits for accounting periods ending in 1984 and to the Bank of Finland's decision to pay interest on these deposits at a rate of 1.5 percentage points below the base rate, i.e. 7.5 per cent as from the beginning of February. The tax-

exempt rate of interest on these deposits is normally half the base rate, but the Bank of Finland may, on the basis on a separate decision, also pay a higher rate of interest on these deposits.

With a view to stimulating investment, the Council of State granted permission in June for the utilization of investment reserves made for accounting periods ending before 1984. The utilization period started on October 1, 1985, with the exception of the cities of Helsinki, Espoo, Kauniainen and Vantaa, where it was scheduled to start on April 1, 1986. The right to withdraw funds applies to investment deposits with the Bank of Finland totalling about FIM 1.7 billion. The utilization period ends on December 31, 1987.

In January, the Council of State decided to terminate the collection of export deposits on pulp. The decision was motivated by the weakening in export demand that had started in the previous autumn and the consequent downturn in export volumes and prices. The collection of deposits on sawn pinewood had already been discontinued in the latter part of 1984. At the end of May, the total stock of export deposits with the Bank of Finland amounted to FIM 99 million. On the basis of a decision made by the Council of State in April, deposits of FIM 40 million collected on sawn pinewood were released in June and deposits of FIM 59 million collected on pulp in November. Export deposits attracted a rate of interest which was 0.75 percentage point below the base rate.

In September, the Council of State made a decision according to which local authorities were allowed to make counter-cyclical deposits with the Bank of Finland starting from October 1. No such deposits had been made by the end of December, however.

Special financing arrangements

The total value of outstanding credit granted by the Bank of Finland under special financing ar-

rangements fell slightly and amounted to FIM 4 567 million at the end of the year.

The aim of the domestic suppliers' credits scheme is to ensure that Finnish firms are financially competitive with foreign suppliers in the domestic market. The scheme is operated by the Bank of Finland, the commercial banks and Postipankki. No changes were made in the terms of this financing arrangement in the course of the year. The Bank of Finland's share in the financing of the purchase price of a delivery was 30 per cent and the rate of interest collected from borrowers was the base rate plus one percentage point.

New commitments made under the scheme totalled FIM 1 374 million, of which forest industry machinery accounted for 32 per cent and ships for 20 per cent. Outstanding credit commitments amounted to FIM 1 626 million at the end of the year, 34 per cent less than one year earlier. Drawings of credits totalled FIM 2 214 million, which was FIM 198 million more than in 1984. The total stock of domestic suppliers' credits grew by FIM 643 million from the previous year to FIM 6 647

million, with the Bank of Finland's share in their financing amounting to FIM 2 924 million (Chart 11.A).

The purpose of the financing scheme for short-term export credits is to finance export credits granted for up to a maximum of 24 months in connection with exports payable in convertible currencies. The maximum annual average amount by which a firm's short-term export credits could be financed by the Bank was set at FIM 20 million as from January 1, 1985. From the beginning of 1985, the rate of interest collected from exporters was 0.25 percentage point above the base rate, regardless of the term of payment.

The stock of short-term export credits, including FIM 42 million of export factoring finance granted to finance companies, fell by 22 per cent in 1985 and amounted to FIM 901 million at the end of the year. The metal products, machinery and equipment industry accounted for 43 per cent of total outstanding credits, the basic metals industry for 6 per cent and the textile, wearing apparel and leather industries for 14 per cent. At the end of the year, a total of 634 firms

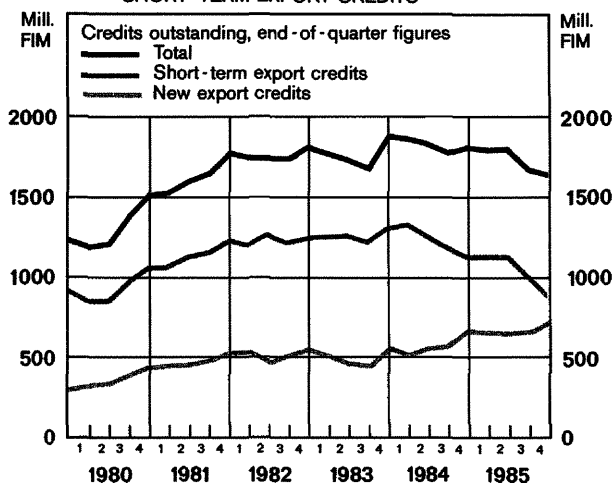
Chart 11.

SPECIAL FINANCING ARRANGEMENTS

11.A. FINANCING OF DOMESTIC DELIVERIES



11.B. FINANCING OF NEW EXPORT CREDITS AND SHORT-TERM EXPORT CREDITS



were utilizing this financing arrangement (Chart 11.B).

New-export credit is used to finance the working capital needs of small and medium-sized industrial firms arising from their exports. The rate of interest applied by credit institutions was 0.75 percentage point below the base rate. The stock of credits grew by FIM 67 million, or 10 per cent, from the previous year and totalled FIM 742 million at the end of the year. The metal products, machinery and equipment industry accounted for 36 per cent of the total stock of credits, the textile, wearing apparel and leather industries for 27 per cent and fur farming for 13 per cent. At the end of the year, a total of 2 840 firms were in receipt of new-export credits, of which 1 997 were fur farming enterprises.

FOREIGN EXCHANGE POLICY

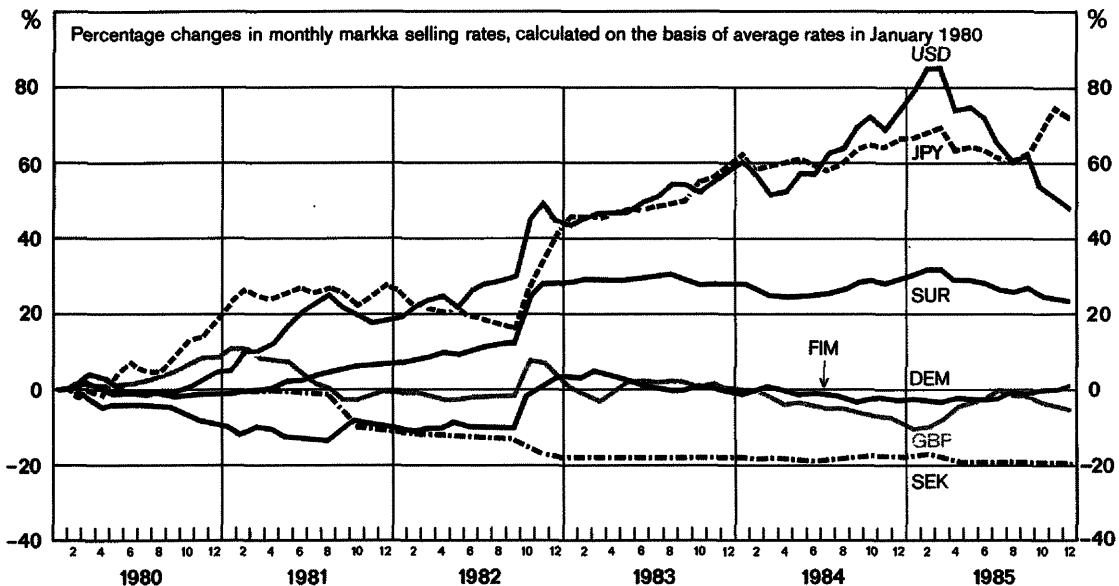
International foreign exchange and financial markets

Exchange rates continued to display sharp fluctua-

tions in the international foreign exchange markets in 1985 (Chart 12). In January—March, the prolonged rise in the rate of the dollar against other currencies continued. This was partly due to a rise in interest rates in the United States. Although some central banks intervened in February so as to lower the rate of the dollar, the impact was temporary. During the last three quarters of the year, the dollar experienced a major downward adjustment, owing, inter alia, to uncertainties concerning monetary policy and to large-scale interventions in the autumn by the central banks of the Group of Five industrial countries. Adding to uncertainty in the international foreign exchange and financial markets was the fact that the most heavily indebted developing countries were continually forced to resort to arrangements for the rescheduling of their outstanding loans.

As a result of a slowdown in economic growth and an easing of monetary policy, interest rates in the United States fell clearly from the previous year. In the course of the year, however, they fluctuated

Chart 12.
CHANGES IN EXCHANGE RATES OF MAJOR CURRENCIES



tuated sharply in response to economic policy measures (Chart 13). Thus, in January—February, interest rates rose when monetary policy was tightened. By contrast, in March—June they fell because of a deterioration in economic prospects and an easing of monetary policy. During the second half of the year, interest rates stabilized at a level slightly higher than in June.

In the United Kingdom, the pound weakened against a background of expectations of a fall in oil prices and prolonged labour market disputes. In the opening months of the year, the level of interest rates rose by about four percentage points within a short interval as the central bank sought to bring an end to the continued depreciation in sterling. As a consequence, the pound strengthened and monetary policy was eased. When, towards the end of the year, expectations of a fall in oil prices intensified, sterling fell back again vis-à-vis currencies other than the dollar.

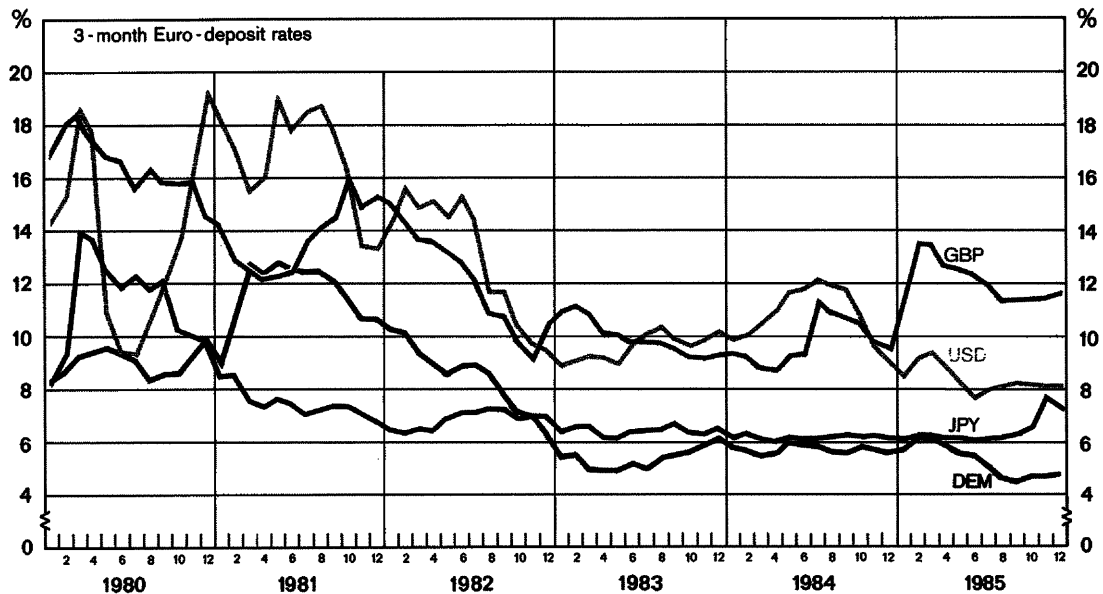
From September onwards, the Japanese yen strengthened against other major currencies.

This was due to heavy intervention by the Japanese central bank, backed up by a tightening of monetary policy. Confidence in the Deutsche Mark increased and the Euro-Deutsche Mark rate (measured in terms of 3-month Euro-deposit rates) fell by about one percentage point; at the end of the year, it was about 4.5 per cent. Contributing to these developments were a deceleration in inflation, continued restraint in fiscal policy and the weakness of certain other major currencies.

Although international interest rates fell in general, real rates of interest remained high because of a concomitant slowdown in inflation. For example, short-term real rates of interest averaged about 5 per cent in the United States and less than 4 per cent in the Federal Republic of Germany.

Because of a weakening in the Italian lira, the exchange rates of the currencies within the European Monetary System (EMS) were realigned on July 22. On that date, the central rate of the

Chart 13.
EURO-DEPOSIT RATES



Italian lira was lowered by 6 per cent, whereas the central rates of the currencies of other member countries were raised by 2 per cent. During the latter half of the year, there was speculation at times of a new realignment in rates of the EMS currencies, but no realignments were made.

Activity in international financial markets was lively throughout the year and, for example, the use of interest rate and currency swaps increased appreciably. The fall in interest rates led to increased borrowing in both the Euromarket and international capital markets. However, the emphasis lay on the Euromarket, where bond issues and short-term euronote facilities expanded greatly. By contrast, volumes of conventional Euro-credits fell from the previous year.

Total lending in international financial markets amounted approximately to just over USD 250 billion in 1985. Of this amount, bond issues accounted for about USD 160 billion, the bulk of which were Euro-bonds. On the whole, foreign issues in the major national capital markets maintained the same level as in the previous year. Foreigners' access to capital markets was liberalized in a number of countries, most noticeably in Japan and the Federal Republic of Germany. The volume of floating-rate issues remained fairly large, particularly in the Euro-bond market.

Industrial countries still accounted for the bulk of loans raised in international markets. Borrowing by this group was mainly in the form of securities, whereas developing countries raised mostly bank credits. As in the previous year, a substantial part of borrowing consisted of the refinancing of outstanding loans on more favourable terms.

The domestic foreign exchange market and foreign exchange policy

The domestic foreign exchange market was fairly peaceful in 1985. Confidence in the Finnish markka remained good. The fluctuation limits of

the Bank of Finland's currency index were kept unchanged throughout the year. However, there was a clear shift in the structure of capital flows compared with the previous year. Capital inflows through the Helsinki Stock Exchange were particularly heavy during the early part of the year and in the summer the Bank of Finland was forced to suspend, until further notice, the sale of bonds and debentures quoted on the Stock Exchange to non-residents. There was a net inflow of capital via the forward market. Although the convertible foreign exchange reserves of the Bank of Finland fluctuated to some extent in the course of the year, they grew slightly from their level at the beginning of the year. By contrast, the Bank of Finland's purchases in the forward market declined and there was a clear downturn in the amount of the Bank's outstanding forward commitments.

Exchange rate policy

The Bank of Finland's currency index remained below the mean value of its fluctuation range throughout the year. As in previous years, the Bank of Finland kept the currency index within very narrow limits. From the beginning of June, however, the Bank of Finland allowed daily quotations of the currency index to fluctuate slightly in response to market conditions (Chart 14.A). This minor — mainly technical — amendment reduced the Bank of Finland's need to intervene in the foreign exchange market.

The weights included in the formula for calculating the currency index were revised five times in the course of the year in line with changes in the structure of Finland's foreign trade.

Although the external value of the markka remained stable as measured by the official currency index, it fluctuated substantially in the course of the year in terms of, for example, indices based on payments shares and MERM weights (Chart 14.B). This was mainly due to the fact that the weight of the US dollar in these indices is larger than in the official currency index.

