



BANK OF FINLAND

Monthly Bulletin

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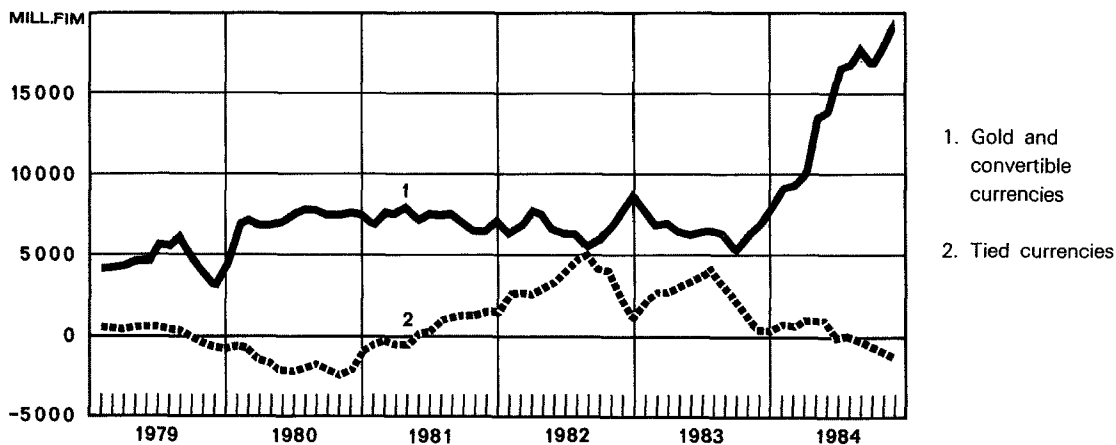
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Publication of the Bank of Finland

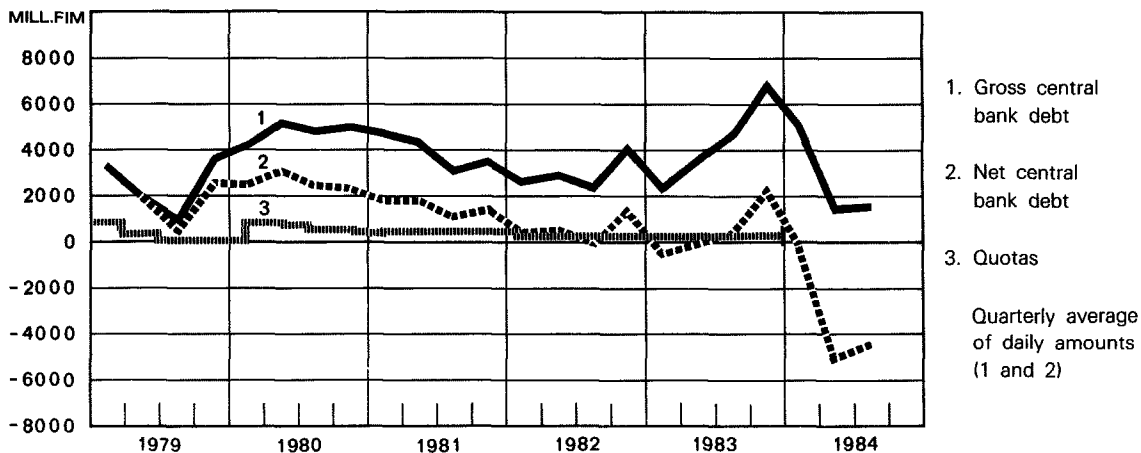
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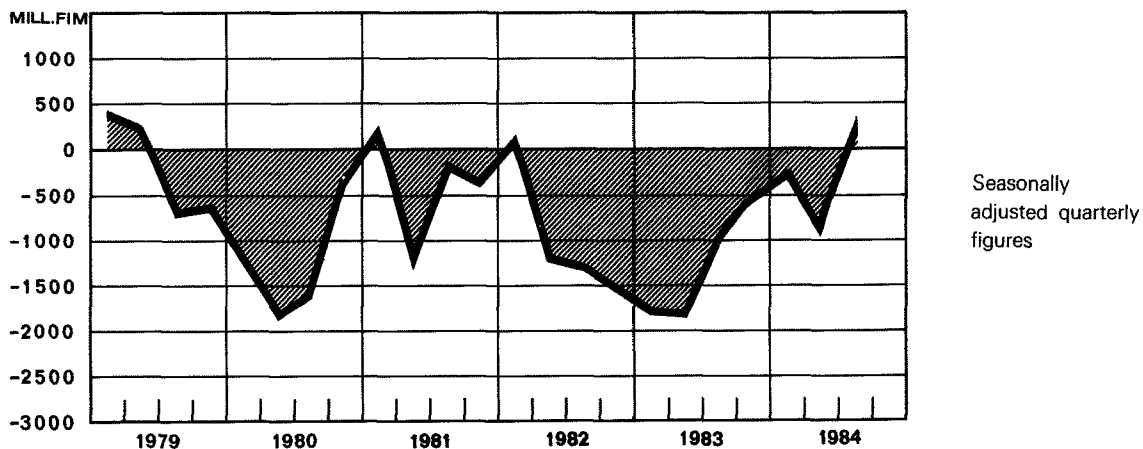
BANK OF FINLAND'S CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, 1979-84



COMMERCIAL BANKS' CENTRAL BANK POSITION, 1979-84



BALANCE OF PAYMENTS CURRENT ACCOUNT SURPLUS/DEFICIT, 1979-84



STATEMENT BY MR. ROLF KULLBERG, GOVERNOR OF THE BANK OF FINLAND, ON THE OCCASION OF THE CLOSING OF THE ACCOUNTS FOR 1984

The maintenance and strengthening of macroeconomic balance during the current upswing was the central goal of monetary policy in 1984. In order to avert the emergence of economic imbalances typical of the upswing phase, a fairly stringent stance was needed. Under the changing conditions in the financial markets, the Bank of Finland resorted chiefly to a high call money rate in the pursuit of its monetary policy, endeavouring at the same time to gradually enhance the overall role of interest rates in the balancing of the financial markets. The high level of interest rates induced a vigorous inflow of short-term capital. The neutralization of this excess liquidity called for new measures, inter alia, in the forward exchange markets.

The international upswing has been uneven and rather sluggish. The rapid economic growth in the United States during the first part of 1984 weakened clearly towards the end of the year, while in Europe the resumption of growth got under way only slowly. At the same time, the rate of inflation in the OECD area decelerated, due in part to developments in the prices of raw materials and oil. International interest rates fell during the latter part of the year, but they still remain at a rather high level in real terms.

During the past year, the economic upswing in Finland was still predominantly export-led. The growth in export volumes to western markets strengthened and the terms of trade improved. By contrast, the growth in domestic demand was sluggish, and business investment, in particular, recovered less than expected. Unlike the course of development in many previous upswings, this was a factor contributing to the improvement of overall balance in the economy. The deceleration in inflation towards the level prevailing in competitor countries continued and the current account remained in

balance. Although there was a further increase in the level of employment, the unemployment rate stayed around six per cent.

The economic policy stance pursued in Finland in 1984 aimed at ensuring the scope for stable economic growth. Fiscal policy was more restrictive than before. Monetary policy had already been tightened in 1983, and the Bank of Finland maintained this stance throughout the year. The incomes policy agreements concluded in the spring supported the efforts to bring down inflation, but not enough to halt the weakening in the country's price competitiveness.

In the spring, the deposit banks' cash reserve requirement was raised three times and the external value of the markka was allowed to appreciate slightly. The major monetary policy instrument has, however, been the call money rate, which, since the early spring, has, to a very large extent, also determined movements in the unregulated rate of interest and in forward exchange rates. The high call money rate has restrained the growth in banks' markka-denominated lending, while the high unregulated rate, moving in line with developments in the call money rate, has prompted firms to cut back their investment plans or at least to postpone their implementation. Hence, monetary policy has reduced both the scope and willingness to finance consumption and investment through credits.

The high call money rate stance adopted in monetary policy has given rise to interest rate differentials, on the one hand, between unregulated funding and the banks' lending subject to official regulation, and, on the other hand, between domestic and foreign borrowing. Under these circumstances, credits subject to interest rate regulation, as well as other excess liquidity, have been used, to a relatively great

extent, to finance placements in the unregulated money market. The circulation of unregulated short-term funds within the financial system has contributed to swelling the growth figures for lending. At the same time, the high unregulated rate of interest has led to a sharp increase in the corporate sector's capital imports and an expansion in the foreign exchange reserves. Nevertheless, the increase in liquidity has been largely absorbed at the Bank of Finland in various forms. In addition, the central bank has reduced capital imports through its active and extensive participation in the forward exchange markets. Capital inflows have not therefore caused any significant easing in the financial markets.

Because of the growth of funding in the unregulated money market, two essential elements of monetary control, the cash reserve system and the regulation of the average lending rates were modified in the autumn. The purpose of these revisions was to introduce greater uniformity in the banks' operating conditions.

The new cash reserve agreement concluded with the banks treats different financial items and banks more equally than before. The new cash reserve base provides wide coverage of the financial sources to which the banks have access in their lending. The cash reserve requirement was kept unchanged in connection with the revision, so that the banks' cash reserve deposits grew by about FIM 2 billion during October–December. The additional requirement centred mainly on the commercial banks.

According to the new system for the regulation of the banks' average interest rates, the average lending rate is now partly determined by the rate of interest paid on deposits. The purpose of the revision was to reduce distortions in the use of finance caused by the difference between the officially administered and unregulated interest rates.

As a consequence of the economic policy stance pursued and the fairly balanced developments in the international economy, Finland has so far succeeded in forestalling the emergence of overheating in the economy almost entirely.

The momentum provided by exports is gradually diminishing and the continuation of economic growth will depend, to an increasing extent, on domestic demand. From the point of view of evening out cyclical variations, this development will mean a new phase in monetary policy. In fact, the Bank of Finland has, in the course of the autumn, already begun to gradually lower the call money rate. Although the economic outlook remains favourable for the time being, there would seem to be a need to support investment and for some relaxation in monetary policy. However, any steps taken in this direction will be conditional on concerted efforts in the various segments of economic policy to bring inflation down permanently to the level in Finland's competitor countries.