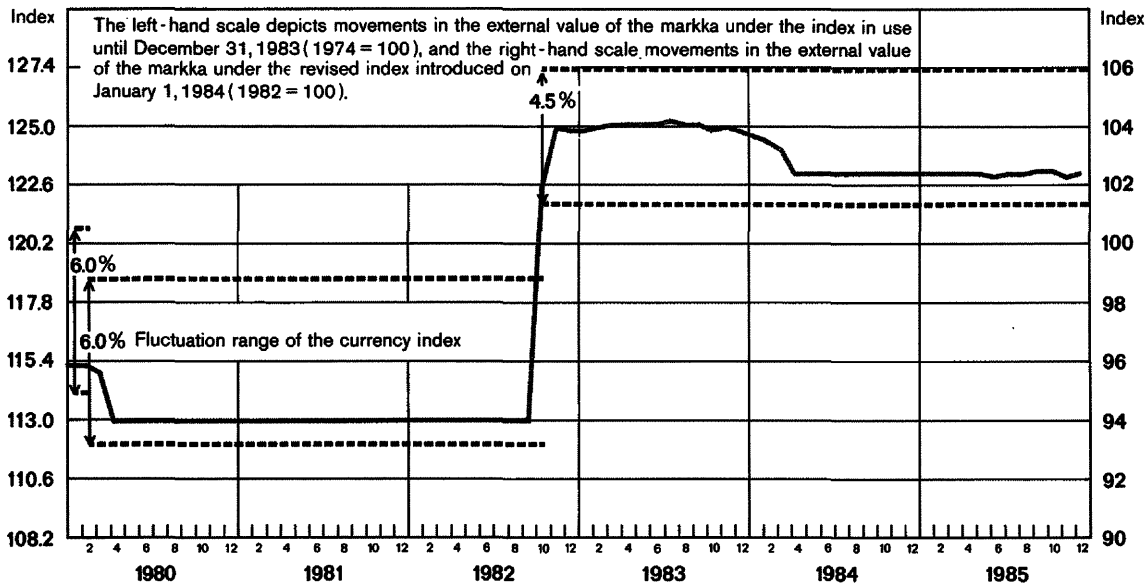
Exchange rate changes in international exchange markets were reflected in full in the markka rates of currencies quoted by the Bank of Finland. In the course of the year, the selling rate of the US

dollar fell by about 17 per cent vis-à-vis the Finnish markka, whereas the selling rate of the Deutsche Mark rose by 6 per cent and that of the pound sterling by 2.5 per cent. The rate of the

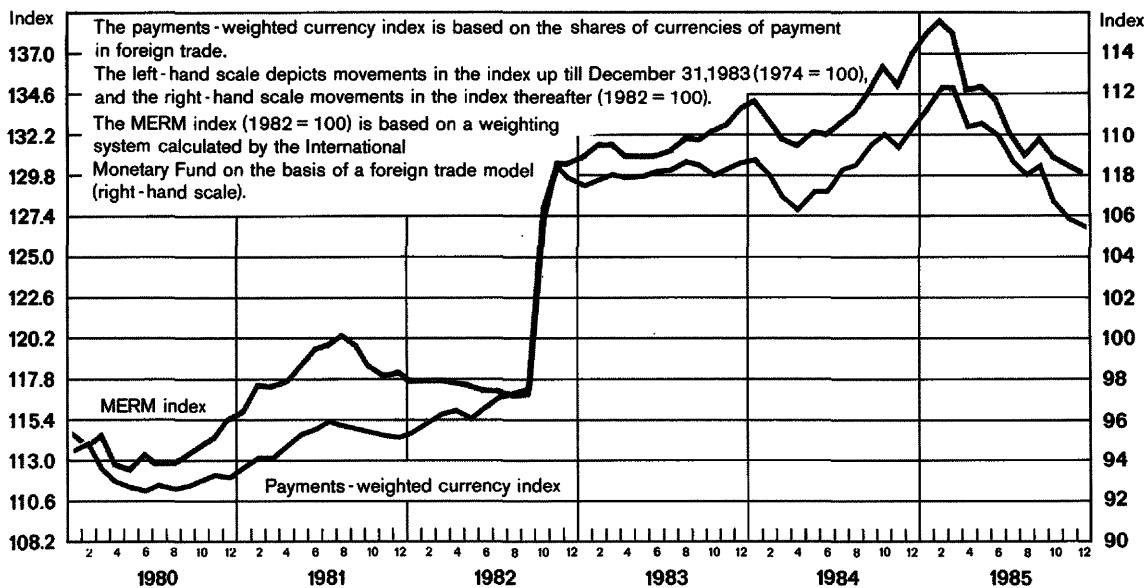
Chart 14.

MOVEMENTS IN THE EXTERNAL VALUE OF THE MARKKA

14.A.



14.B.



Swedish krona fell steadily throughout the year, by a total of about 2 per cent. The Soviet rouble depreciated by about 5 per cent against the Finnish markka (Chart 12 and Table 12).

Forward rates fell owing to the narrowing of the interest rate differential between Finland and other countries. Whereas the forward rate of the US dollar still exceeded the spot rate by about 5.5 per cent on a year-to-year basis during the early part of the year, the forward premium was only 2.7 per cent at the end of the year.

Foreign capital flows and the forward market

Capital inflows, which had been heavy in 1984, continued at a brisk pace particularly during the early part of the year. At that time, especially the sale abroad of bonds and debentures increased. During the latter part of the year, capital inflows primarily reflected an increase in banks' foreign liabilities. Unlike in the previous year, activity in the forward market declined in 1985.

Drawings of long-term foreign loans amounted to FIM 13.0 billion in 1985, which was about FIM one billion less than in the previous year. Favourable credit terms in international capital markets and the ready availability of funds continued to favour the refinancing of existing loans.

CAPITAL INFLOWS IN 1985, MILLION FIM

	January 1—June 30	July 1—December 31
A Long-term capital inflows, net		
Loans (incl. export credits)	+ 5 652	+ 2 345
Direct investment	+ 2 426	+ 3 063
Portfolio investment	- 1 035	- 627
— Foreign issues	+ 4 304	- 40
— Investments made through the Helsinki Stock Exchange	- 4	- 6
Subscriptions	+ 4 308	- 34
	- 43	- 51
B Short-term capital inflows, net	+ 171	- 424
Corporate sector	- 3 334	- 1 718
Banks (excl. forward cover)	+ 1 772	- 103
Banks' forward cover	+ 1 733	+ 1 397
Total (A + B)	+ 5 823	+ 1 921

TERMS OF FIXED-RATE AND FLOATING-RATE FINANCIAL LOANS RAISED IN 1980—1985

	Fixed-rate		Floating-rate	
	Average rate of interest, per cent	Average maturity, years	Average spread, per cent	Average maturity, years
1980	7.9	7.4	0.53	6.5
1981	11.7	6.6	0.52	6.5
1982	11.0	5.6	0.50	5.9
1983	9.8	5.8	0.56	4.0
1984	9.5	7.0	0.35	7.5
1985	8.3	7.3	0.29	7.4

This trend was also reflected in the terms of loans raised by Finns abroad: interest expenses fell and the average maturity remained long. In particular, the central government converted a larger amount of its outstanding loans than before into new loans on more favourable terms. Owing to large repayments, net drawings of long-term loans fell from FIM 6.5 billion in 1984 to FIM 4.8 billion.

Net long-term capital inflows amounted to FIM 8.0 billion in 1985, which was about FIM 1.5 billion more than in the previous year. The net inflow of loans amounted to about FIM 5.5 billion,

which was FIM 1.5 billion less than in 1984. Of the net inflow of loan capital, the central government accounted for FIM 1.4 billion (incl. subscriptions), the banks for FIM 2.3 billion and the corporate sector and other financial institutions together for about FIM 1.7 billion.

Drawings of long-term export credits, which are included in the net inflow of loan capital, totalled about FIM 0.5 billion. This was substantially less than in the previous year when drawings totalled FIM 3.3 billion. The fall was largely due to the fact that in 1985 deliveries of ships and other heavy capital goods fell back from the exceptionally high levels reached in the previous year. International efforts to reduce subsidies in the form of export credits also contributed to the fall.

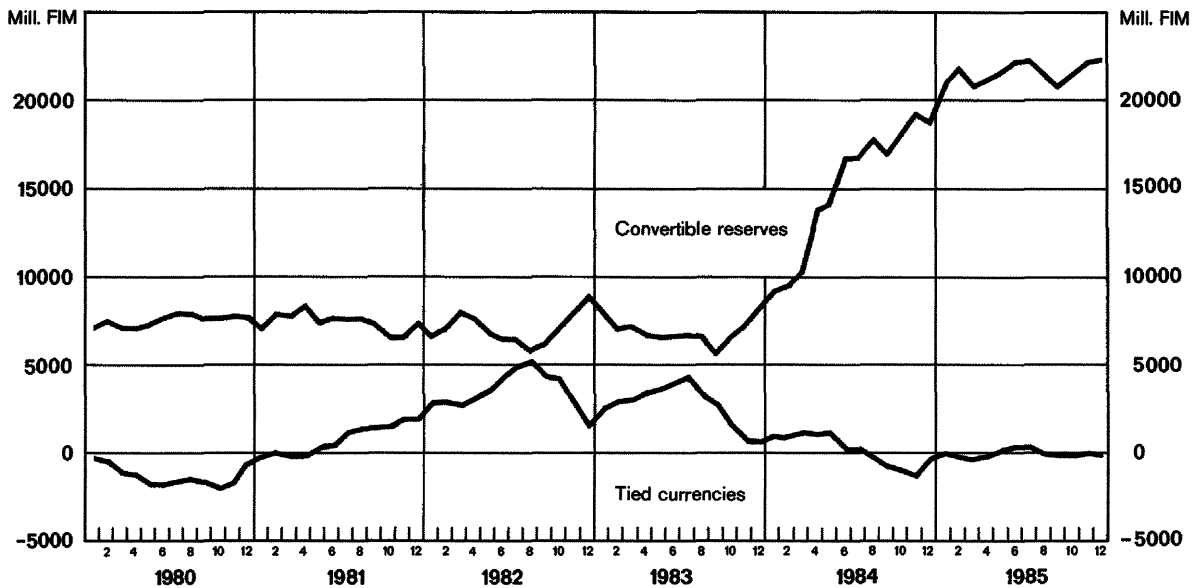
One reason for the relatively small capital inflow to the private sector was the increase in portfolio investment. In particular, this was due to heavy sales abroad of markka-denominated bonds and

debentures issued in Finland. Whereas total sales in 1984 had amounted to FIM 1.0 billion, they rose to as high as FIM 4.5 billion during the first half of 1985. International investors were attracted by the stability of the markka and the high yields on markka-denominated instruments. As a result, this new channel of finance continued to expand rapidly, until, at the end of June, the Bank of Finland suspended the sale abroad of markka-denominated bonds and debentures, in part because of monetary policy reasons.

The acquisition of foreign risk capital through share issues abroad came to a virtual standstill after the brisk sales of the previous two years. One factor restricting the supply of new share issues was the 20 per cent upper limit on foreign ownership in companies' equity. The demand for shares was also sluggish, partly reflecting the instability of share prices.

Since 1983, the stock of Finnish direct invest-

Chart 15.
BANK OF FINLAND'S FOREIGN EXCHANGE RESERVES

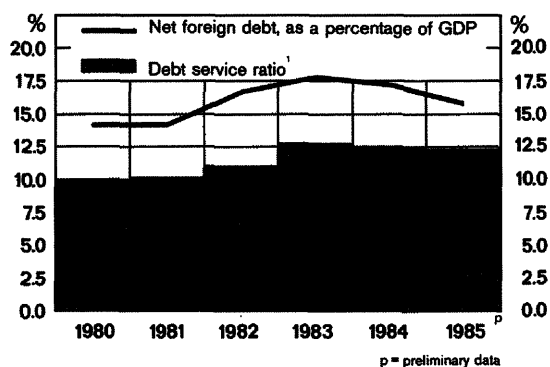


ment abroad has accounted for a growing share of Finland's total long-term foreign gross assets. The rising share largely reflects the ongoing internationalization of Finnish business. In 1985, net direct investment abroad amounted to just over FIM 2.0 billion. Net direct investment in Finland by foreign companies totalled FIM 0.4 billion.

The net short-term capital inflow in 1984 was reversed into a net outflow in 1985. This was due to the narrowing in the interest rate differential between Finland and other countries in the course of the year. Companies' net short-term foreign liabilities fell by FIM 5.1 billion. The authorized banks continued to import short-term capital as in the previous year. Banks' net short-term foreign liabilities increased by a total of FIM 4.8 billion during 1985. This increase was partly attributable to increased financing of export receivables, a contributory factor to which was the extension of the cash reserve requirement at the beginning of the year to include companies' direct foreign financing of their export receivables. Banks' outstanding forward exchange purchases from companies and abroad fell from FIM 23.5 billion to FIM 16.0 billion in the course of the year. Since, however, the Bank of Finland's outstanding forward purchase contracts declined appreciably more than this, banks raised more foreign credit than in the previous year, so as to cover the exchange risks arising from their forward contracts. The amount of spot cover increased, particularly at the beginning of the year and during the last months of the year.

According to the Balance Sheet of the Bank of Finland, the convertible foreign exchange reserves grew by FIM 3.5 billion to FIM 22.4 billion (Chart 15 and Table 2). The tied currency reserves remained practically unchanged varying in the course of the year from a net claim of FIM 0.5 billion to a net liability of FIM 0.3 billion. The value of the outstanding forward sales contracts concluded by the authorized banks with the Bank of Finland fell by about FIM 11 billion in the course of the year.

Chart 16.
EXTERNAL INDEBTEDNESS



^p = preliminary data
Debt service charges (redemptions plus interest expenses) on total net foreign debt, as a percentage of current account earnings. Debt service charges do not include redemptions of Bank of Finland Oil Facility purchases or of drawings of standby credits with foreign banks.

Finland's net long-term foreign debt amounted to FIM 58.0 billion at the end of 1985. Owing to the balanced developments in the current account, debt service payments on net foreign debt in relation to current account earnings fell to 12.3 per cent. Finland's total net foreign debt amounted to FIM 53.5 billion, which was 15.8 per cent of GDP in purchasers' values (Chart 16 and Table 13).

Exchange policy measures and amendments to regulations

By revising the foreign exchange regulations, the Bank of Finland mainly sought to update and simplify exchange control. In the course of 1985, amendments were made to the regulations applying to, inter alia, the sale abroad of bonds and debentures, banks' foreign exchange exposures and the forward market. In addition, the Bank issued regulations on option and futures contracts. At the end of the year, the Bank decided on the introduction from January 1, 1986 of new foreign exchange regulations involving a slight liberalization in exchange control.

In February, the authorized banks were prohibited from financing domestic foreign currency credits by means of foreign exchange acquired

to cover forward contracts or foreign currency deposits obtained from other banks. The aim of this measure was to restrict the expansion of domestic financing subject to exchange rate risk.