January 3, 1985

	1983	1984			
	Dec. 31	Dec. 7	Dec. 14	Dec. 21	Dec. 31
Assets					
Gold and foreign currency claims	8 779	20 352	19 576	19 230	19 302
Gold	1 383	1 383	1 383	1 383	1 732
Special drawing rights	226	887	893	930	936
IMF reserve tranche	751	818	822	822	859
Convertible currencies	5 869	16 908	16 126	15 709	15 387
Tied currencies	550	356	352	386	388
Other foreign claims	4 876	2 686	2 686	2 690	2 835
Markka subscription to Finland's IMF quota	2 762	2 686	2 686	2 690	2 835
Term credits	2 114	-	-	-	-
Claims on financial institutions	8 788	9 351	9 941	8 935	9 166
Banks' cheque accounts	445	30	151	161	530
Call money market advances	5 785	5 877	6 403	5 551	5 018
Till-money credits	942	1 384	1 331	1 176	1 563
Bonds	1 546	2 013	2 009	1 998	1 999
Other claims on financial institutions	70	47	47	49	56
Claims on the public sector	2 178	1 954	1 957	1 969	1 951
Government promissory notes	1 000	1 000	1 000	1 000	1 000
Bonds	449	146	147	148	124
Total coinage	710	802	804	806	806
Other claims on the public sector	19	6	6	15	21
Claims on corporations	5 079	4 949	4 963	4 971	4 846
Financing of exports	1 867	1 847	1 866	1 864	1 786
Financing of domestic deliveries	2 662	2 873	2 870	2 879	2 860
Bonds	134	114	114	114	114
Other claims on corporations	416	115	113	114	86
Other assets	105	111	111	112	142
Total	29 805	39 403	39 234	37 907	38 242
Liabilities					
Foreign currency liabilities	34	1 692	1 815	1 494	809
Convertible currencies	34	61	62	59	84
Tied currencies	0	1 631	1 753	1 435	725
Other foreign liabilities	5 670	3 588	3 597	3 550	3 752
IMF markka accounts	2 762	2 686	2 690	2 639	2 835
Allocations of special drawing rights	872	902	907	911	917
Term liabilities	2 036	-	-	-	-
Notes and coin in circulation	6 574	7 744	7 830	7 860	7 442
Notes	6 029	7 063	7 143	7 162	6 744
Coin	545	681	687	698	698
Liabilities to financial institutions	5 712	13 987	12 363	11 265	11 879
Banks' cheque accounts	2	156	2	32	147
Call money market deposits	610	5 058	3 504	2 383	2 216
Cash reserve deposits	5 039	8 029	8 029	8 029	8 696
Capital import deposits	35	660	735	740	745
Other liabilities to financial institutions	26	84	93	81	75
Liabilities to the public sector	3 000	2 266	3 567	3 567	4 277
Cheque accounts	0	1	1	1	1
Government deposit account	3 000	2 200	3 500	3 500	4 200
Export deposits	-	65	66	66	76
Other liabilities to the public sector	0	0	0	0	0
Liabilities to corporations	1 832	2 836	2 774	2 789	2 814
Deposits for investment and ship purchase	1 290	2 078	2 081	2 092	2 127
Capital import deposits	531	749	686	690	668
Other liabilities to corporations	11	9	7	7	19
Other liabilities	15	21	15	18	16
Valuation account and reserves	2 057	1 799	1 803	1 894	963
SITRA's capital	-	400	400	400	400
Capital accounts	4 911	5 070	5 070	5 070	5 890
Primary capital	3 000	3 000	3 000	3 000	5 000
Reserve fund	1 365	1 638	1 638	1 638	638
Undisposed profits	-	273	273	273	-
Net earnings	546	159	159	159	252
Total	29 805	39 403	39 234	37 907	38 242

End of year or month	Foreign sector						Public sector			
	Gold, SDRs, IMF reserve tranche	Convertible currencies, net	Total convertible reserves (1+2)	Tied currencies, net	Other claims, net	Net claims (3 to 5)	Claims	Certificates of deposit and deposit account	Other liabilities	Net liabilities (8-7+9)
	1	2	3	4	5	6	7	8	9	10
1981	2 408	5 050	7 458	1 909	-991	8 376	1 236	1 600	578	942
1982	2 444	6 561	9 005	1 525	-1 447	9 083	1 040	1 700	50	710
1983	2 360	5 835	8 195	550	-794	7 951	2 178	3 000	0	822
1984	3 527	15 303	18 830	-337	-917	17 576	1 951	4 200	77	2 326
1983										
Dec.	2 360	5 835	8 195	550	-794	7 951	2 178	3 000	0	822
1984										
Jan.	2 366	6 855	9 221	926	-846	9 301	2 136	500	12	-1 624
Feb.	2 333	7 066	9 399	841	88	10 328	2 094	800	12	-1 282
March	2 323	7 958	10 281	1 153	870	12 304	2 273	1 300	13	-960
April	2 819	10 961	13 780	1 027	858	15 665	2 175	600	17	-1 558
May	2 912	11 213	14 125	1 074	515	15 714	2 137	800	22	-1 315
June	2 927	13 829	16 756	170	510	17 436	2 103	1 000	26	-1 077
July	2 970	13 890	16 860	224	-184	16 900	2 109	1 800	20	-289
Aug.	2 975	14 947	17 922	-375	-181	17 366	2 080	1 200	30	-850
Sept.	3 009	13 991	17 000	-836	-910	15 254	2 039	1 500	38	-501
Oct.	3 019	15 013	18 032	-1 025	-915	16 092	1 998	1 500	52	-446
Nov.	3 095	16 237	19 332	-1 342	-905	17 085	2 000	2 200	65	265
Dec.	3 527	15 303	18 830	-337	-917	17 576	1 951	4 200	77	2 326

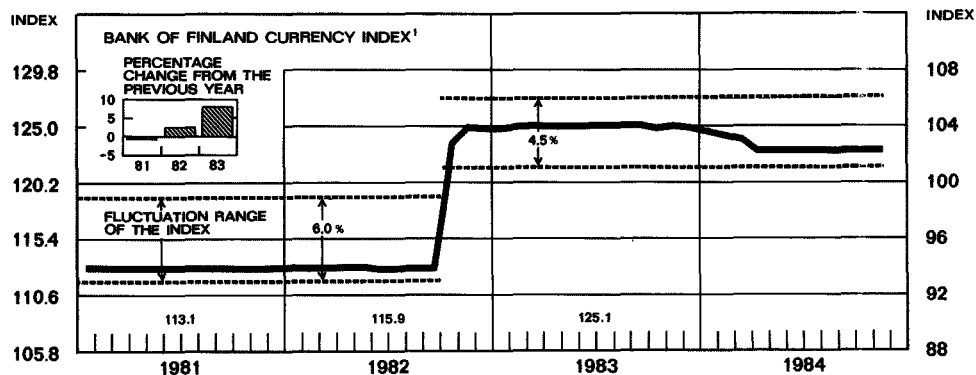
OFFICIAL FOREIGN EXCHANGE RESERVES

Mill. FIM

	Dec. 31, 1983	Sept. 28, 1984	Oct. 31, 1984	Nov. 30, 1984	Dec. 31, 1984
Gold	1 383	1 383	1 383	1 383	1 732
SDRs	226	853	858	891	936
IMF reserve tranche	751	773	778	821	859
Convertible currencies, net	5 835	13 991	15 013	16 237	15 303
Total convertible reserves, net	8 195	17 000	18 032	19 332	18 830
Tied currencies, net	550	-836	-1 025	-1 342	-337
Total reserves, net	8 745	16 164	17 007	17 990	18 493

End of year or month	Domestic financial sector							Corporate sector			Notes and coin in circulation
	Till-money credits	Claims on cheque accounts, net	Demand for call money by deposit banks	Supply of call money by deposit banks	Cash reserve deposits	Other liabilities, net	Net claims (1+2+3-4-5-6)	Permanent special financing schemes	Liabilities, net	Net claims (8-9)	
	1	2	3	4	5	6	7	8	9	10	11
1981	768	495	1 796	1 080	2 492	-406	-107	3 865	749	3 116	5 595
1982	889	163	3 126	1 470	3 132	-1 042	618	4 302	999	3 303	6 062
1983	942	443	5 785	610	5 039	-1 555	3 076	4 529	1 282	3 247	6 574
1984	1 563	383	5 018	2 216	8 696	-1 235	-2 713	4 646	2 614	2 032	7 442
1983											
Dec.	942	443	5 785	610	5 039	-1 555	3 076	4 529	1 282	3 247	6 574
1984											
Jan.	1 038	62	4 087	2 907	5 250	-1 619	-1 351	4 572	1 106	3 466	6 195
Feb.	1 024	58	3 659	2 607	5 327	-1 605	-1 588	4 592	1 746	2 846	6 232
March	924	14	2 916	3 105	5 710	-1 612	-3 349	4 596	1 763	2 833	6 308
April	1 123	191	1 573	4 836	6 142	-1 605	-6 486	4 600	2 220	2 380	6 602
May	1 119	-136	1 244	3 892	6 432	-1 999	-6 098	4 572	2 142	2 430	6 647
June	1 119	15	541	3 872	6 480	-2 006	-6 671	4 571	2 641	1 930	6 954
July	1 279	14	1 041	3 063	6 604	-2 037	-5 296	4 487	2 771	1 716	6 813
Aug.	1 108	5	1 149	4 109	6 670	-2 033	-6 484	4 435	2 753	1 682	6 776
Sept.	1 145	27	2 109	2 281	6 734	-2 081	-3 653	4 545	2 834	1 711	6 869
Oct.	1 276	68	3 045	3 658	7 385	-1 816	-4 838	4 710	2 684	2 026	6 698
Nov.	1 170	22	4 819	4 153	8 029	-1 263	-4 908	4 735	2 602	2 133	6 897
Dec.	1 563	383	5 018	2 216	8 696	-1 235	-2 713	4 646	2 614	2 032	7 442

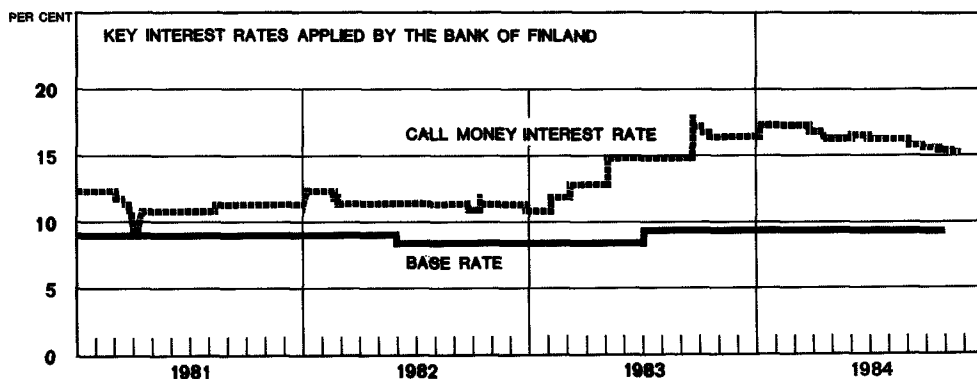
¹ The left-hand scale depicts movements in the external value of the markka under the index in use until December 31, 1983 (1974 = 100), and the right-hand scale movements in the external value of the markka under the revised index introduced on January 1, 1984 (1982 = 100).