In March, the Bank of Finland allowed authorized banks to intermediate currency option contracts and currency and interest rate futures contracts to residents, thereby improving companies' opportunities for hedging against exchange rate risks. However, this did not apply to options involving exchange rates against the markka. At the same time, the authorized banks were permitted to issue guarantees to non-residents on behalf of other non-residents. In addition, the transfer abroad of dividends from direct investment was formally removed from those transactions requiring the permission of the Bank of Finland.

In June, the Bank of Finland prohibited, until further notice, the sale to non-residents of bonds and debentures quoted on the Helsinki Stock Exchange, since sales had accelerated rapidly in January—June 1985. In so doing, the Bank sought, among other things, to maintain the efficiency of the system of controlling imports of long-term capital and to ensure the prerequisites for the pursuit of monetary policy.

At the beginning of July, new regulations on banks' foreign exchange exposures became effective which set limits on each bank's foreign exchange position against the markka. In determining the new limits, attempts were made to take into account the vigorous expansion in banks' foreign operations and changes in the exchange rates of the major trading currencies.

New regulations on forward market operations, which made the previous regulations more precise, entered into force in September. As a departure from its former practice, the Bank of Finland decided to accept a company's net foreign exchange exposure as the commercial background. The method of calculating the company's net foreign exchange exposure was to be separately approved by the Bank of Finland. As before, com-

panies were allowed to use forward contracts only to reduce their exchange rate risk.

In December, the Bank decided on the complete revision of the foreign exchange regulations, which was to become effective on January 1, 1986. The primary purpose of the revision was to clarify the regulations. The new regulations did not involve any essential change in exchange control. Although the regulations were liberalized in certain respects, the majority of capital flows still remained subject to the Bank of Finland's permission.

The three-tier system of exchange control was maintained in the revision. Under this system, the foreign exchange regulations consist of the Foreign Exchange Act, the Decision of the Council of State and the Bank of Finland's Decision and Regulations. Parliament, through the Foreign Exchange Act, authorizes the Council of State to decide on the introduction of the Bank of Finland's exchange control powers, after which the Bank of Finland issues the necessary detailed regulations and implements control in practice. The new Foreign Exchange Act and the regulations issued on the basis thereof are to remain in force until the end of 1990.

The most significant changes in the new regulations were the abolition of the penalty surcharge scheme applied to short-term import credits and some limited liberalization of portfolio investment abroad. In addition, the maximum amount of foreign exchange granted for purchasing a recreational dwelling abroad was raised, the regulations applying to bilateral payments arrangements were made more precise, the acquisition of foreign exchange for travel purposes was eased, the rights of securities agents were expanded and pure risk insurance premiums were no longer subject to the Bank of Finland's permission.

Bilateral payments arrangements

At the end of 1985, Finland maintained bilateral payments agreements with the Soviet Union,

Bulgaria and the German Democratic Republic. As from April 1, 1985, Finland and Bulgaria started to use the Finnish markka as the clearing currency, and at the same time, the credit limit on the account was changed from USD 3 million to FIM 25 million. The Finnish markka continued to be used as the clearing currency in the trade between Finland and the German Democratic Republic and the rouble as the clearing currency in the trade between Finland and the Soviet Union.

The experimental arrangement whereby convertible US dollars were used in the trade between Finland and Poland was continued in 1985, and in December it was agreed upon that the Finnish markka could also be used as the currency of payment. In August 1985, it was agreed that the experimental arrangement whereby convertible currencies were used in the trade between Finland and Czechoslovakia would, as from the beginning of 1986, be extended automatically for three years at a time, unless subsequently agreed upon otherwise. The clearing agreements with Poland and Czechoslovakia were still formally in force.

The clearing agreement between Finland and Hungary was terminated on January 31, 1985. The changeover to payments in convertible currencies was necessitated by Hungary's admission to the International Monetary Fund; the IMF

requires member countries to abandon bilateral payments arrangements with other Fund members.

An agreement on payments settlement and accounting between the Bank of Finland and the Foreign Trade Bank of the Soviet Union was signed in November; this agreement was connected with the agreement on the exchange of goods and payments between Finland and the Soviet Union for 1986—1990.

The payments situation between Finland and the Soviet Union remained fairly balanced in 1985. At the beginning of the year, the clearing account between the two countries showed a liability of SUR 95 million, or about FIM 700 million, for Finland. At the end of the year, Finland's liability amounted to SUR 75 million or about FIM 540 million, although the bilateral current account showed a surplus of FIM 2.2 billion in Finland's favour. The clearing account balance remained virtually unchanged mainly because receipts from ship exports in 1985 were substantially smaller than the value of ship deliveries. Finland's clearing account liability declined temporarily in the middle of the year, which was largely due to a reduction in imports of crude oil during the early part of the year and to the fact that payments relating to ship exports were effected mainly in May—July.

THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT OF THE BANK OF FINLAND

The Bank of Finland's end-year Balance Sheets for the year under review and the preceding year are presented on pages 30—31. In keeping with the Regulations for the Bank, balance sheets were prepared and published four times a month. The end-month balance sheets for 1985 are shown in Table 1 of the Tables Section. Chart 17 depicts the movements in the major items of the balance sheet. The profit and loss account of the Bank of Finland for 1985 and the previous year are given on page 35.

FOREIGN SECTOR

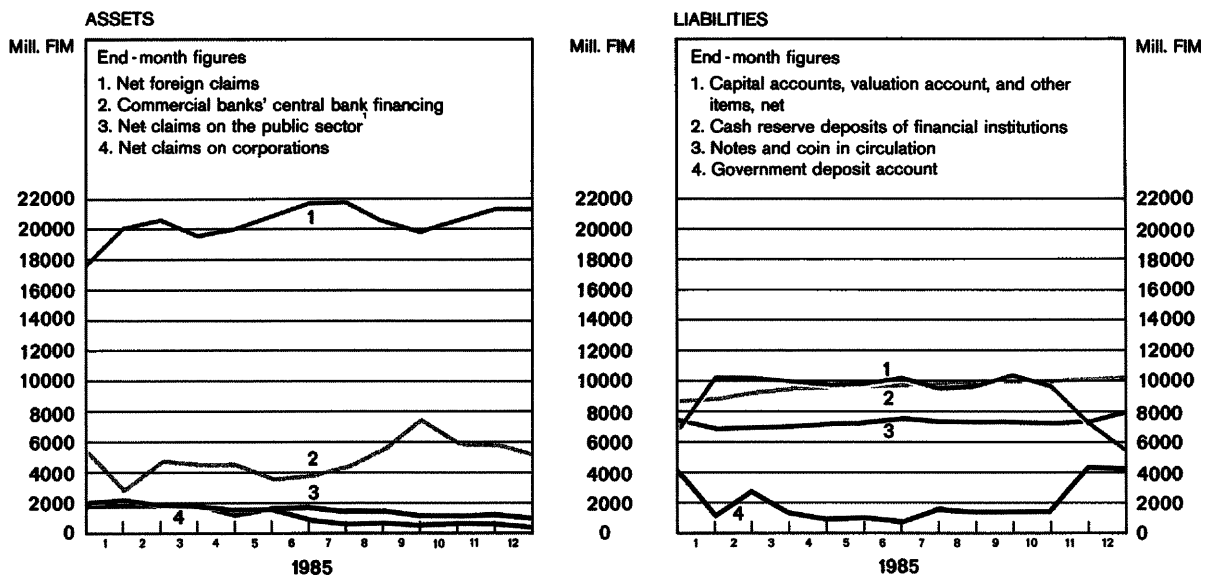
Net foreign claims of the Bank of Finland grew by FIM 3 649 million in the course of 1985. At the end of the year, net foreign claims totalled FIM 21 225 million. They were at their highest in the summer and at their lowest at the beginning of the year.

The convertible foreign exchange reserves of the Bank of Finland, which include gold, special drawing rights, the IMF reserve tranche and net convertible currency claims, increased by FIM

3 529 million in 1985, amounting to FIM 22 359 million at the end of the year. Foreign bonds are included in holdings of convertible currencies. The major changes in the convertible foreign exchange reserves were an increase of FIM 349 million in gold reserves and an increase of FIM 3 221 million in convertible currencies.

With the exception of the very beginning of the year and the summer months, the tied foreign exchange reserves showed a deficit. The deficit was at its highest, FIM 773 million, in March,

Chart 17.
BALANCE SHEET OF THE BANK OF FINLAND



Excl. government deposit account.

BALANCE SHEET, FIM

ASSETS	Dec. 31, 1984		Dec. 31, 1985	
Gold and foreign currency claims				
Gold	1 732 450 215,16		2 081 473 367,59	
Special drawing rights	936 291 154,35		930 718 648,41	
IMF reserve tranche	859 160 888,69		774 979 217,59	
Convertible currencies	15 387 258 835,37		18 607 612 626,92	
Tied currencies	387 365 732,39	19 302 526 825,96	255 590 259,39	22 650 374 119,90
Other foreign claims				
Markka subscription to Finland's quota in the IMF	2 835 209 750,30	2 835 209 750,30	2 645 250 356,40	2 645 250 356,40
Claims on financial institutions				
Bank's cheque accounts	530 154 296,21		—	
Call money advances	5 017 630 093,37		5 218 487 781,07	
Till-money credits	1 562 859 000,—		1 925 099 000,—	
Bonds	1 998 465 001,20		2 065 466 655,90	
Other claims on financial institutions	56 312 471,48	9 165 420 862,26	46 960 952,17	9 256 014 389,14
Claims on the public sector				
Government promissory notes	1 000 000 000,—		—	
Bonds	123 711 258,60		118 271 158,20	
Total coinage	806 083 817,50		890 363 082,50	
Other claims on the public sector	21 430 579,95	1 951 225 656,05	14 272 062,88	1 022 906 303,58
Claims on corporations				
Financing of exports	1 786 124 696,49		1 601 267 819,72	
Financing of domestic deliveries	2 859 726 439,43		2 923 610 156,67	
Bonds	114 492 999,06		80 834 081,85	
Other claims on corporations	85 657 056,48	4 846 001 191,46	73 342 548,66	4 679 054 606,90
Other assets		141 755 661,43		145 789 189,14
TOTAL		38 242 139 947,46		40 399 388 965,06

while the surplus reached its highest point, FIM 352 million, in June. The deficit amounted to FIM 285 million at the end of the year, FIM 52 million less than one year earlier.

The Bank of Finland's other foreign claims and other foreign liabilities comprised only IMF

items. The markka subscription to Finland's quota in the IMF, entered under claims, decreased by FIM 190 million to FIM 2 645 million, mainly on account of exchange rate changes. Of the liabilities, the IMF markka accounts likewise fell by FIM 190 million, primarily because of exchange rate changes. Allocations of special

LIABILITIES	Dec. 31, 1984		Dec. 31, 1985	
Foreign currency liabilities				
Convertible currencies	84 625 700,48		35 580 755,14	
Tied currencies	724 719 266,45	809 344 966,93	540 182 349,73	575 763 104,87
Other foreign liabilities				
IMF markka accounts	2 835 316 854,27		2 645 338 209,12	
Allocations of special drawing rights	916 941 635,90	3 752 258 490,17	848 899 909,40	3 494 238 118,52
Notes and coin in circulation				
Notes	6 744 246 289,—		7 303 733 658,—	
Coin	697 714 314,78	7 441 960 603,78	767 807 115,93	8 071 540 773,93
Liabilities to financial institutions				
Bank's cheque accounts	146 619 006,49		55 851,34	
Call money deposits	2 216 371 727,28		1 204 627 078,60	
Cash reserve deposits	8 696 484 811,65		10 222 236 587,72	
Capital import deposits	744 534 210,—		639 260 170,—	
Other liabilities to financial institutions	75 321 645,23	11 879 331 400,65	86 939 097,95	12 153 118 785,61
Liabilities to the public sector				
Cheque accounts	832 158,01		371 047,09	
Government deposit account	4 200 000 000,—		4 300 000 000,—	
Export deposits	75 791 226,—		—	
Capital import deposits	—		—	
Other liabilities to the public sector	249 811,47	4 276 873 195,48	260 763,04	4 300 631 810,13
Liabilities to corporations				
Deposits for investment and ship purchase	2 126 454 941,47		3 840 890 639,12	
Capital import deposits	668 058 178,76		423 943 037,97	
Other liabilities to corporations	19 048 094,54	2 813 561 214,77	2 127 020,99	4 266 960 698,08
Other liabilities		15 631 977,71		13 910 168,96
Valuation account and reserves		963 048 199,94		1 638 698 268,31
SITRA's capital		400 000 000,—		400 000 000,—
Capital accounts				
Primary capital	5 000 000 000,—		5 000 000 000,—	
Reserve fund	638 104 181,08		764 117 039,56	
Undisposed profits	—		—	
Profit/loss for the accounting year	252 025 716,95	5 890 129 898,03	-279 589 802,91	5 484 527 236,65
TOTAL		38 242 139 947,46		40 399 388 965,06

drawing rights declined by FIM 68 million, which was due entirely to exchange rate changes. The exchange rate changes reflected the fact that both the markka subscription and the markka accounts are, in accordance with the practice applied by the IMF, determined on the basis of the exchange rate for the SDR.

FINANCIAL INSTITUTIONS

The Bank of Finland's net claims on financial institutions grew by FIM 184 million to FIM 2 897 million.

Total central bank financing of the commercial banks fell by FIM 289 million during the year. At

the beginning of the year, central bank financing had totalled FIM 5 508 million, of which call money advances accounted for FIM 5 018 million and cheque account overdrafts for FIM 490 million. The operation of the banks' cheque account facility was modified from the beginning of December so that the outstanding balance on the cheque accounts was automatically transferred to either the call money advances account or the call money deposits account. Thereafter, total central bank financing of the commercial banks was equivalent to the total of the commercial banks' call money advances.

Central bank financing was at its lowest, slightly less than FIM 3 billion, at the end of January, as a result of normal seasonal movements and a rise in the convertible foreign exchange reserves. During the first half of the year, the banks' central bank debt fluctuated between FIM 4 billion and FIM 6 billion. Towards the end of the summer, it grew substantially because of a fall in the convertible foreign exchange reserves and the tightening effect of central government finances. Central bank financing was at its highest, just over FIM 9 billion, in early September and October.

In the Bank of Finland's call money market, the commercial banks had call money advances totalling FIM 5 219 million at the end of the year. This was FIM 201 million more than at the end of the previous year. The average level of call money advances increased by FIM 2 636 million from the average level in 1984. The banks' call money deposits declined by FIM 1 011 million to FIM 1 205 million. Of this sum, commercial banks accounted for FIM 580 million. The average level of deposits rose by FIM 1 395 million from the average level in the preceding year.