MONETARY POLICY INDICATORS

Average for period	Gross central bank debt of the deposit banks mill. FIM	Net central bank debt of the deposit banks mill. FIM	Cash reserve deposits of the deposit banks mill. FIM	Cash reserve requirement %	Call money credit extended by the Bank of Finland	Call money interest rate %	Average cost of gross central bank debt %	Base rate %	Average lending rate of the commercial banks %
	1	2	3	4	5	6	7	8	9
1980	4 971	1 560	2 542	3.8	3 313	12.38	12.37	9.20	9.77
1981	4 095	-33	2 795	3.5	2 161	11.48	11.61	9.25	9.84
1982	3 201	-783	2 777	3.1	1 571	11.64	11.98	8.81	9.33
1983	4 539	-1 213	4 345	4.3	2 724	15.37	15.13	9.00	9.56
1984	3 176	-6 365	6 325	5.4	-39	16.53	16.53	9.50	..
1983									
Oct.	6 972	74	4 984	4.7	4 651	16.95	16.74	9.50	10.14
Nov.	7 075	238	5 008	4.7	4 837	16.70	16.27	9.50	10.15
Dec.	7 007	646	5 039	4.7	5 269	16.70	16.49	9.50	10.18
1984									
Jan.	6 794	-458	5 045	4.7	4 588	17.50	17.50	9.50	10.30
Feb.	5 327	-2 921	5 242	4.7	2 323	17.50	17.50	9.50	10.36
March	3 460	-4 482	5 351	5.0	869	17.50	17.50	9.50	10.40
April	2 051	-7 207	5 721	5.4	-1 487	16.77	16.82	9.50	10.44
May	1 471	-8 557	6 149	5.6	-2 407	16.53	16.52	9.50	10.45
June	1 175	-9 062	6 429	5.6	-2 633	16.80	16.80	9.50	10.50
July	1 463	-7 680	6 481	5.6	-1 199	16.53	16.51	9.50	10.50
Aug.	1 462	-8 136	6 598	5.6	-1 538	16.50	16.50	9.50	10.51
Sept.	2 127	-8 186	6 672	5.6	-1 515	16.10	16.04	9.50	10.56
Oct.	2 948	-6 801	6 755	5.6	-46	15.75	15.76	9.50	10.55
Nov.	4 181	-6 888	7 410	5.6	522	15.48	15.48	9.50	10.63
Dec.	5 650	-5 999	8 051	5.6	2 052	15.07	15.07	9.50	..

¹ End of period.

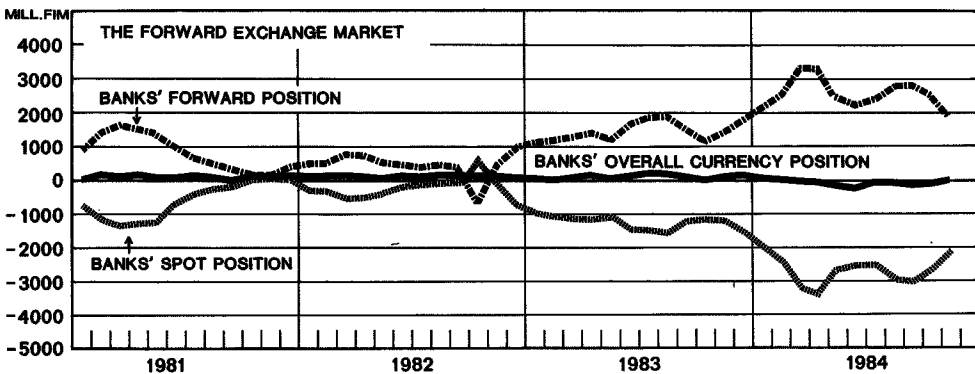


FORWARD EXCHANGE MARKETS IN FINLAND

Period	Banks' forward positions in mill. FIM with						Banks' forward selling rates for USD		
	Domestic firms			Foreign banks Net	Bank of Finland Net	Overall Net	Deviation from spot rate, per cent per annum		
	Assets	Liabilities	Net				1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
1982	11 128	2 117	9 011	-865	-6 827	1 104	3.9	3.8	3.4
1983	7 541	1 227	6 314	-1 688	-2 290	2 373	5.6	5.3	4.8

1983									
Month	Assets	Liabilities	Net	Foreign banks	Bank of Finland	Overall	1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
July	9 349	1 610	7 739	-1 299	-4 248	2 183	3.7	3.6	2.9
Aug.	8 618	1 784	6 834	-1 144	-3 791	1 813	3.6	3.3	2.8
Sept.	7 818	1 952	5 866	-1 575	-3 345	964	6.5	6.1	5.7
Oct.	8 087	1 942	6 145	-1 645	-2 792	1 711	5.5	5.2	4.8
Nov.	7 488	1 912	5 576	-1 411	-2 438	1 687	5.4	5.3	4.8
Dec.	7 541	1 227	6 314	-1 688	-2 290	2 373	5.6	5.3	4.8

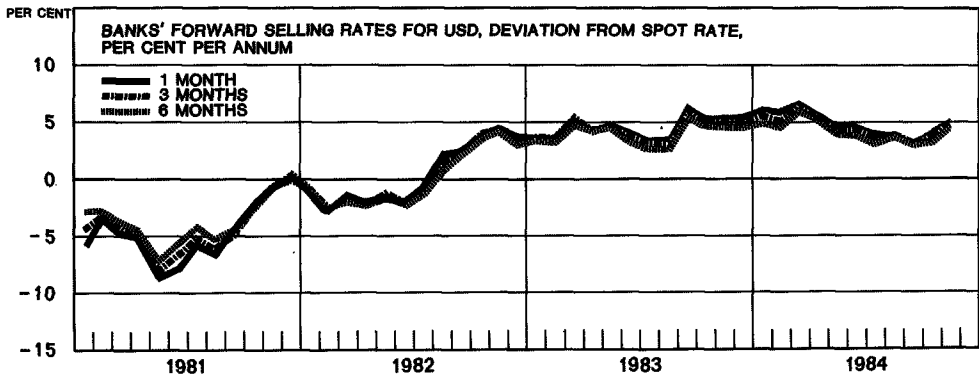
1984									
Month	Assets	Liabilities	Net	Foreign banks	Bank of Finland	Overall	1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
Jan.	7 292	1 661	5 631	-2 026	-1 235	2 304	6.3	5.3	5.1
Feb.	8 290	1 681	6 609	-1 871	-1 887	2 717	6.1	5.3	4.8
March	10 052	1 611	8 441	-1 676	-3 560	3 173	6.7	6.6	6.2
April	11 249	1 326	9 923	-841	-5 109	3 846	5.8	5.7	5.5
May	13 528	1 156	12 372	178	-10 041	2 529	4.9	4.5	4.1
June	15 547	1 145	14 402	1 389	-12 667	3 083	4.8	4.7	4.0
July	15 956	1 306	14 650	1 541	-13 011	3 240	4.1	3.9	3.3
Aug.	20 049	1 354	18 695	2 557	-17 217	4 089	3.8	4.0	3.7
Sept.	20 548	1 679	18 869	2 406	-18 362	3 056	3.2	3.4	3.2
Oct.	22 267	1 741	20 526	1 914	-19 419	3 138	4.2	4.0	3.5
Nov.	22 383	1 786	20 597	1 790	-20 139	2 460	5.2	5.2	4.9



FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange, FIM

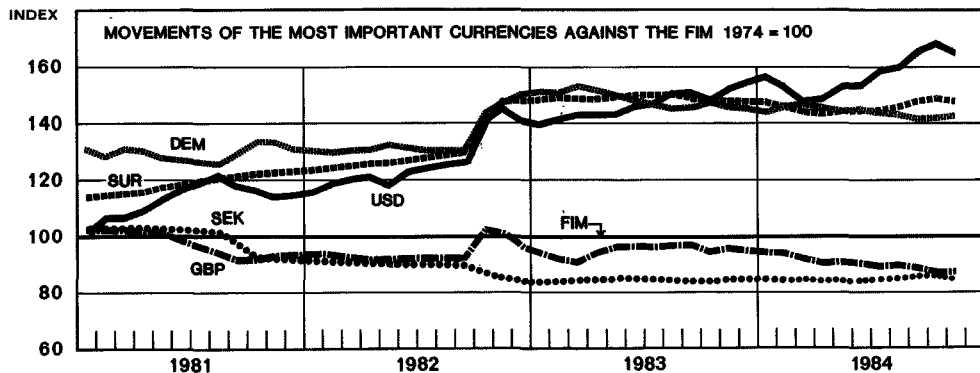
Period	New York 1 US \$ USD	Montreal 1 C \$ CAD	London 1 £ GBP	Dublin 1 Ir£ IEP	Stockholm 100 Skr SEK	Oslo 100 Nkr NOK	Copenhagen 100 Dkr DKK	Frankfurt 100 DM DEM	Amsterdam 100 Hfl NLG	Brussels 100 FB BEC BEL	
	1	2	3	4	5	6	7	8	9	10	11
1980	3.730	3.194	8.691	7.689	88.43	75.81	66.53	205.58	188.02	12.818	12.635
1981	4.315	3.602	8.731	6.976	85.74	75.54	60.96	191.31	173.43	11.688	11.095
1982	4.820	3.913	8.423	6.854	77.03	74.84	57.93	198.76	180.66	10.584	9.859
1983	5.570	4.524	8.456	6.957	72.75	76.44	61.07	218.61	195.66	10.934	10.742
1984	6.010	4.645	8.023	6.533	72.77	73.84	58.16	211.65	187.72	10.428	10.274
1983											
Nov.	5.754	4.661	8.511	6.686	72.83	77.19	59.56	214.73	191.61	10.574	10.474
Dec.	5.860	4.706	8.414	6.639	72.84	76.01	58.99	213.55	190.33	10.500	10.357
1984											
Jan.	5.940	4.764	8.389	6.579	72.85	75.65	58.56	211.96	188.64	10.395	10.225
Feb.	5.803	4.655	8.355	6.626	72.56	75.47	58.89	214.81	190.35	10.495	10.182
March	5.618	4.432	8.201	6.645	72.79	75.04	59.16	216.76	192.02	10.596	10.260
April	5.650	4.422	8.054	6.569	72.27	74.54	58.32	214.29	189.99	10.491	10.209
May	5.821	4.502	8.100	6.518	72.15	74.64	57.91	211.99	188.39	10.422	10.267
June	5.822	4.472	8.038	6.528	72.05	74.66	58.10	213.19	189.12	10.462	10.324
July	6.019	4.550	7.962	6.501	72.64	73.48	57.92	211.78	187.65	10.454	10.355
Aug.	6.072	4.661	7.987	6.502	72.78	73.27	57.78	210.61	186.72	10.433	10.336
Sept.	6.278	4.787	7.919	6.451	73.36	73.05	57.40	208.01	184.46	10.320	10.236
Oct.	6.378	4.842	7.793	6.455	73.57	72.06	57.61	208.14	184.61	10.294	10.206
Nov.	6.261	4.762	7.792	6.507	73.13	72.08	58.07	209.79	186.02	10.400	10.346
Dec.	6.458	4.896	7.686	6.512	73.07	72.10	58.16	208.46	184.72	10.379	10.341



Average selling rates for foreign exchange, FIM

Zurich 100 Sfr CHF	Paris 100 FF FRF	Rome 100 Lit ITL	Vienna 100 ÖS ATS	Lisbon 100 Esc PTE	Reykjavik 100 lkr ISK	Madrid 100 Ptas ESB	Tokyo 100 Y JPY	Moscow 1 CI Rbl SUR	1 special drawing right SDR	Currency index ¹
12	13	14	15	16	17	18	19	20	21	22
222.87	88.65	0.440	28.90	7.60	0.81	5.25	1.662	5.741	4.842 55	113.6
220.34	79.92	0.385	27.17	7.17	60.35	4.72	1.967	5.986	5.071 40	113.1
237.79	73.65	0.358	28.31	6.13	40.79	4.41	1.943	6.624	5.305 63	115.9
265.70	73.53	0.369	31.11	5.14	23.25	3.91	2.351	7.491	5.943 25	125.1
256.42	69.07	0.344	30.13	4.14	19.39	3.75	2.534	7.357	6.147 39	102.8
265.52	70.72	0.355	30.53	4.55	20.72	3.74	2.452	7.438	6.043 58	125.1
267.20	70.15	0.353	30.33	4.49	20.76	3.73	2.506	7.439	6.101 77	125.0
266.26	69.47	0.350	30.10	4.41	20.58	3.74	2.547	7.425	6.145 38	103.8
263.17	69.92	0.349	30.48	4.35	20.05	3.78	2.488	7.343	6.065 12	103.6
262.10	70.46	0.350	30.80	4.32	19.63	3.77	2.498	7.252	5.969 10	103.3
258.71	69.79	0.347	30.48	4.25	19.66	3.78	2.515	7.239	5.965 91	102.5
257.05	69.14	0.345	30.18	4.21	19.94	3.80	2.528	7.252	6.050 38	102.5
255.83	69.50	0.346	30.39	4.16	19.87	3.78	2.501	7.257	6.044 21	102.5
250.57	69.13	0.346	30.20	4.08	20.17	3.75	2.484	7.296	6.131 93	102.5
251.43	68.75	0.343	30.01	4.08	19.78	3.71	2.511	7.340	6.162 64	102.5
251.64	67.93	0.338	29.64	4.03	19.44	3.71	2.565	7.435	6.272 79	102.5
253.02	68.01	0.337	29.66	3.97	19.35	3.72	2.588	7.486	6.323 99	102.5
254.59	68.52	0.339	29.87	3.91	17.78	3.75	2.578	7.447	6.268 66	102.5
252.66	68.18	0.340	29.71	3.92	16.38	3.77	2.609	7.516	6.366 57	102.5

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



DEPOSITS BY THE PUBLIC

Mill. FIM

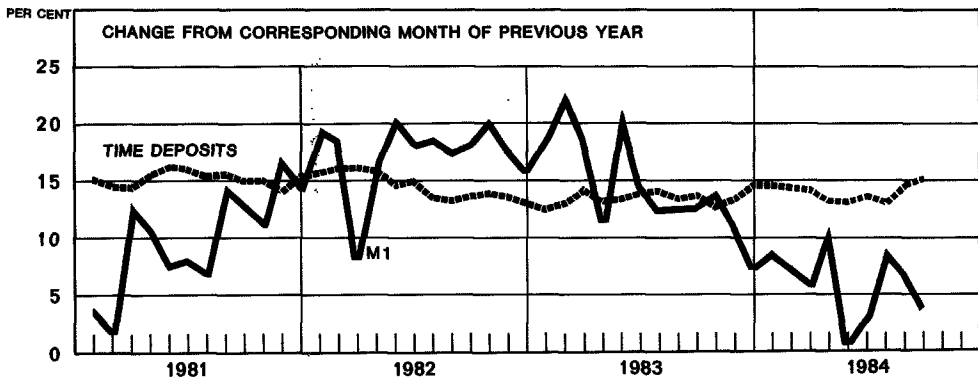
End of year and month	Demand deposits				Time deposits					Total (4+9)
	Commer- cial banks	Savings banks & Co-op. banks	Posti- pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Posti- pankki	All deposit banks (5 to 8)	
	1	2	3	4	5	6	7	8	9	10
1980	5 459	2 285	2 531	10 275	22 591	20 009	15 950	6 355	64 905	75 180
1981	5 791	2 879	2 952	11 622	26 094	22 937	18 598	7 448	75 077	86 699
1982	7 155	3 874	3 049	14 078	29 465	25 883	21 040	8 666	85 054	99 132
1983*	7 057	4 567	3 676	15 300	34 302	29 273	24 175	9 938	97 688	112 988

1983*

Sept.	6 964	4 185	4 324	15 473	31 364	28 230	23 194	9 388	92 176	107 649
Oct.	7 271	4 269	4 529	16 069	31 414	28 298	23 285	9 365	92 362	108 431
Nov.	7 521	4 182	3 625	15 328	31 702	28 447	23 424	9 492	93 065	108 393
Dec.	7 057	4 567	3 676	15 300	34 302	29 273	24 175	9 938	97 688	112 988

1984*

Jan.	7 438	4 163	4 442	16 043	33 658	29 724	24 641	10 241	98 264	114 307
Feb.	7 325	3 975	4 055	15 355	34 365	30 235	25 190	10 333	100 123	115 478
March	6 469	4 040	3 974	14 483	34 812	30 236	25 203	10 471	100 722	115 205
April	7 094	4 084	4 173	15 351	34 760	30 411	25 252	10 403	100 826	116 177
May	6 978	4 216	3 960	15 154	34 485	30 801	25 653	10 552	101 491	116 645
June	6 843	4 291	4 231	15 365	35 435	31 442	26 232	10 364	103 473	118 838
July	7 091	4 458	4 638	16 187	35 505	31 608	26 315	10 524	103 952	120 139
Aug.	6 910	4 454	4 708	16 072	36 139	31 989	26 598	10 672	105 398	121 470
Sept.	6 489	4 400	4 826	15 715	36 626	32 140	26 882	10 593	106 241	121 956



ADVANCES TO THE PUBLIC – MONEY SUPPLY

Mill. FIM

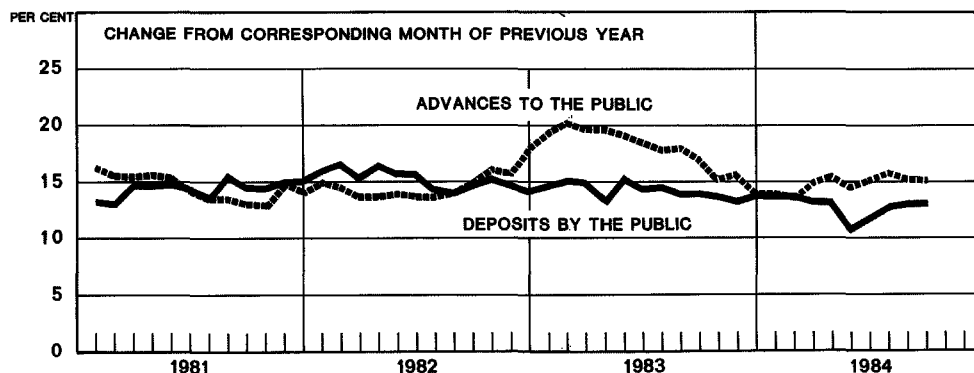
End of year and month	Advances granted by				Types of advances			Total (1 to 4) (5 to 7)	Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency		M ₁	M ₁ + Quasi-Money
	1	2	3	4	5	6	7		8	9
1980	35 994	19 097	16 760	9 973	70 466	2 347	9 011	81 824	14 979	81 601
1981	40 462	22 009	20 059	11 135	80 817	2 877	9 971	93 665	17 186	94 577
1982	48 620	25 682	23 601	12 684	93 014	3 468	14 105	110 587	19 917	107 549
1983*	56 162	29 276	27 322	13 471	104 627	4 350	17 254	126 231	21 427	121 905

1983*

Sept.	53 682	28 594	26 228	13 456	102 188	4 902	14 870	121 960	21 403	116 469
Oct.	54 535	28 821	26 529	13 543	103 090	4 797	15 541	123 428	21 772	116 992
Nov.	56 197	29 040	26 946	13 666	104 024	4 851	16 974	125 849	21 105	117 008
Dec.	56 162	29 276	27 322	13 470	104 626	4 350	17 254	126 230	21 427	121 905

1984*

Jan.	57 343	29 569	27 515	14 193	105 759	5 004	17 857	128 620	22 098	123 176
Feb.	58 398	29 762	27 706	14 017	106 328	4 989	18 566	129 883	21 334	124 666
March	59 625	29 961	27 990	14 011	106 930	5 142	19 515	131 587	20 606	125 049
April	61 338	30 142	28 191	14 317	107 812	5 466	20 710	133 988	21 464	126 269
May	60 965	30 522	28 535	14 362	109 106	5 140	20 138	134 384	21 486	126 686
June	62 468	30 718	28 825	14 343	110 267	5 208	20 879	136 354	22 026	129 549
July	62 941	31 049	29 134	14 466	111 229	5 365	20 996	137 590	22 495	130 602
Aug.	63 398	31 479	29 648	14 405	112 849	5 345	20 736	138 930	22 460	132 019
Sept.	64 225	31 820	30 077	14 562	114 602	5 401	20 681	140 684	22 238	132 660



STATE FINANCES

Mill. FIM

Revenue	Jan.-Oct.		Expenditure	Jan.-Oct.	
	1983	1984		1983	1984
Income and wealth tax (net)	15 322	17 576	Wages, salaries, pensions etc.	9 919	10 981
Gross receipts	40 976	47 788	Repair and maintenance	1 269	1 387
Refunds & local authorities	-25 654	-30 212	Other consumption expenditure	6 101	5 965
Other taxes on income and wealth	390	512	Total consumption expenditure	17 289	18 333
Employers' child allowance payments	1	169	State aid to local authorities	12 752	15 222
Sales tax	14 299	17 803	State aid to industries	6 614	7 417
Customs duties and import charges and levies	1 318	1 408	of which: agric. price subsidies	3 278	3 396
Excise duties	8 360	8 987	Child allowances	1 658	1 735
Excise duty on alcoholic bevcs.	3 079	3 306	Share in national pensions and sickness insurance schemes	2 065	1 993
Excise duty on tobacco	1 263	1 341	Deficit of State enterprises	1 059	1 020
Excise duty on liquid fuel	2 875	3 149	Other transfer expenditure	7 856	9 005
Other excise duties	1 143	1 191	Total transfer expenditure	32 004	36 392
Tax on autom. and motor-cycles	1 908	2 176	Machinery and equipment	1 407	1 500
Stamp duties	1 392	1 842	Construction of buildings	899	1 017
Special diesel etc. vehicles tax	234	314	Land and waterway construction	1 967	1 883
Other taxes and similar revenue	1 397	1 751	Total real investment	4 273	4 400
Total taxes	44 621	52 538	Interest on State debt	2 738	3 430
Miscellaneous revenue	3 735	4 518	Other expenditure	9	17
Interest, dividends etc.	1 446	1 310	Total other expenditure	2 747	3 447
Surplus of state enterprises	1 399	1 583	Increase in inventories	674	135
Redemptions of loans granted	1 370	1 116	Lending	3 615	3 491
Total revenue	52 571	61 065	Other financial investment	548	590
Foreign borrowing	3 774	4 169	Total expenditure	61 150	66 788
Domestic borrowing	5 422	5 034	Redemption of foreign loans	1 816	1 561
Total borrowing	9 196	9 203	Redemption of domestic loans	1 521	3 525
Deficit (+) or surplus (-)	2 720	1 606	Total redemptions	3 337	5 086
Total	64 487	71 874	Total	64 487	71 874

State debt	1982	1983	1984			
	Dec.	Dec.	Aug.	Sept.	Oct.	Nov.
Foreign debt	18 807	21 723	24 006	24 328	24 609	24 934
Long-term debt	11 378	16 383	17 762	17 867	18 033	18 296
Short-term credit	63	18	58	78	118	115
Domestic debt	11 441	16 401	17 820	17 945	18 151	18 411
Total State debt	30 248	38 124	41 826	42 273	42 760	43 345
Total debt mill. \$	5 651	6 506	6 888	6 734	6 704	6 923

FOREIGN TRADE

Mill. FIM

Period	Value, mill. FIM		
	Exports f.o.b	Imports c.i.f.	Surplus of exports (+) or imports (-)
	1	2	3
1979	43 430	44 222	-792
1980	52 795	58 250	-5 455
1981	60 308	61 269	-961
1982	63 026	64 751	-1 725
1983	69 692	71 528	-1 836

1984*

Jan.	6 691	5 737	+954
Feb.	6 414	5 289	+1 125
March	6 669	5 926	+743
April	6 790	6 071	+719
May	6 624	6 303	+321
June	6 361	6 365	-4
July	6 432	7 179	-747
Aug.	6 067	6 128	-61
Sept.	6 954	5 905	+1 049
Oct.	7 737	6 743	+994

Jan.-Oct.