At the end of the year, the Bank of Finland made a placement of FIM 4 014 million in the call money market. This was FIM 1 212 million more than a year earlier. In the first half of the year, the banks' call money deposits occasionally exceeded their call money advances. The resultant excess of deposits over advances was absorbed by

the Bank of Finland. In 1985, the Bank of Finland's placement in the call money market was, on average, FIM 1 285 million. In 1984, the surplus absorbed by the Bank in the call money market had amounted on average, to FIM 39 million.

The interest-free till-money credits, which are used to finance the banking institutions' holdings of notes and coin, amounted to FIM 1 925 million at the end of the year. This was FIM 362 million more than one year earlier. The Bank of Finland's holdings of bonds issued by financial institutions increased by FIM 66 million to FIM 2 065 million.

Cash reserve deposits grew by FIM 1 526 million in 1985. The increase was due entirely to the extension of the cash reserve base. In the course of the year, the share of the commercial banks (excl. Okobank and Scopbank) in cash reserve deposits rose from 42 to 43 per cent, while the share of co-operative banks (incl. Okobank) remained at 21 per cent and the share of the savings banks (incl. Scopbank) at 25 per cent. At the end of the year, cash reserve deposits with the Bank of Finland totalled FIM 10 222 million. The financial institutions' capital import deposits decreased by FIM 106 million to FIM 639 million.

In addition to claims and liabilities, the financial institutions had contingent liabilities to the Bank of Finland. They had arisen in connection with the Bank's special financing arrangements. The value of export and new-export bills, for the repayment of which the banks were liable, amounted to FIM 1 601 million at the end of the year. The guarantees given by the banks to the Bank of Finland for the repayment of domestic suppliers' credits totalled FIM 2 924 million.

THE PUBLIC SECTOR

At the end of 1985, the Bank of Finland had a net liability to the public sector of FIM 3 277 million. This was FIM 951 million more than at the end of the previous year.

The Bank of Finland's claims on the public sector fell by FIM 928 million to FIM 1 023 million. In the course of the year, the central government repaid in full the promissory note loan in the amount of FIM 1 000 million which it had been granted by the Bank of Finland at the end of 1982. The Bank's holdings of government bonds decreased by FIM 6 million and total coinage, which is the counterpart to coin in circulation on the liabilities side of the balance sheet, grew by FIM 85 million.

Liabilities to the public sector went up by FIM 23 million to FIM 4 300 million. Of this growth, FIM 100 million was due to an increase in funds in the government deposit account. Export deposits collected by the central government from enterprises, which at the beginning of the year had amounted to FIM 76 million, were refunded to enterprises during the year.

CORPORATIONS

Net lending by the Bank of Finland to corporations declined by FIM 1 620 million, or 80 per cent, and amounted to FIM 412 million at the end of the year.

The Bank of Finland's claims on corporations fell by FIM 167 million. Financing of exports, which consists of short-term export credits and new-export credits, went down by FIM 185 million. Short-term export credits fell by FIM 252 million, while new-export credits grew by FIM 68 million. Financing of domestic deliveries increased by FIM 64 million. The total value of outstanding credit granted under these three special financing arrangements amounted to FIM 4 525 million at the end of the year. In addition, the Bank of Finland held bills relating to export factoring to the value of FIM 42 million. This amount was entered under other claims on financial institutions. The Bank's holdings of bonds issued by corporations fell by FIM 33 million to FIM 81 million.

Liabilities to corporations grew by FIM 1 453 million. Deposits for investment and ship purchase increased by FIM 1 714 million to FIM

3 841 million. Of these, deposits for investment accounted for FIM 3 818 million and deposits for ship purchase for FIM 23 million. Capital import deposits of corporations fell by FIM 244 million to FIM 424 million. As from the beginning of the year, capital import deposits also included cash reserve deposits made by companies on the basis of their short-term borrowing from foreign banks. Deposits of the latter type amounted to FIM 253 million at the end of the year.

NOTES AND COIN IN CIRCULATION

Notes and coin in circulation increased by FIM 630 million, or 8.5 per cent. The increase was roughly equivalent to the nominal growth of the national economy. At the end of the year, the amount of notes and coin in circulation totalled FIM 8 072 million, of which notes accounted for FIM 7 304 million and coin for FIM 768 million. In addition, the balance sheet item "other liabilities" included notes in the old denomination to the value of FIM 9 million.

OTHER BALANCE SHEET ITEMS

The Bank's capital accounts, before deducting the loss for the accounting year, amounted to FIM 5 764 million, which was FIM 126 million more than at the end of the previous year. The capital accounts represented 14.3 per cent of the balance sheet total.

In keeping with the Regulations for the Bank of Finland, the value of the Bank's holdings of real estate, equipment and shares was not entered in the balance sheet, but the costs of these were depreciated in full as expenses in the profit and loss account at the rate they were incurred to the Bank. The Bank of Finland owns the bank premises in Helsinki and in the cities where the Bank has branch offices. The Bank owns the industrial premises in the City of Vantaa on which the Bank of Finland Security Printing House operates. The Bank of Finland also has majority shareholdings in the Mortgage Bank of Finland Ltd and Tervakoski Oy. The activities of these companies and the Security Printing House are described in

separate annual reports. In addition, the Bank of Finland is a shareholder in the Industrialization Fund of Finland Ltd and certain industrial companies. The Bank of Finland also owns SITRA (Finnish National Fund for Research and Development).

NOTE ISSUE

Ordinary note cover, which includes gold reserves and the Bank's indisputable foreign claims, grew by FIM 3 145 million in 1985, and totalled FIM 23 056 million at the end of the year. Supplementary note cover, which comprises coverable bills, remained at its upper limit of FIM 1 500 million. Hence, the total right of note issue increased by FIM 3 145 million to FIM 24 556 million. As the used right of note issue, which includes notes in circulation, liabilities payable on demand and unused overdraft facilities, went up by a total of FIM 172 million, the note reserve grew by FIM 2 973 million and amounted to FIM 16 573 million at the end of 1985.

THE NET BALANCE SHEET OF THE BANK OF FINLAND

The changes in the net balance sheet of the Bank of Finland are summarised below by main sector:

The changes in the items in the net balance sheet were fairly modest in 1985, reflecting the stable developments in the Finnish economy.

ITEMS IN THE NET BALANCE SHEET, MILLION FIM

	December 31, 1984	December 31, 1985	Change
+ Net foreign claims	17 576	21 225	+ 3 649
+ Net claim on corporations	2 032	412	-1 620
= Total net claims	19 608	21 637	+ 2 029
+ Net liability to financial institutions	2 713	2 897	+ 184
+ Net liability to the public sector	2 326	3 277	+ 951
+ Notes and coin in circulation	7 442	8 072	+ 630
+ Capital accounts, valuation account and other balance sheet items, net	7 127	7 391	+ 264
= Net liability plus capital accounts	19 608	21 637	+ 2 029

The financial institutions' total net claims on the Bank of Finland grew by FIM 184 million to FIM 2 897 million.

PROFIT AND LOSS ACCOUNT

Interest income of the Bank of Finland increased by FIM 508 million to FIM 2 973 million. Interest on domestic claims grew by FIM 199 million. Interest on foreign claims went up by FIM 309 million, mainly because of the increase in the convertible foreign exchange reserves. Interest on call money advances and deposits were entered in gross terms. The figures for interest income on domestic and foreign claims also include interest income on domestic and foreign bonds.

Interest expense of the Bank of Finland grew by FIM 985 million to FIM 2 611 million. Interest on domestic liabilities increased by FIM 1 068 million. This was due to the comparatively high call money rate as well as to the sizeable amounts of cash reserve deposits, call money deposits and forward purchase contracts. Interest paid on cash reserve deposits amounted to FIM 842 million, while that paid on call money deposits totalled FIM 610 million. Interest and commission on drawn and undrawn foreign liabilities fell by FIM 83 million and amounted to less than FIM 1 million.

PROFIT AND LOSS ACCOUNT, FIM

	Jan. 1—Dec. 31, 1984		Jan. 1—Dec. 31, 1985	
Interest income				
Interest on domestic claims	1 271 810 797,90		1 470 627 514,54	
Interest of foreign claims	1 192 886 820,18	+2 464 697 618,08	1 502 281 032,66	+2 972 908 547,20
Interest expense				
Interest on domestic liabilities	1 542 372 150,84		2 610 117 169,—	
Interest and commission on drawn and undrawn foreign liabilities	83 432 770,66	—1 625 804 921,50	529 417,67	—2 610 646 586,67
Interest margin		+838 892 696,58		+362 261 960,53
Other income				
Commissions	1 100 739,07		2 161 710,87	
Agios and valuation for exchange rate changes	266 196 710,89		—	
Other income	73 244 824,63	+340 542 274,59	105 678 422,05	+107 840 132,92
Other expense				
Salaries	88 455 434,96		97 516 419,29	
Social security costs	36 493 484,37		39 437 739,46	
Banknote printing	41 738 721,84		33 597 037,01	
Depreciation	119 611 513,64		69 618 975,13	
Agios and valuation for exchange rate changes	—		461 340 541,69	
Miscellaneous expense	41 110 099,41	—327 409 254,22	48 181 183,78	—749 691 896,36
Transfer to reserves		—600 000 000,—		—
PROFIT (+)LOSS (—) FOR THE ACCOUNTING YEAR		+252 025 716,95		—279 589 802,91

Net interest income, or the interest margin, fell by FIM 477 million, and totalled FIM 362 million.

Other income decreased by FIM 232 million to FIM 108 million. Other expense increased by FIM 423 million to FIM 750 million. The growth was largely attributable to agios and valuation for exchange rate changes, which were entered as an expense item in the net amount of FIM 461 million; in the previous year, they had been entered as an income item totalling FIM 266 million. Agios and valuation for exchange rate changes consist of income from exchange dealings and the revaluation of claims and liabilities resulting from exchange rate changes. The increase in expense caused by agios and valuation for exchange rate changes was due to the

substantial amounts of foreign exchange reserves and forward purchase contracts as well as to the marked decline in the dollar exchange rate. Salaries and social security costs grew by FIM 13 million, expenditure on banknote printing fell by FIM 8 million and miscellaneous expense increased by FIM 7 million. Depreciation amounted to FIM 70 million, FIM 50 million less than a year before. The amount of reserves was not changed in the closing of accounts.

The financial statements of the Bank of Finland showed a loss of FIM 280 million for the accounting year, as compared with a profit of FIM 252 million for the previous year. In keeping with the Regulations for the Bank of Finland, the loss will be covered by a transfer from the reserve fund in the opening balance sheet for 1986.

THE BANK OF FINLAND AND INTERNATIONAL ORGANIZATIONS

In 1985, international discussions on the international monetary system and world trade were characterised by uncertainty over the continuation of economic growth. The most serious problems were considered to be the disequilibrium in the world economy and the threat which the debt situation posed for the functioning of the international financial system. The necessity of closer cooperation on economic policies was stressed. The continuing deterioration in the competitiveness and trade account of the United States prompted the country's administration to gradually adjust its economic policy. At the Group of 5 Meeting called in September by the United States, the central bank governors of the five nations agreed on measures for lowering the exchange rate of the dollar. The results of the meeting can be regarded as significant for the strengthening of economic cooperation between the leading industrial countries. Progress was also achieved in the trade policy discussions held during the year with a view to opening a new round of international trade negotiations.

THE INTERNATIONAL MONETARY FUND (IMF)

The activities of the International Monetary Fund in 1985 focussed mainly on dealing with the internal and external imbalances of countries important from the point of view of the global economy and the debt servicing difficulties of the developing countries. The Fund stressed the dangers that protectionist pressures constituted for recovery in the world economy and the management of debt-servicing problems.

According to a report released by the Fund in the autumn, the short-term outlook for the world economy remained comparatively favourable. Projected growth rates were, nevertheless, revised downwards, mainly because economic developments in the United States had been weaker than forecast earlier in the year. In addition, the report pointed out a number of major uncertainties in the outlook, most of them operating in a negative direction.

In the outlook, the Fund noted that imbalances had arisen which, if they were allowed to continue, could impair the prerequisites for economic growth. It was stressed that a reduction in the United States' budget deficit would promote lower interest rates and a lower dollar, alleviate the debt burden of the developing coun-

tries and stimulate an expansion in the world economy. The Fund considered it essential for the maintenance of growth in the industrial countries that particularly Japan and certain Western European countries should pursue expansionary macroeconomic policies. Special attention was drawn to the need to remove structural rigidities existing in many economies.

The Fund pointed out that the continuing deterioration in the external balance of the United States was inducing pressures for increasing international trade barriers. It, therefore, urged its members to firmly resist protectionist measures. It was stressed that trade barriers would receive special attention in future surveillance by the Fund.

Discussions on the functioning of the international monetary system were continued on the basis of a report published by the Group of 10 leading industrial nations. The major recommendations for measures to be taken relate to international surveillance within the framework of the Fund. So as to intensify surveillance, it was suggested that emphasis should be placed on efforts to coordinate the economic policies of the leading industrial countries. The corresponding body for the developing countries, the Group of 24, also prepared a report on measures for improving the functioning of the international

monetary system. The changes in the international monetary and financial system called for in this report were more far-reaching than those in the report of the Group of 10. As the advisory body on international monetary issues and exchange policy cooperation, the Fund will give consideration to the recommendations in these reports.

The International Monetary Fund has made a major contribution to efforts to resolve the financial problems of the developing countries. The Fund has drawn up adjustment programmes for member countries and assisted them in obtaining long-term finance from bank consortia. In rescheduling debts, the Fund has acted both as a negotiator and a mediator. Although the Fund itself grants credit, its prime role in resolving the international debt problem lies in the fact that banks usually require that an economic programme has been negotiated with the Fund before extending loans.

The debt problems of the 1980s have led to changes in the Fund's financing policy. It has become increasingly necessary to treat countries' economic imbalances as long-term problems. Hence, in recent years longer-term credits have been made available under extended arrangements or gradual adjustment programmes have been implemented by extending several stand-by credits on a roll-over basis.

The stabilization measures carried out in the past few years have prevented the debt crisis from becoming acute, but the internal adjustment of debtor countries' economies has not always met the objectives set when debts were rescheduled. However, owing to the recovery of the world economy and the stabilization policies pursued, especially the heaviest debtor countries succeeded in improving their external balances substantially in 1985. The solvency of countries which had access to commercial credit increased. By contrast, the trade deficits of countries which had to resort primarily to official financing, remained large and debt servicing still constituted a major problem. This was also

reflected in the fact that countries increasingly fell into arrears in their repayments of Fund credits.

The United States debt initiative, the so-called Baker debt strategy, which sought to alleviate the debt servicing problems of the developing countries and stabilize the international financial system, attracted considerable attention during the last few months of the year. The essential elements of this strategy include adoption of growth-oriented adjustment policies by debtor countries and commitments by international banks to grant additional financing totalling some USD 20 billion over the following three years. In addition, the initiative calls on the World Bank and the regional development credit institutions to expand their projected net lending to debtor countries by 50 per cent or about USD 9 billion during the next three years. So as to facilitate the debt servicing of the poorest nations, especially the African countries, it was proposed that these countries should be given access to Trust Fund resources and the resources of development credit institutions. The strategy also seeks to intensify cooperation between the International Monetary Fund and the World Bank in the implementation of economic programmes and the coordination of loan terms.