1983	56 346	58 065	-1 719
1984*	66 739	61 646	+5 093

Period	Indices of exports and imports 1980 = 100				
	Volume		Unit value		Terms of trade
	Exports	Imports	Exports	Imports	
	1	2	3	4	5
1979	92	89	90	86	105
1980	100	100	100	100	100
1981	103	94	111	112	99
1982	100	95	119	117	101
1983	104	98	127	125	101

1982

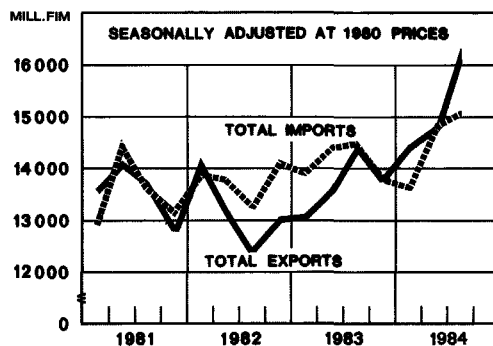
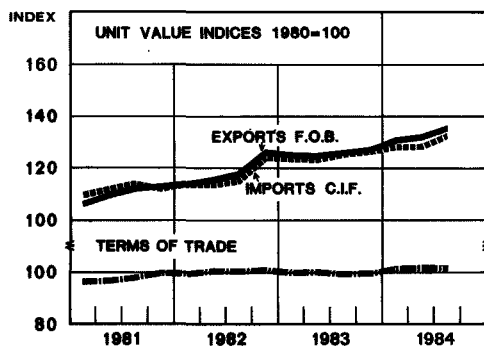
July-Sept.	85	90	118	116	101
Oct.-Dec.	107	107	127	125	101

1983

Jan.-March	101	90	126	125	101
Apr.-June	103	95	126	124	101
July-Sept.	97	97	127	126	100
Oct.-Dec.	115	108	128	127	100

1984*

Jan.-March	114	90	132	129	102
Apr.-June	113	99	133	129	103
July-Sept.	108	99	136	133	102



FOREIGN TRADE BY MAIN GROUPS

Mill. FIM

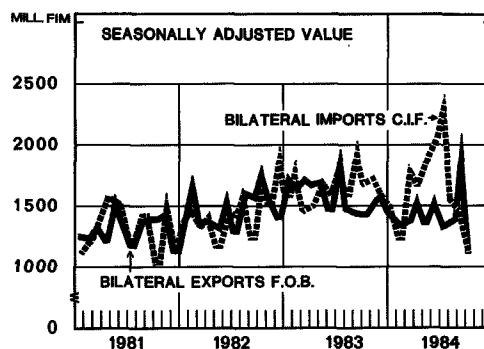
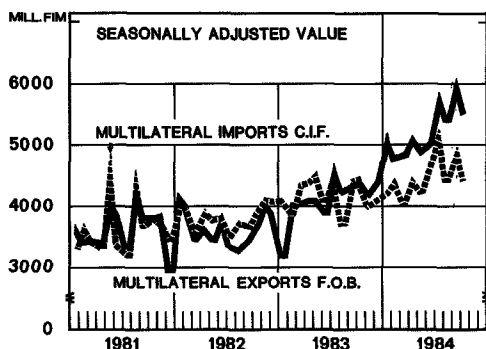
Period	Exports, f.o.b.					Imports, c.i.f.				
	Agricultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Raw materials and intermediate goods	Fuels and lubricants	Finished goods		Other goods
								Investment goods	Consumer goods	
1	2	3	4	5	6	7	8	9	10	
1979	1 366	6 073	12 992	10 342	12 657	28 878	3 401	5 719	6 133	91
1980	1 403	7 742	15 751	11 546	16 353	38 622	4 088	7 989	7 440	111
1981	2 036	6 852	17 127	14 858	19 435	39 156	5 115	8 877	8 015	106
1982	1 676	6 278	17 502	18 908	18 662	41 144	4 869	9 195	9 130	413
1983	1 723	6 944	19 327	20 211	21 487	44 757	5 006	10 860	10 572	333

1984*

Jan.	222	502	1 625	2 395	1 947	3 162	407	1 171	932	65
Feb.	332	540	1 702	1 790	2 050	3 109	339	824	1 005	12
March	355	626	1 990	1 766	1 932	3 832	273	813	1 000	8
April	263	567	1 880	1 739	2 341	3 700	265	1 096	992	18
May	234	632	2 128	1 839	1 791	4 129	453	788	930	3
June	250	641	1 768	1 668	2 034	4 215	531	850	767	2
July	332	554	1 765	2 013	1 768	4 862	565	857	878	17
Aug.	173	560	2 293	1 236	1 805	3 895	474	830	916	13
Sept.	144	662	2 032	2 010	2 106	3 668	480	785	969	3
Oct.	180	674	2 210	2 661	2 012	4 163	538	958	1 075	9

Jan.-Oct.

1983	1 407	5 643	15 661	16 226	17 409	36 130	4 137	8 709	8 780	309
1984*	2 485	5 958	19 393	19 117	19 786	38 735	4 325	8 972	9 464	150



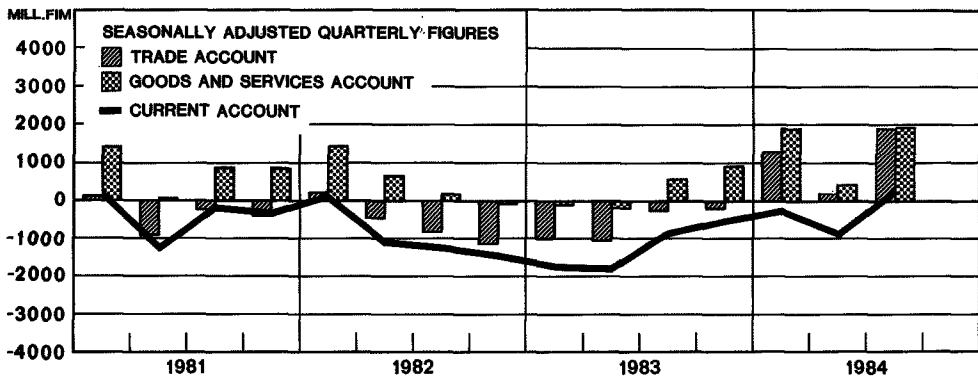
FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January-October				January-October			
	1983*		1984*		1983*		1984*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
OECD countries in Europe	55.3	31 170	58.3	38 935	51.9	30 137	54.1	33 372
Austria	0.7	423	0.7	500	1.2	712	1.1	689
Belgium and Luxembourg	1.6	896	1.5	978	1.8	1 043	1.9	1 193
Denmark	3.5	2 005	4.1	2 716	2.5	1 436	2.5	1 523
France	4.2	2 362	4.0	2 656	3.3	1 928	3.2	1 955
Federal Republic of Germany	9.7	5 494	9.7	6 499	13.3	7 735	13.8	8 494
Italy	1.9	1 057	2.1	1 398	3.1	1 797	3.2	1 970
Netherlands	4.1	2 301	3.6	2 375	2.7	1 542	2.7	1 684
Norway	3.5	1 964	4.8	3 228	2.4	1 375	2.1	1 296
Portugal	0.2	123	0.2	140	0.6	369	0.7	417
Spain	0.7	415	0.7	472	0.7	408	0.8	518
Sweden	11.9	6 731	12.0	7 990	11.2	6 511	12.0	7 397
Switzerland	1.4	779	1.3	847	1.7	971	1.6	1 004
United Kingdom	10.6	5 879	12.3	8 232	6.8	3 946	7.8	4 774
Other	1.3	741	1.3	904	0.6	364	0.7	458
OECD countries outside Europe	6.6	3 709	11.0	7 334	12.4	7 230	11.4	7 026
Canada	0.6	351	0.8	565	0.8	442	0.7	444
Japan	1.2	670	1.4	910	5.6	3 271	5.7	3 490
United States	3.8	2 154	7.6	5 087	5.7	3 319	4.7	2 920
Other	1.0	534	1.2	772	0.3	198	0.3	172
CMEA countries	28.0	15 793	21.0	13 990	28.6	16 598	27.2	16 756
Czechoslovakia	0.4	237	0.4	256	0.5	265	0.4	271
German Democratic Republic	0.5	296	0.5	307	0.6	364	0.5	328
Poland	0.2	83	0.3	209	1.2	716	1.5	944
Soviet Union	26.4	14 901	19.3	12 853	25.7	14 912	24.2	14 884
Other	0.5	276	0.5	365	0.6	341	0.6	329
Latin America	1.8	1 017	0.8	568	2.5	1 459	2.6	1 596
Argentina	0.1	70	0.1	64	0.1	76	0.2	113
Brazil	0.3	168	0.1	100	0.7	397	0.9	545
Colombia	0.2	82	0.1	82	0.5	271	0.6	353
Other	1.2	697	0.5	322	1.2	715	0.9	585
Other	8.3	4 657	8.9	5 912	4.6	2 641	4.7	2 896
GRAND TOTAL	100.0	56 346	100.0	66 739	100.0	58 065	100.0	61 646
of which								
EFTA countries	17.9	10 093	19.2	12 794	17.2	9 978	17.7	10 888
EEC countries	36.5	20 576	38.3	25 575	34.0	19 715	35.6	21 920
OECD countries	61.9	34 879	69.3	46 269	64.3	37 367	65.5	40 398

BALANCE OF PAYMENTS

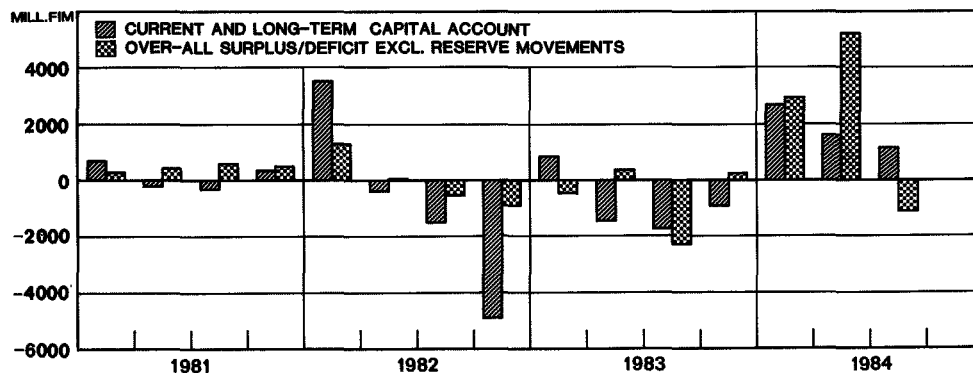
Period	Exports f.o.b.	Imports c.i.f.	Trade account (1-2)	Transport, net	Travel, net	Other services, net	Goods and services account (3 to 6)	Invest- ment income, net	Un- requited transfers, net	Other, net	Current account (7 to 10)
	1	2	3	4	5	6	7	8	9	10	11
1980	52 594	58 046	-5 452	+2 824	+320	+679	-1 629	-3 292	-454	+164	-5 211
1981	60 243	61 703	-1 460	+3 088	+405	+1 049	+3 082	-4 423	-498	+107	-1 732
1982	62 867	65 147	-2 280	+2 856	-277	+1 732	+2 031	-5 447	-643	+161	-3 898
1983*	69 593	72 107	-2 514	+3 298	-749	+1 172	+1 207	-5 811	-721	+25	-5 300
1981											
Oct.-Dec.	16 197	16 528	-331	+706	-28	+287	+634	-1 120	-133	+9	-610
1982											
Jan.-March	16 078	14 858	+1 220	+699	-154	+484	+2 249	-1 078	-187	-6	+978
Apr.-June	15 577	15 376	+201	+700	-83	+451	+1 269	-1 682	-167	+50	-530
July-Sept.	13 308	15 419	-2 111	+789	+151	+478	-693	-1 359	-139	+75	-2 116
Oct.-Dec.	17 904	19 494	-1 590	+668	-191	+319	-794	-1 328	-150	+42	-2 230
1983*											
Jan.-March	16 796	16 469	+327	+807	-291	+190	+1 033	-1 553	-217	-29	-766
Apr.-June	17 154	17 500	-346	+787	-229	+299	+511	-1 492	-149	+35	-1 095
July-Sept.	16 236	18 002	-1 766	+934	+44	+336	-452	-1 459	-147	+45	-2 013
Oct.-Dec.	19 407	20 136	-729	+770	-273	+347	+115	-1 307	-208	-26	-1 426
1984*											
Jan.-March	19 730	17 054	+2 676	+899	-371	-148	+3 056	-2 046	-232	-56	+722
Apr.-June	19 732	18 900	+832	+954	-327	-319	+1 140	-1 244	-150	-1	-255
July-Sept.	19 418	19 408	+10	+1 040	-124	-323	+603	-1 427	-191	+4	-1 011



Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net	Long-term capital account (12 to 15)	Current and long-term capital account (11 + 16)	Prepayments and liabilities related to imports	Prepayments and receivables related to exports	Short-term capital of authorized banks, net	Miscellaneous, short-term capital items, incl. errors and omissions	Over-all surplus deficit excl. reserve movements (17 to 21)	Bank of Finland foreign exchange reserves
12	13	14	15	16	17	18	19	20	21	22	23
+5 183	-4 140	-433	-428	+182	-5 029	+3 255	-967	+3 696	+40 ¹	+995	-995
+8 312	-4 643	-518	-826	+2 325	+593	-148	+723	-421	+1 056 ¹	+1 803	-1 803
+10 213	-4 721	-1 239	-3 642	+611	-3 287	-914	+771	+1 493	+1 811	-126	+126
+10 112	-7 273	+423	-1 367	+1 895	-3 405	+3 273	-3 422	+1 272	+120	-2 162	+2 162
+3 028	-1 678	-211	-157	+982	+372	-1 309	+46	+601	+766	+476	-476
+3 637	-806	-114	-165	+2 552	+3 530	-676	+762	-1 517	-787	+1 312	-1 312
+2 332	-1 555	-328	-301	+148	-382	+367	+581	-171	-350	+45	-45
+1 859	-883	-127	-246	+603	-1 513	-277	-143	-520	+1 909	-544	+544
+2 385	-1 477	-670	-2 930	-2 692	-4 922	-328	-429	+3 701	+1 039	-939	+939
+2 985	-1 271	+100	-182	+1 632	+866	-115	+647	-1 214	-666	-482	+482
+2 435	-2 895	+273	-204	-391	-1 486	+1 261	-353	+699	+276	+397	-397
+1 479	-1 269	+142	-128	+224	-1 789	+1 197	-1 671	-593	+543	-2 313	+2 313
+3 213	-1 838	-92	-853	+430	-996	+930	-2 045	+2 380	-33	+236	-236
+4 075	-1 887	-235	-46	+1 907	+2 629	-765	+485	+2 443	-1 806	+2 986	-2 986
+3 858	-2 351	+89	+275	+1 871	+1 616	+1 287	+94	+2 854	-629	+5 222	-5 222
+2 495	-1 185	-629	+1 475	+2 156	+1 145	+615	-273	-1 935	-692	-1 140	+1 140

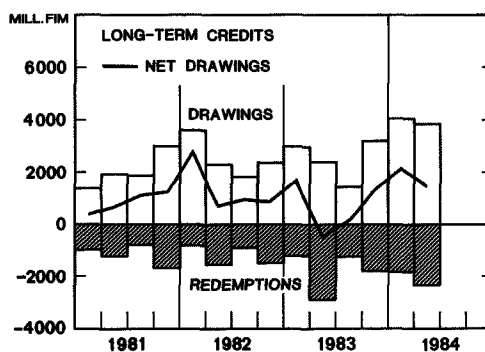
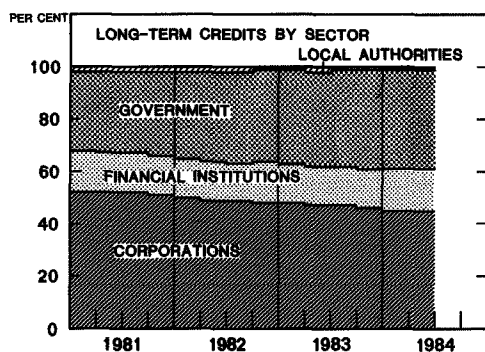
Assets: increase -, decrease +. Liabilities: increase +, decrease -

¹ Including allocations of special drawing rights: 133 million in 1980 and 131 million in 1981.

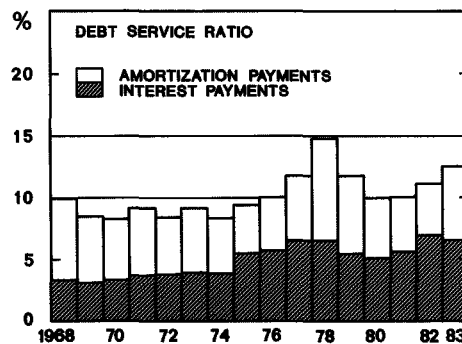
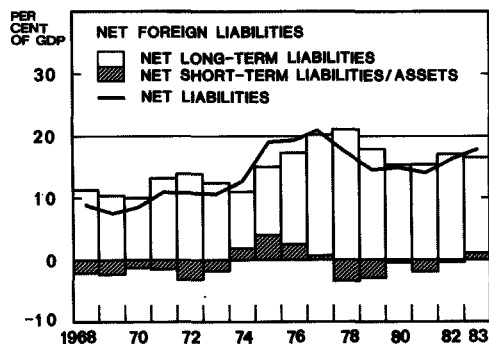


FINLAND'S FOREIGN ASSETS AND LIABILITIES

End of year and month	Long-term assets				Long-term liabilities						Net long-term liabilities (10-4)
	Export credits	Direct investment	Other	Total (1 to 3)	Financial loans	Import credits	Direct investment	Portfolio investment	Other	Total (5 to 9)	
	1	2	3	4	5	6	7	8	9	10	11
1980	3 872	2 806	1 051	7 729	29 730	4 377	2 075	..	340	36 522	28 793
1981	4 673	3 426	1 317	9 416	35 536	4 444	2 183	..	391	42 554	33 138
1982*	6 628	4 626	3 796	15 050	47 547	4 608	2 223	..	752	55 130	40 080
1983*	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1982											
March	4 960	3 616	1 415	9 991	38 669	4 623	2 263	..	709	46 264	36 273
June	5 361	3 741	1 471	10 573	39 847	4 456	2 313	..	696	47 312	36 739
Sept.	5 556	4 084	1 466	11 106	41 198	4 515	2 345	..	687	48 745	37 639
Dec.	6 628	4 626	3 796	15 050	47 547	4 608	2 223	..	752	55 130	40 080
1983*											
March	6 672	5 003	3 892	15 567	49 897	4 759	2 288	..	846	57 790	42 223
June	6 458	4 998	3 956	15 412	49 921	4 462	2 306	..	812	57 501	42 089
Sept.	6 411	5 392	3 935	15 738	50 705	4 566	2 303	..	798	58 372	42 634
Dec.	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1984*											
March	6 658	6 687	3 539	16 884	54 014	4 225	2 354	987	731	62 311	45 427
June	6 827	7 435	3 230	17 492	57 198	3 937	2 393	1 640	729	65 897	48 405
Sept.	7 487	7 834	1 839	17 160	60 497	3 951	2 410	1 957	834	69 649	52 489



Short-term assets				Short-term liabilities				Net short-term liabilities (19-15)	Net liabilities (11+20)	Debt service, flow	Of which amortization payments, flow
Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (12 to 14)	Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (16 to 18)				
12	13	14	15	16	17	18	19	20	21	22	23
9 895	10 061	12 532	32 488	3 089	16 240	11 849	31 178	-1 310	27 483	6 700	3 274
11 362	13 781	14 176	39 319	2 427	20 218	14 743	37 388	-1 931	31 207	8 067	3 567
12 737	22 899	13 858	49 494	5 348	31 331	13 782	50 461	967	41 047	9 268	3 663
11 842	29 263	15 915	57 020	5 705	39 443	16 138	61 286	4 266	49 074	11 670	5 706
12 795	13 654	13 791	40 240	3 074	18 592	14 218	35 884	-4 356	31 917	1 757	600
12 846	14 641	13 536	41 023	3 077	19 349	15 048	37 474	-3 549	33 190	2 850	1 137
12 456	17 474	13 531	43 461	4 097	21 737	14 859	40 693	-2 768	34 871	2 077	699
12 737	22 899	13 858	49 494	5 348	31 331	13 782	50 461	967	41 047	2 584	1 227
12 365	22 166	14 580	49 111	4 637	29 530	15 105	49 272	161	42 384	2 573	984
12 905	23 008	14 878	50 791	4 705	31 137	16 546	52 388	1 597	43 686	3 831	2 286
10 556	23 605	15 681	49 842	4 737	31 289	16 779	52 805	2 963	45 597	2 538	1 049
11 842	29 263	15 915	57 020	5 705	39 443	16 138	61 286	4 266	49 074	2 728	1 387
14 740	25 724	16 098	56 562	3 657	37 966	15 738	57 361	799	46 226	3 196	1 089
20 705	31 929	15 760	68 394	3 775	47 083	17 282	68 140	-254	48 151	2 923	1 624
21 064	34 639	16 045	71 748	4 815	47 857	18 156	70 828	-920	51 569	788	-663