The Interim Committee held a meeting in Washington D.C. in the spring and another in Seoul in South Korea in the autumn in connection with the Annual Meetings of the International Monetary Fund and the World Bank.

In addition to the world economic outlook and debt problems, the main themes of the autumn meeting were further allocations of Special Drawing Rights and adjustment of the credit limits applied under the policy of enlarged access.

Once again, no agreement could be reached on a new allocation of Special Drawing Rights because of the opposition of the major industrial countries. It was decided to carry out a thorough review of the role of the SDR in the international monetary system.

USE OF THE RESOURCES OF THE INTERNATIONAL MONETARY FUND, BILLION SDRs

	1983	1984	1985
TOTAL DRAWINGS OF CREDITS	12.6	7.3	4.0
Use of credit tranches	4.9	3.1	2.7
Medium-term credits drawn under extended arrangements	4.6	3.3	0.4
Permanent special credit arrangements:			
— Credits drawn under the compensatory financing facility	2.8	0.8	0.9
— Credits drawn under the buffer stock financing facility	0.3	0.0	0.0
REPAYMENTS OF CREDITS, TOTAL	2.0	2.5	3.6
NEW CREDIT COMMITMENTS APPROVED IN 1985	11.3	4.1	3.3

The Fund recognized the need to continue the policy of enlarged access in 1986. However, members' access limits to Fund credit were reduced slightly, to 90 or 110 per cent of quota annually and to 270 or 330 per cent of quota over three years. The higher access limits are applied to countries with exceptionally large financing needs and which implement very austere economic adjustment programmes. The maximum cumulative access limit for a member country was fixed at 400 or 440 per cent of quota.

In 1985, drawings by member countries from the Fund's various credit sources totalled SDR 4.0 billion, almost 50 per cent less than in the preceding year. Countries' persistent debt servicing difficulties were reflected in the recurrent need to conclude new credit agreements with the Fund. At the end of 1985, the Fund had credit agreements with 32 countries and the resources committed under these totalled the equivalent of SDR 9.9 billion.

The small amount of drawings of Fund credits was chiefly due to the fact that the size of annual drawdowns under long-term financing arrangements was reduced. In addition, many indebted countries had already drawn almost all the financing available under their Fund programmes. There were also cases where economic programmes, for one reason or another, had not

been carried out as agreed with the Fund and further drawings were frozen pending the negotiation of a new programme.

At the beginning of the year, the IMF agreed on a policy of enhanced surveillance. Under this policy, the Fund exercises intensive surveillance over the economic programmes of member countries over a very long period, even in cases where countries no longer have credit agreements with the Fund. In so doing, the Fund assesses the economic programmes which are a condition for bank loans, the purpose being to gradually restore the creditworthiness of the debtor country in the international capital market.

In 1985, Finland continued to belong to the group of countries whose currencies can be used for Fund lending.

The Bank of Finland acts as agent for Finland in its relations with the International Monetary Fund. The Nordic countries were represented on the Fund's Executive Board by Hans Lundström of Sweden, with Henrik Fugmann of Denmark as his alternate. Finland was represented on the Fund's Board of Governors by Rolf Kullberg, Governor of the Bank of Finland, with Pentti Uusivirta, Member of the Board of Government of the Bank of Finland as his alternate.

THE BANK FOR INTERNATIONAL SETTLEMENTS (BIS)

The Bank for International Settlements functions as the traditional body for cooperation between the central banks of the industrial countries the purpose of which is to promote international foreign exchange cooperation. A representative of the BIS regularly attends the meetings of the Interim Committee of the International Monetary Fund as well as the meetings of the ministers of finance and central bank governors of the Group of 10 industrial nations. In addition, the BIS keeps the accounts for payments effected through the European Monetary System and compiles statistics for the OECD. The Bank of Finland is a shareholder of the BIS.

In previous years, the BIS has assisted in efforts to alleviate the international debt crisis both by granting short-term loans and strengthening the financial resources of the International Monetary Fund. Apart from arranging high level discussions, the activities of the BIS in 1985 focussed on preparing economic reports and, in particular, on compiling and publishing country-by-country statistics on international lending.

THE WORLD BANK GROUP (IBRD, IDA and IFC)

The activities of the International Bank for Reconstruction and Development (IBRD) reflected the solvency and financing difficulties of member countries. The IBRD had to temporarily lower lending targets, since investment projects in many countries were subject to re-appraisal or deferred until later.

During fiscal year 1985, the World Bank Group approved new loans totalling USD 15.3 billion, which was about 5 per cent less than in the previous year. Financing from the World Bank Group accounted on average for almost 40 per cent of the total costs of financing projects.

During the fiscal year closing on June 30, 1985, the IBRD granted loans amounting to USD 11.4

billion in support of 131 projects in 44 member countries. The International Development Association (IDA) approved low-interest credits totalling USD 3 billion. They were granted for the financing of 105 projects in 45 countries belonging to the group of least developed countries. The International Finance Company (IFC) invested USD 0.9 billion in private sector enterprises in developing countries in fiscal year 1985.

Cofinancing by national development finance institutions, other development finance institutions and commercial banks in the financing of World Bank Group projects amounted to USD 4.8 billion. This represented an increase of 20 per cent on the previous year.

In fiscal year 1985, it was decided to establish the Multilateral Investment Guarantee Agency (MIGA) as an affiliate to the IBRD. MIGA will issue guarantees against non-commercial risks involved in investments in developing countries, thereby offering developing countries interested in attracting foreign investment a means of stimulating it.

In 1985, Finland paid the fifth instalment, about FIM 16.5 million, to the IBRD of her contribution to the increase in the Bank's capital to be implemented in the period 1981—1986. In addition, Finland paid the first instalment, about FIM 11.9 million, of her contribution to the selective capital increase to be implemented in 1985—1986.

The Seventh Replenishment of IDA resources entered into force in 1985. Finland paid her first annual contribution of FIM 120 million. In the period 1985—1987, Finland is to participate in the financing of the African Facility, established in association with the IDA, by contributing a total of FIM 78 million, of which amount FIM 18 million was paid in 1985.

Finland supported the increase in the authorized capital of the International Finance Company (IFC). However, the increase did not yet enter into force and hence the instalments were deferred to the period 1986—1990.

The Bank of Finland assists the Ministry of Finance and the Ministry for Foreign Affairs in the management of their relations with the World Bank Group.

OTHER INTERNATIONAL COOPERATION

Finland is a member of the Asian Development Bank (ADB), the African Development Bank (AfDB) and the Inter-American Development Bank (IDB). As with the World Bank Group, the Bank of Finland assists the other relevant authorities in the management of relations with these international financial institutions, and, in accordance with the respective agreements, the Bank is the deposit bank for these organizations in Finland.

As in previous years, the Bank of Finland, together with the other relevant authorities, participated in the activities of the Organization for Economic Cooperation and Development (OECD), the European Free Trade Association (EFTA) and the Economic Commission for Europe (ECE). Within the OECD, the Bank of Finland participates mainly in the work of the Economic Policy Committee, the Committee on Financial Markets and the working groups appointed by these committees.

Nordic cooperation in the field of foreign exchange policy continued along the same lines as before. Representatives of the Bank of Finland participated in the meetings of the Nordic Financial Commission (NFU) and the Nordic Government Officials Committee for Financial and Foreign Exchange Questions (NÄVF). The annual meeting of the Governors of the Nordic central banks was held in Norway in 1985.

The NFU meetings dealt mainly with foreign exchange issues common to the Nordic countries and the Nordic countries' views on international issues. In particular, the meetings were concerned with preparing the countries' common standpoints on issues to be dealt with by the International Monetary Fund. The Nordic coun-

tries have a joint representative on both the Executive Board of the IMF and the Interim Committee.

At the meetings of the Government Officials Committee appointed by the Nordic Council, discussions centred on following up the extensive programme drawn up for the promotion of economic development and full employment in the Nordic region. In addition, the Committee discussed the possibilities of liberalizing exchange controls on capital movements in the Nordic region and examined exchange control and exchange policy measures implemented or planned in the Nordic countries. In 1985, the Committee completed the report it had prepared together with the Nordic Labour Committee (NAUT) on the costs of unemployment in the Nordic countries.

The Bank of Finland took part in the activities of the Finnish-Soviet Commission for Economic Cooperation and of the Commission for Economic Cooperation between Finland and the CMEA. The Bank of Finland participated as an observer at the 38th session of the Council of the International Investment Bank (MIB) and the 61st session of the Council of the International Bank for Economic Cooperation (MBES).

The Bank of Finland was represented in the negotiations concerning the exchange of goods between Finland and the Soviet Union in 1986. In addition, the Bank was represented at the meetings with other centrally planned economies of the Joint Commissions for Reciprocal Removal of Obstacles to Trade and for Economic, Scientific and Technical Cooperation.

A Finnish-Soviet banking seminar, arranged by the State Bank of the USSR together with the Bank of Finland, was held in Tbilisi on September 16—20, 1985. The seminar dealt with conditions in the international monetary and foreign exchange markets, economic relations between Finland and the Soviet Union and the activities of banking institutions in the two countries.

MONETARY AND FOREIGN EXCHANGE POLICY MEASURES IN 1985

January

Arrangement for the financing of short-term export credits

On January 1, 1985, the Bank of Finland raised the rate of interest it charged to banks on short-term export credits so that, irrespective of the credit period, it was the same as the Bank of Finland's base rate at any one time. The corresponding rate of interest collected by banks from firms was 0.25 percentage point higher than the base rate. At the same time, the Bank of Finland reduced the maximum annual average amount of the Bank's financing of short-term export credits from FIM 30 to FIM 20 million.

Call money market

The Bank of Finland lowered the call money rate from 14.8 to 14.6 per cent as from January 11 and further to 14.2 per cent as from January 25.

Export deposits

The Council of State decided to cease collecting export deposits on pulp as from January 31.

February

Interest rate policy

The Bank of Finland lowered its base rate from 9.5 to 9 per cent as from February 1. The banking institutions were required to lower, in general, the rates of interest on their outstanding loans by 0.5 percentage point from the same date. In addition, the rates of interest on the banks' tax-exempt deposit accounts fell, on average, by 0.5 percentage point.

Domestic foreign-currency-denominated loans

The Bank of Finland decided that, as from February 1, domestic foreign currency loans granted by authorized banks, which do not require the prior approval of the Bank of Finland, could not exceed the total amount of non-bank holdings of domestic foreign currency deposits with each bank.

Payments agreement between Finland and Hungary

Under an agreement concluded between the Finnish and Hungarian authorities in October 1984 the payments agreement between the two countries was terminated on January 31, 1985. As from February 1, 1985, payments between the two countries were effected in convertible currencies.

Call money market

The Bank of Finland lowered the call money rate from 14.2 to 14.0 per cent as from February 26.

March

Currency options

The Bank of Finland decided to entitle the authorized banks to conclude option contracts as from March 1, 1985. However, these contracts could not involve exchange rates quoted against the Finnish markka.

Amendments to Foreign Exchange Regulations

The Bank of Finland revised the Foreign Exchange Regulations in certain respects as from March 1, 1985. The main details of the amendments were as follows:

- Dividend from foreign direct investment in Finland could be transferred abroad through an authorized bank without the Bank of Finland's special permission.
- The receipt of security on behalf of a non-resident was allowed without the Bank of Finland's special permission. Similarly, the giving of security to a non-resident on behalf of a resident was allowed without special permission.

April

Payments Arrangements between Finland and Bulgaria

In payments between Finland and Bulgaria, there was a changeover to the use of the Finnish markka as the clearing currency as from April 1, 1985. At the same time, the credit limit on the clearing account was raised from USD 3 million to FIM 25 million.

Export deposits

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

Call money market

The Bank of Finland lowered 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 decided 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 could not be used until April 1, 1986. The utilization period was to expire on December 31, 1987.

Sale of Finnish bonds abroad

As from June 24, the Bank of Finland suspended, until further notice, the sale abroad of bonds and debentures quoted on the Helsinki Stock Exchange.

Call money market

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

August

Call money market

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

September

Forward market

The Bank of Finland's new guidelines on forward market operations entered into force on September 1. Under these guidelines, firms were allowed to conclude forward contracts directly on the basis of the net foreign exchange exposure arising from the difference between their foreign currency claims and liabilities. In addition, the right of firms and private persons to conclude forward contracts based on individual commercial transactions was retained.

Personal credit guidelines

On September 6, the Bank of Finland issued the financial institutions new guidelines on the granting of personal credits. The guidelines concerning housing loans remained virtually the same as before: first-time buyers were required to provide 25 per cent of the purchase price of the dwelling while for homeowners changing dwellings the share of prior savings had to be at least one-third. With regard to other fairly large personal credits, a greater proportion of prior savings was required than in the case of housing loans, but the precise amount of the minimum share was no longer specified. Similarly, the guidelines relating to the granting of minor personal credits were abolished in full.

Call money market

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

October

Call money market

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

November

Call money market

The Bank of Finland lowered 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

Banks' cheque accounts

As from December 1, the Bank of Finland amended the practice applied to the banks' cheque accounts so that the outstanding balance on the cheque accounts was automatically transferred to either the call money advances account or the call money deposits account.

Call money market

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

Cash reserve requirement

The Bank of Finland lowered 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.

The following decisions were made on measures to enter into force in 1986:

Interest rate policy

The Bank of Finland lowered 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 was rescinded. The Bank of Finland required, however, that the rates of interest applied to loans

granted for the acquisition of dwellings intended for own use would not be 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 were also generally presupposed to fall by 0.5 percentage point.

Regulation of average lending rates

The Bank of Finland revised 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 could at most be the Bank of Finland's base rate plus 1.75 percentage points. If the average interest rate on a bank's total markka-denominated deposits exceeded the Bank of Finland's base rate by more than 1.25 percentage points, the bank's average lending rate could 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 revised the system applied in the call money market, so that it started to pay a lower rate of interest on deposits than what it charged on call money advances. The rate paid on call money deposits was set at 11.0 per cent as from January 2.

Revision of foreign exchange regulations

The Foreign Exchange Act was renewed for five years from the beginning of 1986. At the same time, the Bank of Finland's exchange control powers were extended and the foreign exchange regulations were clarified. Among other things, the following regulations were eased: the penalty surcharge scheme applied to short-term import credits was abolished; the maximum period for suppliers' credits was set at 6 months, i.e. the same as the credit period which was not subject to the surcharge previously. Investments in securities quoted abroad and in the form of funds held in accounts with foreign monetary institutions were permitted up to a maximum of FIM 10 000 a year per resident. The upper limit on foreign exchange which could be acquired for the purchase of a recreational dwelling abroad was raised to FIM 600 000. The upper limit on travel exchange that could be granted immediately in conjunction with emigration was likewise raised to FIM 600 000 per person for persons emigrating alone and to FIM 400 000 per person in cases where more than one member of the same family was emigrating. Authorized banks were granted the right to surrender travel exchange without upper limit on presentation by the purchase of travel exchange of a breakdown of the travel costs involved. Securities agents were accorded the same rights as the authorized banks to act as intermediaries in securities transactions between residents and non-residents.