PRICE INDICES

Period	Wholesale price index 1949 = 100	Basic price index for domestic supply 1980 = 100						Building costs 1980 = 100		
		Total	Origin		Purpose			Total	Wages in building trade	Building materials
			Domestic goods	Imported goods	Raw materials	Consumer goods	Investment goods			
	1	2	3	4	5	6	7	8	9	10
1982	1 122	120.8	122.1	116.7	120.8	122.4	119.0	117.7	116.8	117.8
1983	1 189	127.6	128.8	124.2	125.9	130.8	128.5	128.7	124.4	129.3
1984										
April	1 246	132.7	134.5	127.5	130.6	136.3	134.3	134.7	130.1	135.0
May	1 251	133.4	134.9	128.8	131.4	136.7	134.8	136.6	134.9	135.8
June	1 254	134.1	135.5	129.7	131.8	137.2	136.3	137.0	134.9	136.4
July	1 261	134.8	136.0	131.0	132.9	137.6	136.5	137.5	135.5	136.6
Aug.	1 264	134.8	136.6	129.5	132.6	138.2	136.9	137.7	135.7	136.9
Sept.	1 277	135.9	137.5	131.1	134.1	138.9	137.2	137.8	135.9	137.1
Oct.	1 289	137.1	138.6	132.4	135.9	139.5	137.4	138.2	136.1	137.6
Nov.	1 291	137.4	139.2	131.7	136.1	139.9	137.8	138.8	136.3	138.2

Period	Consumer prices 1981 = 100									
	Total	Food	Beverages and tobacco	Clothing and footwear	Rent, heating and lighting	Household goods and services	Health and medical services	Transport and communication	Education and recreation	Other goods and services
1982	109.6	112.3	112.9	105.3	111.7	105.9	110.2	106.8	106.0	109.6
1983	118.7	120.0	125.1	112.8	118.4	114.3	126.6	117.4	116.9	120.7
1984										
April	125.6	127.3	132.1	119.2	121.6	121.8	143.4	125.0	125.4	128.9
May	126.9	128.4	132.5	119.7	126.0	122.4	144.8	123.6	125.9	130.6
June	127.2	128.8	132.6	119.7	126.0	122.4	144.7	124.7	126.2	130.7
July	127.7	130.2	132.7	118.6	126.0	122.7	147.7	125.7	126.1	131.0
Aug.	128.2	131.1	132.7	119.6	126.0	123.8	148.1	126.0	127.2	131.2
Sept.	129.0	132.6	132.7	121.1	126.3	124.5	148.1	126.4	128.1	132.3
Oct.	129.6	133.7	132.8	123.0	126.3	125.2	148.7	127.4	128.2	132.9
Nov.	129.7	133.4	133.0	123.4	126.3	125.9	149.4	127.1	128.6	133.3

WAGES

Index of wage and salary earnings 1975 = 100

Period	By industries				By institutional sectors			All salary earners	All wage earners	All employees
	Wage earners in			Employees in services	State employees	Municipal employees	Employees in private sector			
	Agriculture	Industry	Construction							
1	2	3	4	5	6	7	8	9	10	
1981	201.3	192.5	165.6	186.1	182.2	174.8	191.9	187.4	188.8	188.1
1982	225.7	213.5	181.8	206.9	201.1	195.0	212.0	207.3	208.8	208.0
1983	243.6	234.0	202.5	229.0	223.3	217.2	233.1	229.3	229.3	229.6
1983										
July-Sept.	239.0	233.5	202.8	230.0	223.1	218.7	233.8	230.5	229.3	230.2
Oct.-Dec.	252.2	242.0	212.4	239.7	231.7	228.2	242.3	239.3	237.8	239.1
1984*										
Jan.-March	260.7	245.6	218.1	244.7	234.0	234.7	245.7	243.1	241.5	242.7
Apr.-June	271.6	258.7	221.8	251.6	238.7	240.9	256.4	251.2	252.6	251.9
July-Sept.	271.6	256.8	225.6	253.1	238.6	242.3	257.8	252.9	252.6	253.1

PRODUCTION

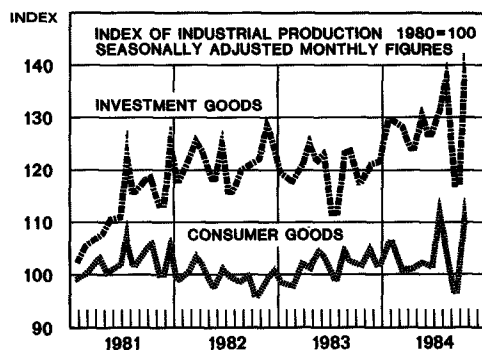
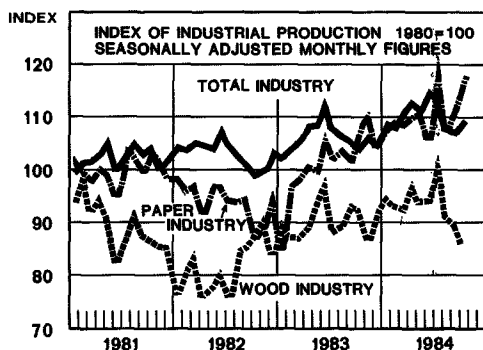
Volume indices of production 1980 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communication	Commerce	Public sector services	Others
1982										
July-Sept.	103	95	182	45	112	105	104	106	109	107
Oct.-Dec.	115	111	85	110	144	110	116	121	111	116
1983*										
Jan.-March	101	103	74	99	83	95	97	95	111	108
Apr.-June	107	112	80	90	91	104	105	109	111	115
July-Sept.	107	99	206	41	119	104	108	105	112	112
Oct.-Dec.	117	116	88	101	148	104	123	117	114	120
1984*										
Jan.-March	104	110	75	90	82	92	105	97	115	112
Apr.-June	109	113	82	92	84	103	112	106	115	119
July-Sept.	109	101	184	47	116	103	110	109	116	117

PRODUCTION

Index of industrial production 1980 = 100

Period	Special indices of manufacturing										Total adjusted for seasonal variations
	Total	Investment goods	Consumer goods	Other producer goods	Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
	1	2	3	4	5	6	7	8	9	10	11
1981	102.6	114.1	103.4	100.1	104.0	89.6	100.8	103.0	101.3	106.9	102.9
1982*	103.7	121.0	103.4	100.6	106.4	83.5	96.1	98.8	109.8	114.0	103.8
1983*	106.8	125.3	103.3	105.1	106.4	88.9	103.9	105.1	117.3	117.3	106.9
1983*											
Oct.	112.6	121.5	109.9	112.2	127.0	102.4	114.0	116.2	135.9	115.9	104.6
Nov.	118.5	139.2	117.8	115.1	127.5	89.1	117.4	120.9	117.6	130.3	106.7
Dec.	106.6	128.9	103.7	104.0	103.4	77.6	98.7	107.3	106.9	120.2	105.2
1984*											
Jan.	113.4	135.1	109.4	111.4	100.0	91.7	111.3	111.6	102.8	125.7	109.3
Feb.	108.2	130.4	103.2	106.7	87.5	85.7	112.9	103.8	92.4	120.9	108.6
March	116.4	142.0	109.7	114.9	97.1	98.6	118.2	120.4	111.4	129.3	111.3
April	107.8	132.1	100.5	106.8	95.4	102.2	102.9	116.3	96.2	121.6	113.3
May	121.8	158.5	110.9	120.4	114.0	118.2	120.5	117.6	117.5	144.1	111.8
June	110.0	144.5	101.5	107.9	103.6	103.1	91.5	105.7	114.6	128.2	115.3
July	74.9	54.7	71.9	79.8	97.2	41.7	124.2	71.9	60.8	56.0	113.9
Aug.	114.7	131.5	108.7	114.5	114.3	90.5	117.5	112.2	124.6	122.7	108.3
Sept.	110.5	127.3	102.0	111.5	105.6	99.6	111.3	112.2	127.7	120.6	107.5
Oct.	126.2	145.2	122.3	124.5	140.9	104.6	124.2	121.2	134.2	138.0	109.8



LABOUR – TIMBER FELLINGS – INTERNAL TRADE

Period	Population of working age, 1 000 persons	Total labour force, 1 000 persons	Employed, 1 000 persons	Un-employed, 1 000 persons	Unemployment, % of total labour force	Commercial timber fellings, 1 000 solid cu. m	Retail sales volume index 1980 = 100	Wholesale volume index 1980 = 100
	1	2	3	4	5	6	7	8
1982	3 659	2 526	2 377	149	5.9	41 435	106	109
1983	3 681	2 546	2 390	156	6.1	39 324	107	110
1983								
Sept.	3 682	2 540	2 397	143	5.6	2 153	107	119
Oct.	3 687	2 520	2 369	151	6.0	2 860	106	115
Nov.	3 695	2 507	2 355	152	6.1	3 391	106	117
Dec.	3 695	2 526	2 369	157	6.2	4 109	132	124
1984*								
Jan.	3 699	2 510	2 339	171	6.8	3 577	97	94
Feb.	3 700	2 498	2 329	169	6.8	4 209	95	101
March	3 694	2 520	2 353	168	6.6	4 734	105	111
April	3 693	2 523	2 356	167	6.6	4 207	101	98
May	3 697	2 579	2 438	140	5.4	3 734	113	120
June	3 695	2 745	2 570	175	6.4	2 664	115	106
July	3 700	2 761	2 614	146	5.3	1 323	113	93
Aug.	3 700	2 598	2 454	145	5.6	1 649	113	119
Sept.	3 703	2 549	2 395	153	6.0	2 353	105	116
Oct.	3 706	2 520	2 370	150	6.0	3 561

CONSTRUCTION OF BUILDINGS

Period	Building permits granted					Buildings completed					Building-works under construction
	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	
Million cubic metres											
	1	2	3	4	5	6	7	8	9	10	11
1982	52.17	19.30	6.73	19.12	3.50	43.74	18.0	6.02	14.35	2.67	50.32
1983*	51.78	19.66	6.44	18.34	3.65	47.37	18.43	5.92	16.32	3.55	51.44
1983*											
Apr.-June	19.12	7.95	3.14	5.43	1.01	10.56	4.29	0.85	3.77	0.90	52.74
July-Sept.	14.22	4.23	1.07	6.90	0.91	11.06	3.96	1.86	3.52	0.96	58.14
Oct.-Dec.	8.59	3.31	0.95	2.78	1.02	15.46	6.12	2.07	5.24	1.02	51.44
1984*											
Jan.-March	9.11	3.83	1.12	3.08	0.61	8.72	3.72	0.71	3.08	0.62	47.01
Apr.-June	16.19	7.21	2.35	4.67	0.73	8.64	3.53	0.55	3.57	0.51	53.65
July-Sept.	12.09	4.57	1.22	4.35	0.94	8.82	3.32	1.49	2.55	0.83	56.32

EXPLANATIONS RELATING TO THE STATISTICAL SECTION

BANK OF FINLAND

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

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

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

MONETARY POLICY INDICATORS

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

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

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

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

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

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

FORWARD EXCHANGE MARKETS IN FINLAND

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

FOREIGN EXCHANGE RATES

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

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

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

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

Page 11. *Advances to the public*. The central government and the financial institutions are not included in the public. Postipankki's advances do not include loans granted by the State Investment Fund (INRA). Domestic credits in foreign currency are mainly granted by the commercial banks and the rest by Postipankki.