Payments arrangement between Finland and Czechoslovakia

In keeping with an agreement concluded between Finland and Czechoslovakia in August 1985, the practice of settling transactions in convertible currencies was extended for three years from the beginning of 1986.

Payments arrangement between Finland and Poland

The authorities of Finland and Poland agreed in December 1985 that payments between Finland and Poland in 1986 could be effected in Finnish markkaa in addition to US dollars.

Cash reserve requirement

The Bank of Finland lowered 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.

TABLES

Table 1.

THE MONTHLY BALANCE SHEET OF THE BANK OF FINLAND IN 1985, MILLION FIM

ASSETS	I	II	III
Gold and foreign currency claims	21 460	22 268	21 194
Gold	1 732	1 732	1 732
Special drawing rights	944	995	955
IMF reserve tranche	866	904	853
Convertible currencies	17 491	18 317	17 439
Tied currencies	427	320	215
Other foreign claims	2 835	2 835	2 835
Markka subscription to Finland's quota in the IMF	2 835	2 835	2 835
Claims on financial institutions	6 430	8 278	7 854
Bank's cheque accounts	116	43	8
Call money advances	2 868	4 816	4 599
Till-money credits	1 382	1 364	1 273
Bonds	2 011	2 030	1 904
Other claims on financial institutions	53	25	70
Claims on the public sector	1 952	1 958	2 021
Government promissory notes	1 000	1 000	1 000
Bonds	130	105	156
Total coinage	814	839	847
Other claims on the public sector	8	14	18
Claims on corporations	4 958	4 928	4 934
Financing of exports	1 836	1 782	1 788
Financing of domestic deliveries	2 929	2 947	2 963
Bonds	110	116	100
Other claims on corporations	83	83	83
Other assets	141	141	142
TOTAL	37 776	40 408	38 980

IV	V	VI	VII	VIII	IX	X	XI	XII
21 434	21 931	22 564	22 630	21 783	21 130	21 919	22 552	22 650
1 732	1 732	1 732	1 732	1 732	1 732	1 732	1 732	2 081
961	963	960	934	941	932	925	932	931
872	842	855	832	795	799	805	783	775
17 667	18 183	18 764	18 863	18 062	17 424	18 208	18 854	18 608
202	211	253	269	253	243	249	251	255
2 822	2 828	2 808	2 808	2 841	2 830	2 818	2 835	2 645
2 822	2 828	2 808	2 808	2 841	2 830	2 818	2 835	2 645
8 027	7 026	7 229	7 949	8 936	11 269	9 665	9 482	9 256
71	88	33	72	52	185	41	13	—
4 558	3 611	3 845	4 391	5 553	7 396	5 950	5 901	5 219
1 435	1 373	1 384	1 533	1 371	1 617	1 567	1 450	1 925
1 899	1 915	1 900	1 929	1 938	2 027	2 058	2 073	2 065
64	39	67	24	22	44	49	45	47
1 808	1 819	1 817	1 580	1 575	1 297	1 269	1 320	1 023
790	790	790	560	560	280	280	280	—
149	156	156	154	145	140	107	152	118
856	860	865	866	870	877	882	888	891
13	13	6	0	—	0	—	—	14
4 858	4 917	4 924	4 935	4 896	4 821	4 948	4 865	4 679
1 724	1 760	1 790	1 739	1 693	1 654	1 773	1 737	1 601
2 960	2 984	2 964	3 019	3 041	3 006	3 016	2 970	2 924
92	92	91	99	85	83	82	82	81
82	81	79	78	77	78	77	76	73
144	144	144	143	145	144	144	144	146
39 093	38 665	39 486	40 045	40 176	41 491	40 763	41 198	40 399

Table 1. (Cont.)

LIABILITIES	I	II	III
Foreign currency liabilities	514	751	790
Convertible currencies	53	63	73
Tied currencies	461	688	717
Other foreign liabilities	3 759	3 800	3 745
IMF markka accounts	2 835	2 835	2 835
Allocations of special drawing rights	924	965	910
Notes and coin in circulation	6 881	6 929	6 972
Notes	6 197	6 229	6 269
Coin	684	700	703
Liabilities to financial institutions	15 362	15 300	15 595
Bank's cheque accounts	6	17	7
Call money deposits	5 738	5 184	5 335
Cash reserve deposits	8 799	9 241	9 452
Capital import deposits	754	756	710
Other liabilities to financial institutions	65	102	91
Liabilities to the public sector	1 285	2 893	1 500
Cheque accounts	1	1	1
Government deposit account	1 200	2 800	1 400
Export deposits	84	92	99
Capital import deposits	—	—	—
Other liabilities to the public sector	0	0	0
Liabilities to corporations	2 825	3 120	3 268
Deposits for investment and ship purchase	2 144	2 184	2 362
Capital import deposits	676	932	903
Other liabilities to corporations	5	4	3
Other liabilities	15	14	15
Valuation account and reserves	840	1 295	780
SITRA's capital	400	400	400
Capital accounts	5 895	5 906	5 915
Primary capital	5 000	5 000	5 000
Reserve fund	764	764	764
Net earnings	131	142	151
TOTAL	37 776	40 408	38 980

IV	V	VI	VII	VIII	IX	X	XI	XII
551	204	21	21	442	545	566	460	576
28	55	21	21	30	33	34	43	36
523	149	—	—	412	512	532	417	540
3 739	3 735	3 709	3 697	3 714	3 695	3 677	3 688	3 494
2 822	2 828	2 808	2 821	2 841	2 830	2 818	2 835	2 645
917	907	901	876	873	865	859	853	849
7 173	7 322	7 553	7 376	7 342	7 352	7 322	7 442	8 072
6 464	6 609	6 828	6 648	6 614	6 624	6 590	6 703	7 304
709	713	725	728	728	728	732	739	768
15 536	15 182	15 643	15 617	15 368	16 645	16 192	14 125	12 153
42	41	33	8	0	3	69	21	0
5 199	4 785	5 120	4 981	4 692	5 940	5 381	3 881	1 205
9 502	9 577	9 686	9 878	9 928	9 983	10 019	10 097	10 222
713	686	700	652	656	632	617	34	639
80	93	104	98	92	87	106	92	87
1 510	1 200	858	1 658	1 558	1 558	1 559	4 400	4 300
0	1	0	0	0	0	1	0	0
1 000	1 100	800	1 600	1 500	1 500	1 500	4 400	4 300
99	99	58	58	58	58	58	—	—
411	—	—	—	—	—	—	—	—
0	0	0	0	0	0	0	0	0
3 417	3 410	4 069	4 400	4 202	4 255	4 270	4 252	4 267
2 523	2 668	3 389	3 749	3 771	3 817	3 827	3 819	3 841
891	739	676	647	427	434	432	429	424
3	3	4	4	4	4	11	4	2
15	16	15	18	16	15	14	14	14
832	1 267	1 274	910	1 185	1 200	936	590	1 639
400	400	400	400	400	400	400	400	400
5 920	5 929	5 944	5 948	5 949	5 826	5 827	5 827	5 484
5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000
764	764	764	764	764	764	764	764	764
156	165	180	184	185	62	63	63	—280
39 093	38 665	39 486	40 045	40 176	41 491	40 763	41 198	40 399

Table 2.

CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES AT THE END OF THE YEAR, 1983—1985, MILLION FIM

	1983	1984	1985
Gold	1 383	1 732	2 081
Special drawing rights	226	936	931
IMF reserve tranche	751	859	775
Convertible currencies			
Claims	5 869	15 387	18 608
Liabilities	— 34	— 84	— 36
Convertible foreign exchange reserves	8 195	18 830	22 359
Tied currencies			
Claims	550	388	255
Liabilities	— 0	— 725	— 540
Tied foreign exchange reserves	550	— 337	— 285

Table 3.

INTEREST RATES APPLIED BY THE BANK OF FINLAND 1969—1985, PER CENT

From	Base rate	Limits on interest rates for credits ¹		Call money rate	
		Minimum	Maximum	Minimum	Maximum
Dec. 12, 1969	7	6	9	.	.
June 1, 1971	8½	6	9	.	.
Jan. 1, 1972	7¾	6	9	.	.
July 1, 1973	9¼	7½	10½	.	.
Sept. 1, 1975	9¼	7½	10½	9¼	30
June 1, 1976	9¼	7½	10½	9¼	25
Oct. 1, 1977	8¼	6½	9½	8¼	25
Jan. 1, 1978	8¼	6½	9½	8¼	24
May 1, 1978	7¼	5½	8½	7¼	23
Nov. 1, 1979	8½	6¾	9¾	8½	24
Feb. 1, 1980	9¼	7½	10½	9¼	24¾
Jan. 1, 1981	9¼	7½	10½	9¼	24¼
June 1, 1982	8½	6	11	8½	23½
July 1, 1983	9½	7	12	9½	24½
Feb. 1, 1985	9	6½	11½	9	24

¹Limits on the rates of interest applied to domestic lending other than bank financing.

Table 4.

**INTERNAL CLEARING OPERATIONS: NUMBER AND VALUE OF BANK BILLS,
CHEQUES AND TRANSFERS BETWEEN ACCOUNTS IN 1983—1985**

Year and month	Head office		Branch offices		Total	
	Number, in thousands	Value, in million FIM	Number, in thousands	Value, in million FIM	Number, in thousands	Value, in million FIM
1983	102 802	415 428	467	12 370	103 269	427 798
1984	112 179	475 412	208	13 189	112 387	488 601
1985	133 684	553 345	192	16 633	133 876	569 978
1985						
January	9 857	41 935	15	1 253	9 872	43 188
February	8 890	42 601	15	1 052	8 905	43 653
March	9 597	41 412	15	1 338	9 612	42 750
April	10 649	43 486	15	1 323	10 664	44 809
May	11 749	47 343	17	1 370	11 766	48 713
June	10 829	44 035	17	1 419	10 846	45 454
July	11 963	46 568	18	1 611	11 981	48 179
August	11 026	43 564	17	1 109	11 043	44 673
September	10 934	43 636	15	1 609	10 949	45 245
October	13 574	53 353	16	1 446	13 590	54 799
November	11 804	50 969	15	1 339	11 819	52 308
December	12 812	54 443	17	1 764	12 829	56 207

Table 5.

**COMMERCIAL BANKS' CENTRAL BANK POSITION AND THE COST OF
CENTRAL BANK FINANCING IN 1980—1985¹**

Year and month	Central bank financing of the commercial banks, gross Million FIM	Central bank financing of the commercial banks, net Million FIM	Cash reserve deposits of the commercial banks Million FIM	Central bank position of the commercial banks Million FIM	Total cost of central bank financing Per cent	Marginal cost of central bank financing Per cent
1980	4 963.6	4 963.3	2 219.6	2 743.7	12.37	14.94
1981	4 087.7	4 087.6	2 440.8	1 646.8	11.61	14.75
1982	3 171.7	3 166.0	2 425.3	740.7	11.99	14.16
1983	4 529.8	4 477.5	3 789.1	688.4	15.14	15.42
1984	3 175.7	2 396.3	5 539.8	-3 143.5	16.53	16.53
1985	5 811.8	5 216.4	8 480.8	-3 264.4	13.37	13.37
1985						
January	4 713.3	4 095.2	7 732.7	-3 637.5	14.61	14.57
February	4 414.1	3 500.7	7 856.3	-4 355.6	14.18	14.18
March	5 727.3	5 081.0	8 232.2	-3 151.2	14.00	14.00
April	5 483.0	4 919.1	8 388.5	-3 469.4	13.96	13.96
May	4 690.7	4 134.0	8 412.5	-4 278.5	13.80	13.80
June	4 336.7	3 613.7	8 502.0	-4 888.3	13.77	13.77
July	5 444.2	4 882.5	8 612.0	-3 729.5	13.60	13.60
August	6 153.4	5 611.3	8 736.5	-3 125.2	13.43	13.43
September	7 771.4	7 456.8	8 772.8	-1 316.0	13.11	13.11
October	7 516.3	7 160.8	8 795.0	-1 634.2	12.78	12.78
November	6 406.8	5 678.4	8 811.3	-3 132.9	12.37	12.37
December	7 084.4	6 463.0	8 917.8	-2 454.8	11.96	11.96

¹ Average calculated on the basis of daily figures.

Table 6.

BANK OF FINLAND CALL MONEY MARKET IN 1980—1985¹

Year and month	Demand for advances Commercial banks Million FIM	Supply of deposits		Bank of Finland's net placement in the market Million FIM	Call money rate ² Per cent
		Commercial banks Million FIM	Posti- pankki Million FIM		
1980	4 179.0	0.3	865.9	3 312.8	12.38
1981	3 494.4	0.1	1 333.3	2 161.0	11.48
1982	2 757.6	5.7	1 180.6	1 571.3	11.64
1983	4 131.3	52.3	1 354.7	2 724.3	15.37
1984	3 175.8	779.4	2 435.6	— 39.2	16.53
1985	5 811.8	595.4	3 931.2	1 285.2	13.37
1985					
January	4 713.3	618.1	3 297.1	798.1	14.57
February	4 414.1	913.4	4 004.4	— 503.7	14.18
March	5 727.3	646.3	3 962.4	1 118.6	14.00
April	5 483.0	563.9	4 367.2	551.9	13.96
May	4 690.7	556.7	3 897.7	236.3	13.80
June	4 336.7	723.0	4 176.0	— 562.3	13.77
July	5 444.2	561.7	3 898.8	983.7	13.60
August	6 153.4	542.1	3 573.4	2 037.9	13.43
September	7 771.4	314.6	4 454.9	3 001.9	13.11
October	7 516.3	355.5	4 257.1	2 903.7	12.78
November	6 406.8	728.4	4 139.5	1 538.9	12.37
December	7 084.4	621.4	3 146.3	3 316.7	11.96

¹ Average calculated on the basis of daily figures.² This series does not include supplementary charges, which were levied from February 1, 1980 to April 30, 1983 in addition to the call money rate.

Table 7.

NOTE ISSUE IN 1980—1985, MILLION FIM

Date	Right of note issue			Used right of note issue			Note reserve	
	Ordinary cover	Supplementary cover	Total	Notes in circulation	Liabilities payable on demand	Undrawn cheque credits		Total
31.12. 1980	7 681	1 500	9 181	4 572	1 089	0	5 661	3 520
1981	9 350	1 308	10 658	5 152	144	2	5 298	5 360
1982	11 109	1 500	12 609	5 572	64	2	5 638	6 971
1983	9 491	1 500	10 991	6 029	88	2	6 119	4 872
1984	19 911	1 500	21 411	6 744	1 067	0	7 811	13 600
1985	23 056	1 500	24 556	7 304	679	—	7 983	16 573
1985								
31.1.	22 066	52	22 118	6 197	3 476	—	9 673	12 445
28.2.	22 849	22	22 871	6 229	1 256	—	7 485	15 386
29.3.	21 777	51	21 828	6 269	1 642	—	7 911	13 917
30.4.	21 967	61	22 028	6 465	1 332	—	7 797	14 231
31.5.	22 492	34	22 526	6 609	1 531	—	8 140	14 386
28.6.	23 123	44	23 167	6 828	1 452	—	8 280	14 887
31.7.	23 161	22	23 183	6 648	739	—	7 387	15 796
30.8.	22 292	881	23 173	6 615	553	—	7 168	16 005
30.9.	21 584	1 495	23 079	6 625	653	—	7 278	15 801
31.10.	22 380	617	22 997	6 590	766	—	7 356	15 641
29.11.	23 004	1 500	24 504	6 703	590	—	7 293	17 211
31.12.	23 056	1 500	24 556	7 304	679	—	7 983	16 573

Table 8.

**NOTES AND COIN IN CIRCULATION AT THE END OF THE YEAR, 1980—1985,
MILLION FIM**

Denomination	1980	1981	1982	1983	1984	1985
NOTES						
NEW						
500 markkaa	1 364.6	1 655.8	1 925.1	2 173.0	2 659.8	2 984.3
100 "	2 377.3	2 611.3	2 728.1	2 890.7	3 101.5	3 247.7
50 "	435.5	462.8	476.1	498.2	557.5	611.9
10 "	307.3	329.9	345.1	362.0	389.5	429.6
5 "	80.8	86.4	90.8	98.5	29.1	23.3
1 "	6.3	6.4	6.5	6.7	6.8	6.9
Total	4 571.8	5 152.6	5 571.7	6 029.1	6 744.2	7 303.7
OLD						
10 000—100 markkaa	8.2	8.2	8.2	8.2	8.2	8.2
50—5 "	1.2	1.2	1.2	1.2	1.2	1.2
Total	9.4	9.4	9.4	9.4	9.4	9.4
Grand total	4 581.2	5 162.0	5 581.1	6 038.5	6 753.6	7 313.1
COIN						
NEW						
50 markkaa	—	24.4	42.7	63.4	62.6	75.9
25 "	19.9	19.9	19.9	19.9	19.9	19.9
10 "	39.2	39.2	38.4	38.4	38.5	38.4
5 "	26.9	28.5	30.1	32.1	169.6	202.7
1 "	174.6	197.5	214.6	234.1	243.8	256.8
50 penniä	41.0	45.8	50.0	55.3	56.9	60.7
20 "	34.4	38.7	42.9	46.8	49.8	54.0
10 "	18.8	20.6	23.0	24.8	26.1	27.8
5 "	16.8	18.7	19.9	21.2	22.3	23.5
1 "	10.1	9.3	8.8	8.5	8.2	8.1
Total	381.7	442.6	490.3	544.5	697.7	767.8
OLD						
1 000—1 markkaa	15.2	15.2	15.2	15.2	15.2	15.2
50—1 penniä	0.5	0.5	0.5	0.5	0.5	0.5
Total	15.7	15.7	15.7	15.7	15.7	15.7
Grand total	397.4	458.3	506.0	560.2	713.4	783.5

Table 9.

PRINTING AND DESTRUCTION OF NOTES IN 1980—1985, MILLION FIM

Notes printed	1980	1981	1982	1983	1984	1985
NOTES						
NEW						
500 markkaa	2 917.0	—	—	—	—	200.0
100 "	3 144.0	2 349.5	2 024.5	362.2	2 679.8	2 183.8
50 "	—	736.0	—	—	1 288.4	1 796.0
10 "	939.2	863.7	155.2	824.3	1 081.2	520.0
5 "	305.8	369.2	333.2	344.6	—	—
1 "	—	0.4	—	—	—	—
Total	7 306.0	4 318.8	2 512.9	1 531.1	5 049.4	4 699.8
In millions	192.3	198.8	102.4	155.0	160.7	110.2
Notes cancelled						
NOTES						
NEW						
500 markkaa	172.4	220.5	325.7	383.8	296.5	603.1
100 "	1 045.0	1 315.0	1 720.0	1 675.0	875.0	1 855.0
50 "	467.5	537.5	660.0	660.0	452.5	632.5
10 "	489.4	540.1	570.7	608.3	520.5	689.1
5 "	238.6	273.6	256.1	286.4	396.1	12.0
1 "	0.8	0.1	0.2	0.1	0.1	0.1
Total	2 413.7	2 886.8	3 532.7	3 613.6	2 540.7	3 791.8
In millions	117.6	133.2	139.5	149.0	149.8	103.8
OLD						
Total	0.0	0.0	0.0	0.0	0.0	0.0
In millions	0.0	0.0	0.0	0.0	0.0	0.0
Grand total	2 413.7	2 886.8	3 532.7	3 613.6	2 540.7	3 791.8
In millions	117.6	133.2	139.5	149.0	149.8	103.8

Table 10.

NOTES AND COIN IN 1985, MILLION FIM

Denomination	Total issue Dec. 31, 1984	Issued in 1985	Destroyed in 1985	Total issue Dec. 31, 1985	Held by the Bank of Finland Dec. 31, 1985	In circulation Dec. 31, 1985
NOTES						
NEW						
500 markkaa	4 624.1	200.0	603.1	4 221.0	1 236.7	2 984.3
100 "	7 373.2	2 183.8	1 855.0	7 702.0	4 454.3	3 247.7
50 "	2 154.4	1 796.0	632.5	3 317.9	2 706.0	611.9
10 "	1 611.5	520.0	689.1	1 442.4	1 012.8	429.6
5 "	62.4	—	12.0	50.4	27.1	23.3
1 "	10.4	—	0.1	10.3	3.4	6.9
Total	15 836.0	4 699.8	3 791.8	16 744.0	9 440.3	7 303.7
In millions	310.0	110.2	103.8	316.4	211.2	105.2
OLD						
Total	9.4	—	—	9.4	0.0	9.4
In millions	11.5	—	—	11.5	0.0	11.5
Grand total	15 845.4	4 699.8	3 791.8	16 753.4	9 440.3	7 313.1
In millions	321.5	110.2	103.8	327.9	211.2	116.7
COIN						
NEW						
50 markkaa	64.5	15.0	0.2	79.3	3.4	75.9
25 "	20.0	—	—	20.0	0.1	19.9
10 "	38.5	—	—	38.5	0.1	38.4
5 "	224.8	40.0	0.6	264.2	61.6	202.6
1 "	276.2	19.0	0.2	295.0	38.1	256.9
50 penniä	64.8	5.0	0.0	69.8	9.1	60.7
20 "	55.7	3.0	0.0	58.7	4.7	54.0
10 "	29.6	2.0	0.0	31.6	3.8	27.8
5 "	23.7	1.3	0.0	25.0	1.4	23.6
1 "	8.3	—	0.0	8.3	0.3	8.0
Total	806.1	85.3	1.0	890.4	122.6	767.8
OLD						
1 000—100markkaa	15.2	—	—	15.2	0.0	15.2
50markkaa—1penni	0.5	—	—	0.5	0.0	0.5
Total	15.7	—	—	15.7	0.0	15.7
Grand total	821.8	85.3	1.0	906.1	122.6	783.5

Table 11.

FOREIGN EXCHANGE: SPOT SELLING RATES IN 1980—1985, FIM

Currency	1980			1981			1982		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	3.941	3.730	3.604	4.707	4.315	3.812	5.572	4.820	4.325
1 CAD, Montreal	3.365	3.194	3.111	3.825	3.602	3.159	4.570	3.913	3.611
1 GBP, London	9.290	8.691	8.245	9.590	8.731	7.987	9.356	8.423	8.108
1 IEP, Dublin	8.000	7.689	7.255	7.367	6.976	6.650	7.461	6.854	6.518
100 SEK, Stockholm	89.75	88.43	87.45	89.05	85.74	79.00	80.50	77.03	72.65
100 NOK, Oslo	77.40	75.81	75.00	76.85	75.54	73.80	77.70	74.84	69.25
100 DKK, Copenhagen	69.80	66.53	63.75	64.30	60.96	58.50	63.40	57.93	54.20
100 ISK, Reykjavik	0.98	0.81	0.66	66.00	60.35	53.30	54.30	40.79	32.05
100 DEM, Frankf.o.M.	216.14	205.58	194.45	198.40	191.31	183.35	223.65	198.76	190.05
100 NLG, Amsterdam	195.95	188.02	179.20	181.35	173.43	165.30	202.40	180.66	173.00
100 BEF, Brussels ¹	13.330	12.818	12.133	12.280	11.688	11.230	11.450	10.584	9.870
100 CHF, Zurich	235.65	222.87	210.60	247.70	220.34	203.30	266.25	237.79	221.95
100 FRF, Paris	92.55	88.65	84.40	85.45	79.92	76.50	79.00	73.65	67.85
100 ITL, Rome	0.465	0.440	0.414	0.419	0.385	0.363	0.389	0.358	0.341
100 ATS, Vienna	30.12	28.90	27.45	28.48	27.17	26.14	31.85	28.31	27.12
100 PTE, Lisbon	8.02	7.60	7.30	7.45	7.17	6.83	6.85	6.13	5.48
100 ESB, Madrid	5.69	5.25	4.88	4.92	4.72	4.52	4.82	4.41	4.19
100 JPY, Tokyo	1.898	1.662	1.515	2.032	1.967	1.903	2.274	1.943	1.783
1 SUR, Moscow, clearing	5.992	5.741	5.603	6.328	5.986	5.646	7.473	6.624	6.170
1 special drawing right (SDR)	4.95537	4.84255	4.79084	5.22182	5.07140	4.88542	5.92336	5.30563	5.05149

¹ Commercial rate.

Currency	1983			1984			1985		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	5.899	5.570	5.241	6.552	6.010	5.530	7.132	6.206	5.425
1 CAD, Montreal	4.726	4.524	4.277	4.964	4.645	4.347	5.129	4.554	3.889
1 GBP, London	8.845	8.456	7.996	8.444	8.023	7.584	8.501	8.000	7.424
1 IEP, Dublin	7.540	6.957	6.613	6.696	6.533	6.371	6.763	6.590	6.435
100 SEK, Stockholm	73.10	72.75	72.45	73.75	72.77	71.85	73.85	72.22	71.35
100 NOK, Oslo	77.45	76.44	75.25	75.80	73.84	71.95	72.85	72.31	71.50
100 DKK, Copenhagen	63.85	61.07	58.85	59.55	58.16	56.75	60.60	58.71	57.45
100 ISK, Reykjavik	32.25	23.25	20.35	20.80	19.39	16.15	17.30	15.20	13.05
100 DEM, Frankf.o.M.	227.25	218.61	211.75	218.25	211.65	205.25	220.90	211.42	206.35
100 NLG, Amsterdam	204.45	195.66	189.35	193.25	187.72	182.00	196.20	187.45	181.95
100 BEF, Brussels [†]	11.860	10.934	10.450	10.670	10.428	10.170	10.820	10.483	10.250
100 CHF, Zurich	274.15	265.70	260.60	267.50	256.42	247.75	265.40	253.60	242.40
100 FRF, Paris	80.00	73.53	69.80	70.90	69.07	66.95	72.15	69.40	67.60
100 ITL, Rome	0.393	0.369	0.352	0.353	0.344	0.334	0.344	0.327	0.315
100 ATS, Vienna	32.30	31.11	30.15	31.00	30.13	29.20	31.45	30.12	29.40
100 PTE, Lisbon	6.04	5.14	4.41	4.46	4.14	3.87	3.93	3.67	3.42
100 ESB, Madrid	4.25	3.91	3.71	3.81	3.75	3.67	3.82	3.66	3.51
100 JPY, Tokyo	2.521	2.351	2.254	2.626	2.534	2.414	2.770	2.610	2.490
1 SUR, Moscow, clearing	7.636	7.491	7.411	7.547	7.357	7.198	7.773	7.419	7.140
1 special drawing right (SDR)	6.11828	5.94325	5.81780	6.42611	6.14739	5.90956	6.75940	6.27879	5.93241

[†] Commercial rate.

Table 12.

FOREIGN EXCHANGE: SPOT SELLING RATES IN 1985, FIM

Currency	January			February			March		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	6.687	6.640	6.575	7.132	6.853	6.646	7.114	6.861	6.436
1 CAD, Montreal	5.055	5.023	4.990	5.129	5.078	5.014	5.070	4.962	4.715
1 GBP, London	7.621	7.510	7.424	7.574	7.525	7.495	8.046	7.688	7.490
1 IEP, Dublin	6.576	6.548	6.527	6.542	6.496	6.435	6.532	6.486	6.440
100 SEK, Stockholm	73.65	73.38	73.15	73.85	73.69	73.50	73.65	72.97	72.35
100 NOK, Oslo	72.65	72.53	72.30	72.75	72.64	72.40	72.85	72.56	72.40
100 DKK, Copenhagen	58.95	58.75	58.40	58.85	58.28	57.55	58.60	58.11	57.85
100 ISK, Reykjavik	16.75	16.54	16.45	17.30	16.72	16.50	17.25	16.62	15.95
100 DEM, Frankf.o.M.	210.55	209.90	208.90	210.10	208.47	206.35	209.35	207.80	206.80
100 NLG, Amsterdam	186.45	185.81	185.15	185.80	184.09	181.95	185.55	183.82	182.80
100 BEF, Brussels ¹	10.520	10.489	10.430	10.490	10.385	10.250	10.400	10.341	10.290
100 CHF, Zurich	253.25	250.36	248.30	248.10	245.43	243.60	247.95	244.48	242.40
100 FRF, Paris	68.90	68.70	68.40	68.85	68.34	67.60	68.75	68.14	67.80
100 ITL, Rome	0.344	0.343	0.341	0.342	0.339	0.331	0.336	0.331	0.327
100 ATS, Vienna	30.00	29.92	29.80	29.95	29.70	29.40	29.85	29.61	29.45
100 PTE, Lisbon	3.93	3.90	3.87	3.88	3.83	3.75	3.90	3.81	3.72
100 ESB, Madrid	3.82	3.81	3.79	3.81	3.79	3.75	3.78	3.76	3.75
100 JPY, Tokyo	2.636	2.619	2.597	2.732	2.636	2.590	2.721	2.660	2.567
1 SUR, Moscow, clearing	7.602	7.582	7.549	7.773	7.652	7.582	7.743	7.654	7.506
1 special drawing right (SDR)	6.50533	6.47031	6.43282	6.75940	6.58222	6.46590	6.75355	6.60166	6.37190

¹ Commercial rate.

Currency	April			May			June		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	6.581	6.445	6.257	6.715	6.477	6.336	6.437	6.371	6.273
1 CAD, Montreal	4.818	4.732	4.639	4.852	4.716	4.636	4.700	4.665	4.609
1 GBP, London	8.137	8.028	7.915	8.186	8.091	7.954	8.251	8.172	8.102
1 IEP, Dublin	6.602	6.562	6.528	6.563	6.533	6.491	6.553	6.535	6.518
100 SEK, Stockholm	72.40	72.05	71.70	72.40	72.14	71.95	72.30	72.10	71.90
100 NOK, Oslo	72.70	72.52	72.40	72.55	72.47	72.30	72.50	72.40	72.25
100 DKK, Copenhagen	58.65	58.32	57.80	58.40	58.00	57.45	58.25	58.06	57.90
100 ISK, Reykjavik	16.45	16.02	15.70	16.20	15.73	15.40	15.70	15.52	15.30
100 DEM, Frankf.o.M.	210.90	209.55	208.70	209.50	208.44	206.95	209.00	208.37	207.90
100 NLG, Amsterdam	186.30	185.32	184.65	185.50	184.60	183.20	185.35	184.78	184.00
100 BEF, Brussels ¹	10.460	10.405	10.360	10.410	10.365	10.310	10.370	10.347	10.320
100 CHF, Zurich	253.55	249.89	246.45	249.05	247.90	246.10	249.45	248.20	246.90
100 FRF, Paris	69.15	68.78	68.50	68.80	68.50	67.95	68.65	68.49	68.30
100 ITL, Rome	0.331	0.329	0.328	0.329	0.328	0.327	0.329	0.328	0.327
100 ATS, Vienna	30.05	29.85	29.70	29.85	29.68	29.55	29.75	29.67	29.60
100 PTE, Lisbon	3.82	3.77	3.73	3.77	3.71	3.66	3.71	3.69	3.68
100 ESB, Madrid	3.78	3.76	3.72	3.74	3.71	3.69	3.69	3.67	3.64
100 JPY, Tokyo	2.609	2.568	2.535	2.637	2.578	2.543	2.579	2.564	2.534
1 SUR, Moscow, clearing	7.552	7.487	7.422	7.584	7.496	7.450	7.482	7.455	7.416
1 special drawing right (SDR)	6.45718	6.38070	6.27956	6.54719	6.39994	6.32299	6.39313	6.34484	6.29513

¹ Commercial rate.

Table 12 (Cont.)

Currency	July			August			September		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	6.340	6.099	5.894	6.067	5.942	5.879	6.263	6.025	6.731
1 CAD, Montreal	4.672	4.516	4.366	4.472	4.387	4.347	4.571	4.404	4.199
1 GBP, London	8.501	8.402	8.265	8.363	8.253	8.122	8.344	8.232	8.077
1 IEP, Dublin	6.657	6.570	6.522	6.705	6.653	6.620	6.676	6.611	6.561
100 SEK, Stockholm	72.30	71.95	71.55	71.95	71.70	71.50	72.25	71.89	71.45
100 NOK, Oslo	72.40	72.29	72.20	72.45	72.30	72.15	72.65	72.39	71.95
100 DKK, Copenhagen	58.80	58.26	57.90	59.15	58.93	58.70	59.30	58.60	58.20
100 ISK, Reykjavik	15.40	15.07	14.65	15.10	14.77	14.60	15.35	14.57	13.75
100 DEM, Frankf.o.M.	211.60	209.37	207.90	214.10	213.31	212.10	215.95	212.50	210.60
100 NLG, Amsterdam	188.40	185.97	184.50	190.25	189.63	188.70	191.35	188.92	187.55
100 BEF, Brussels ¹	10.480	10.398	10.330	10.570	10.547	10.510	10.640	10.510	10.440
100 CHF, Zurich	258.70	252.74	248.25	261.70	259.72	257.65	264.25	258.26	255.45
100 FRF, Paris	69.65	68.98	68.40	70.20	69.98	69.70	70.80	69.77	69.25
100 ITL, Rome	0.328	0.323	0.315	0.321	0.319	0.317	0.321	0.318	0.316
100 ATS, Vienna	30.15	29.82	29.65	30.55	30.40	30.25	30.70	30.25	29.90
100 PTE, Lisbon	3.68	3.64	3.59	3.66	3.63	3.59	3.63	3.57	3.42
100 ESB, Madrid	3.66	3.64	3.62	3.65	3.64	3.63	3.63	3.59	3.54
100 JPY, Tokyo	2.558	2.529	2.497	2.546	2.509	2.490	2.669	2.550	2.500
1 SUR, Moscow, clearing	7.442	7.359	7.292	7.374	7.319	7.291	7.451	7.366	7.265
1 special drawing right (SDR)	6.32842	6.21168	6.10596	6.19630	6.13158	6.09627	6.30792	6.18331	6.06109

¹ Commercial rate.

Currency	October			November			December		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	5.749	5.690	5.620	5.637	5.579	5.438	5.542	5.487	5.425
1 CAD, Montreal	4.194	4.168	4.119	4.108	4.060	3.952	3.975	3.941	3.889
1 GBP, London	8.163	8.106	8.065	8.106	8.042	7.978	8.123	7.952	7.827
1 IEP, Dublin	6.727	6.676	6.650	6.704	6.668	6.652	6.763	6.737	6.693
100 SEK, Stockholm	71.80	71.63	71.40	71.70	71.60	71.35	71.75	71.57	71.35
100 NOK, Oslo	72.50	72.10	71.60	72.05	71.66	71.50	72.05	71.85	71.70
100 DKK, Copenhagen	59.60	59.41	59.15	59.80	59.53	59.40	60.60	60.23	59.80
100 ISK, Reykjavik	14.05	13.85	13.55	13.80	13.63	13.35	13.55	13.36	13.05
100 DEM, Frankfurt	216.55	215.47	214.55	216.75	215.40	214.95	220.90	218.51	216.50
100 NLG, Amsterdam	192.20	191.11	190.40	192.85	191.26	190.70	196.20	194.03	192.45
100 BEF, Brussels ¹	10.670	10.633	10.610	10.690	10.654	10.630	10.820	10.722	10.660
100 CHF, Zurich	265.40	262.81	261.70	263.15	262.36	261.40	262.15	261.01	259.35
100 FRF, Paris	71.10	70.80	70.55	71.20	70.80	70.65	72.15	71.57	71.05
100 ITL, Rome	0.322	0.320	0.320	0.322	0.320	0.319	0.325	0.322	0.319
100 ATS, Vienna	30.85	30.69	30.55	30.85	30.66	30.55	31.45	31.12	30.85
100 PTE, Lisbon	3.55	3.52	3.45	3.53	3.50	3.46	3.51	3.48	3.46
100 ESB, Madrid	3.55	3.54	3.51	3.52	3.51	3.51	3.55	3.54	3.52
100 JPY, Tokyo	2.669	2.653	2.631	2.770	2.740	2.679	2.725	2.710	2.676
1 SUR, Moscow, clearing	7.292	7.262	7.223	7.239	7.209	7.140	7.211	7.183	7.147
1 special drawing right (SDR)	6.08167	6.05177	6.01629	6.05098	6.01647	5.93602	6.00068	5.97101	5.93241

¹ Commercial rate.

Table 13.

FINLAND'S LONG-TERM FOREIGN ASSETS AND LIABILITIES IN 1985, MILLION FIM

	Debt Dec. 31, 1984	Drawings in 1985	Redemp- tions in 1985	Net drawings in 1985	Impact of exchange rates in 1985	Debt Dec. 31, 1985
FINANCIAL LOANS	63 958	12 406	7 128	+ 5 278	- 4 638	64 598
Individual financial loans ¹	27 753	4 314	3 901	+ 413	- 2 028	26 138
Bonds	36 205	8 092	3 227	+ 4 865	- 2 610	38 460
Ordinary bonds	25 376	6 470	2 236	+ 4 234	- 1 767	27 843
Debentures	3 334	1 161	22	+ 1 139	- 566	3 907
Certificates of deposit	1 095	—	291	- 291	- 126	678
Private placement loans	6 310	461	655	- 194	- 140	5 976
Loans from the World Bank	90	—	23	- 23	- 11	56
IMPORT CREDITS	3 865	435	1 048	- 613	- 325	2 927
Ship and aircraft credits	1 529	241	472	- 231	- 151	1 147
Other import credits	2 336	194	576	- 382	- 174	1 780
LEASING CREDITS	293	168	3	+ 165	- 45	413
DIRECT INVESTMENT	2 646	490	110	+ 380	- 16	3 010
Equity capital	2 240	442	94	+ 348	—	2 588
Loans to subsidiaries and associates	406	48	16	+ 32	- 16	422
PORTFOLIO INVESTMENT	2 013	4 971	707	+ 4 264	—	6 277
SUBSCRIPTIONS²	512	234	94	+ 140	—	652
GROSS LONG-TERM DEBT^{1,3}	73 287	18 704	9 090	+ 9 614	- 5 024	77 877
FINANCIAL LOANS	268	711	75	+ 636	- 57	847
EXPORT CREDITS	8 920	543	1 897	- 1 354	- 1 000	6 566
DEVELOPMENT CREDITS	227	61	2	+ 59	—	286
DIRECT INVESTMENT	8 689	2 207	165	+ 2 042	- 178	10 553
Equity capital	7 405	1 857	32	+ 1 825	..	9 230
Loans to subsidiaries and associates	1 284	350	133	+ 217	- 178	1 323
SUBSCRIPTIONS²	1 420	234	—	+ 234	—	1 654
GROSS LONG-TERM ASSETS³	19 524	3 756	2 139	+ 1 617	- 1 235	19 906
NET LONG-TERM DEBT	53 763	14 948	6 951	7 997	- 3 789	57 971

¹ As from December 31, 1984, loans raised by the authorized banks abroad on their own account for refinancing companies' long-term investment loans are included in long-term capital.

² On the liabilities side, subscriptions to international financial institutions paid up in the form of bonds, and on the assets side, Finland's subscriptions to international financial institutions.

³ The markka values of balances outstanding were calculated by using the selling rates of the same date, drawings and redemptions by using the average monthly selling rate.

AUDITOR'S REPORT

on the Audit of the Accounts and Operations of the Bank of Finland for 1985

We, the Auditors elected by Parliament, have audited the accounts, including the financial statements, and the management of the Bank of Finland for 1985 on March 10—14, 1986, to the extent required by good auditing practices.

In the course of the accounting year, the Internal Audit Department of the Bank of Finland has carried out the audit of the Bank's accounting and operations. We have examined the report issued on the internal audit at the Bank.

We have read the Annual Statement of the Bank of Finland, and the Board of Management has provided us with information on the Bank's operations.

The financial statements of the Bank of Finland showing a loss of FIM 279 589 802,91 for the accounting year, have been prepared in keeping with the principles on closing the accounts confirmed by the Bank Supervisors Delegated by Parliament and the Regulations for the Bank of Finland.

On the basis of the above and in the absence of any further comments raised by the audit, we propose that the profit and loss account and the balance sheet be confirmed and the Board of Management discharged from responsibility for the accounting year audited by us.

Helsinki, March 14, 1986

Peter Muurman

Matti Vesterinen

Kalevi Mattila

Pentti Mäki-Halkola

Håkan Malm

J. Kalervo Virtanen
Authorized Public
Accountant (KHT)

BANK SUPERVISORS DELEGATED BY PARLIAMENT, AT THE END OF 1985

Matti Jaatinen (Chairman)
Erkki Liikanen (Vice Chairman)
Matti Majjala
Aarne Saarinen
Pirkko Työläjärvi
Mauri Miettinen
Veikko Vennamo
Mikko Jokela
Olli Helminen

THE BOARD OF MANAGEMENT OF THE BANK OF FINLAND, AT THE END OF 1985

The division of responsibilities in the Board of Management, confirmed by the Bank Supervisors delegated by Parliament

Rolf Kullberg Chairman	Overall management and supervision of the activities of the Bank General principles of central bank policy Representation of the Board of Management Supervision of the activities of the Members of the Board and the substance of their decisions
Pentti Uusivirta	Matters related to — the Foreign Financing Department — the Bilateral Trade Department — the Exchange Policy Department in respect of international financial institutions and organizations International financial institutions and organizations
Ele Alenius	Matters related to — the Research Department — the Cash Department — the Payment Department Security Printing House Branches
Harri Holkeri	Matters related to — the Exchange Policy Department (excluding international financial institutions and organizations) — the Foreign Exchange Department — the Administration Department — the Accounting Department — the Internal Audit Department
Seppo Lindblom Minister of Trade and Industry, on leave of absence	
Esko Ollila	Matters related to — the Personnel Department — the Exchange Control Department — the Domestic Financing Department — the Data Processing Department SITRA (the Finnish National Fund for Research and Development)
Markku Puntila Acting member	Matters related to — the Monetary Policy Department — the Economics Department — the Information Department

HEAD OFFICE

Directors

Eino Helenius

Pentti Koivikko

Sirkka Hämäläinen

M. Vanhala

Secretary to the Board of
Management

Internal Audit

Security Group

Construction projects

Departments

Administration Dept.
Accounting Dept.
Personnel Dept.
Cash Dept.

Domestic Financing Dept.
Payments Dept.

Research Dept.
Economics Dept.
Information Dept.
Data Processing Dept.
Monetary Policy Dept.

Exchange Policy Dept.
Foreign Exchange Dept.
Bilateral Trade Dept.
Foreign Financing Dept.
Exchange Control Dept.

Internal Audit Dept.

Heads of Department

Urpo Levo
Ossi Leppänen
Anton Mäkelä
Reijo Mäkinen
Chief Cashier
Raimo Hyvärinen
—

Heikki Koskenkylä
Kari Puumanen
Antti Heinonen
Erkki Vehkamäki
Ralf Pauli

Johnny Åkerholm
Kari Pekonen
Kari Holopainen
Markus Fogelholm
Esa Ojanen

H. T. Hämäläinen

Timo Männistö

Jyrki Ahvonen
Security Manager

Bengt Palmroos

BRANCH NETWORK

Branches

Joensuu
Jyväskylä
Kotka
Kuopio
Lahti
Mikkeli
Oulu
Pori
Rovaniemi
Tampere
Turku
Vaasa

Managers

Hilkka-Liisa Pitkänen
Pauli Lähde
Antti Saario
Pekka Konttinen
Kari Lottanen
Juhani Huuskonen
Heikki Hakola
Teppo Säiläkivi
Renne Kurth
Rauno Haikarainen
Reino Ylönen
Martti Hagman

SECURITY PRINTING HOUSE

Tor-Leif Huggare, Managing Director
H. Taipale, Deputy Managing Director

BANK OF FINLAND

Snellmanin aukio, Helsinki

Established 1811

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Vaasa:	Kirkkopuistikko 22, P.O. Box 44, 65101 Vaasa, Telephone (961) 118 322