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

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

STATE FINANCES

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

FOREIGN TRADE

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

BALANCE OF PAYMENTS

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

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

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

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

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

FOREIGN ASSETS AND LIABILITIES

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

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

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

Columns 22 and 23 during the year and the quarter.

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

PRICE INDICES

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

WAGES – PRODUCTION

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

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

LABOUR – TIMBER FELLINGS – INTERNAL TRADE – CONSTRUCTION OF BUILDINGS

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

SYMBOLS USED: * Preliminary, r Revised, 0 Less than half the final digit shown, . Logically impossible, . . Not available, – Nil, S affected by strike, – Break in series.

SOME PARTICULARS ABOUT FINLAND

FORM OF GOVERNMENT

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

Parliament, comprising 200 members is elected by universal suffrage for a period of 4 years. The number of seats of the different parties in Parliament elected in 1983 is as follows: Social Democratic Party of Finland 57, National Coalition Party 44, Centre Party 38, Democratic League of the People of Finland 27, Finnish Rural Party 17, Swedish People's Party 11, Christian League of Finland 3, The Greens 2 and Finnish People's Constitutional Party 1.

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

INTERNATIONAL ORGANIZATIONS

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

LAND

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

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

POPULATION

NUMBER OF INHABITANTS (1982): 4.8 million. Sweden 8.3, Switzerland 6.3, Denmark 5.1, and Norway 4.1 million.

DENSITY OF POPULATION (1982): In South Finland 47.1, in East and Central Finland 14.2, in North Finland 4.2 and in the whole country an average of 15.9 inhabitants to the square kilometre.

DISTRIBUTION BY AREA (1982): 40 % of the population inhabit the rural areas, 60 % towns. The largest towns are: Helsinki (Helsingfors), the capital, 484 260 inhabitants, Tampere (Tammerfors) 167 211, Turku (Åbo) 163 484.

EMPLOYMENT (1983): Agriculture and forestry 13 %, industry and construction 33 %, commerce 14 %, transport and communication 7 %, financing, insurance, real estate and business services 8 %, community and personal services 27 %.

LANGUAGE (1982): Finnish speaking 93.5 %, Swedish speaking 6.3 %, others 0.2 %.

EDUCATION (1984): Practically all persons over 15 years of age are literate. There are 8 universities (the oldest founded in 1640) and 12 colleges of university standard.

CHANGE OF POPULATION (1982): births 13.7 ‰, deaths 9.0 ‰, change + 6.2 ‰, net immigration + 1.5 ‰. Deaths in France 10.1 ‰ and Great Britain 11.8 ‰.

TRADE AND TRANSPORT

NATIONAL INCOME (1983), in million FIM: Gross domestic product at factor cost by industrial origin: agriculture and fishing 11 747 (5 %), forestry 9 007 (4 %), manufacturing 73 782 (30 %), construction 20 442 (8 %), trade, restaurants and hotels 27 803 (11 %), transport and communication 19 129 (8 %), banking and insurance 9 671 (4 %), ownership of dwellings 16 460 (7 %), other services 58 100 (23 %), total 246 141. Index of real domestic product 108 (1980 = 100).

FOREST RESOURCES (1982). The growing stock comprised of 1 658 million m³ (solid volume with bark) of which 45 % was pine and 37 % spruce (the remaining 18 % being broad-leaved trees chiefly birch). Of the growing stock 667 million m³ was up to the standard required for logs, 52 % of these being pine. The annual growth was 67 million m³ and the total drain calculated on the basis of roundwood consumption was 48.5 million m³.

AGRICULTURE (1982). Cultivated land 2.4 million hectares. Number of holdings 212 630 of which 148 590 are of more than 5 ha. Measure of self-sufficiency in bread cereals (1983) 93 %.

INDUSTRY (1982). Gross value of industrial production FIM 205 471 mill., number of workers 409 499, salaried employees 145 997, motive power 8.2 mill. kW. Index of industrial production 103.6 for 1982 (1980 = 100).

STATE RAILWAYS (Dec. 31, 1983): Length 6 069 km.

MERCHANT FLEET (Dec. 31, 1984): Passenger vessels 160 (230 499 gross reg. tons), tankers 44 (1 005 952 gross reg. tons), dry cargo vessels 167 (816 949 gross reg. tons), other vessels 101 (13 876 gross reg. tons), total 472 (2 067 275 gross reg. tons).

MOTOR VEHICLES (Dec. 31, 1983): Passenger cars 1 410 438, lorries and vans 167 831, buses 9 102, others 10 585, total 1 597 956.

FINNISH AIRLINES (May 1, 1984) Finnair has in use 1 DC-8, 6 DC-9-10, 5 DC-9-41, 12 DC-9-51, 3 DC-9 Super 82, 3 DC-10-30, 1 DC-10-30 ER and 2 Fokker F-27. The company has scheduled flights to 38 foreign and 21 domestic destinations.

FINANCE AND BANKING

CURRENCY. Since 1860, Finland has had its own monetary system. From 1877 until 1914 the country was on the gold standard, and returned to it in 1926. In 1931, the Central Bank's duty to redeem bank notes in gold was suspended and at the end of 1962 was entirely cancelled. The monetary unit is the markka (plural: markkaa), which is divided into 100 penniä (singular: penni). The abbreviation used for the markka is FIM. The last par value of the markka was set on Oct. 12, 1967 and was 0.21159 grams of fine gold per markka (equivalent, at the time, to 4.20 markkaa per U.S. dollar). Since Nov. 1, 1977 the external value of the markka has been officially expressed in terms of a currency index. This index is tradeweighted and as from Jan. 1, 1984 indicates the average change in the convertible currencies which are important in Finnish foreign trade. The present currency weights are SEK 18.3, DEM 19.5, GBP 14.9, USD 9.3, other currencies 38.0. The permissible range of fluctuation is about 2.25 per cent on either side of the theoretical arithmetic mean. The fluctuation limits are 106.0 and 101.3.

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

OTHER CREDIT INSTITUTIONS (Dec. 31, 1983). There are two big and eight small commercial banks with in all 924 offices, 270 savings banks, 371 co-operative banks, five mortgage banks, Postipankki and three development credit institutions. The co-operative stores accept deposits from their members. The Social Insurance Institution and 48 private insurance companies also grant credits.

RATES OF INTEREST (Jan. 1, 1984). The Bank of Finland's base rate is 9 ½ %. The interest rates for domestic lending other than bank financing by the Bank of Finland vary between 7 % and 12 %. Other credit institutions: time deposits 5 ½ %, 6 month deposits 6 ½ %, 12 month deposits 8 %, 24 month deposits 9 ½ % and sight deposits 2 ½ %. The highest lending rate is 14 %.

MONETARY POLICY IN TRANSITION¹

Rolf Kullberg, Governor of the Bank of Finland

CHANGES IN THE FINANCIAL MARKETS

Until recently, administratively controlled, low interest rates, credit rationing and the undeveloped state of the capital market have been among the essential features of the Finnish financial system. Over the last few years, however, there has been rapid development towards freer and more efficient intermediation of funds. An expanding market for unregulated finance has sprung up. Moreover, with the slowdown in inflation, officially regulated interest rates have become positive in real terms, as was usual in the 1950s and 1960s. The financial markets have seen the emergence of entirely new forms of services and more diversified investment outlets. In line with this development, the profit and cost awareness of both the corporate sector and the household sector has clearly increased. Financial assets have come to account for an increasing share of the aggregate wealth of both firms and households.

The significance of unregulated finance began to grow in the late 1970s, mainly as a consequence of the substantial liquidity that had built up in the corporate sector. Favourable developments in firms' profitability in conditions where there were no major essential investment needs created a financial reserve in the economy. Firms sought financial assets which, as well as yielding a high return, would be sufficiently liquid to enable funds to be withdrawn whenever necessary for channelling to long-term real investments. And, indeed, the Finnish financial markets were very quickly able to create such instruments. It became common to talk about "grey money", nowadays referred to as short-term market

money or unregulated finance. There is no doubt that this new money market has come to stay in Finland, just as it has in other western market economies.

Initially, a very sceptical and often even negative view was taken in Finland towards the changes occurring in the financial markets. Fairly soon, however, the present widespread view was adopted that the changes in the financial system were inevitable. It has been judged that it is better to seek to guide the transition process in a controlled fashion rather than to try to maintain structures which will anyway be forced to give way under the influence of a changing environment. There has also been an increasing awareness that the evolution of the markets tends to improve not only the functioning of the financial system itself, but, more generally, the efficiency of the economy as a whole.

The strengthening of the role of unregulated interest rates has also altered the avenues of monetary policy transmission. Whereas the effects of changes in monetary policy on economic activity were previously transmitted through changes in the availability of credit, they are now felt, to an increasing extent, through interest rates.

A significant part of the measures implemented by the Bank of Finland in recent years have been expressly aimed at supporting gradual structural change in the financial system. At the same time as supporting the trend towards greater market-orientation, the Bank has endeavoured to develop monetary policy instruments that better correspond to the new circumstances. For example, the introduction of a cash reserve system in the late

¹ This article is based on a speech given at the meeting of the Finnish Economic Association on December 3, 1984.

1970s became necessary when, under new growth and investment conditions, the banks' central bank position started to ease to such an extent that they were no longer permanently indebted to the central bank. The establishment of a call money market and the abolition of bank-by-bank quotas for central bank credit reflected the Bank of Finland's aim of abandoning regulation that was skewing competition between the banks. Similarly, the Bank of Finland's recent practice of intervening in the forward exchange market is a further example of the new method of regulating liquidity in the financial system and the economy.

INCREASING EMPHASIS ON INTEREST RATES

The changes implemented in interest rate policy have perhaps been the most important from the point of view of the evolution of the financial markets. In 1983, the strict upper limits on the average lending rates set for different banking groups were relaxed to allow the banks to pass on part of the cost of unregulated rate funding to their lending rates. This measure sought to channel unregulated finance through the banking system, thereby facilitating its supervision and control. The modifications implemented in the autumn of 1984 in both the cash reserve system and the regulation of average interest rates were aimed at improving the functioning and workability of these arrangements.

At present, the Finnish financial system can be characterized as some kind of dual-rate system. On the one hand, there exists the market segment where interest rates are regulated by the central bank and through which a substantial part of all finance is still intermediated. On the other hand, operating alongside the regulated segment is the unregulated rate market, which is already a notable investment outlet and source of finance for a very large number of firms — and even households.

In its present form, the dual-rate system is an unavoidable phenomenon associated with the

transition period. It seems obvious that the importance of the rate of interest as a factor governing financing will continue to increase. How development will proceed and how quickly the dichotomy in the markets can be displaced will depend very much on how actively interest rate policy can be pursued.

The enhancement of interest rate flexibility can be regarded as a positive development in many respects. When the banks are, to an increasing extent, competing for funds through the rate of interest, which can be measured simply and unambiguously, it can be assumed that the operational efficiency of the intermediation of finance will improve.

The various linkages between deposit-taking, lending and the use of banking services, which have become prevalent during the period of regulation, will lose their importance. In the longer run, this is certain to lead to a rationalization of banking activities in several ways. For example, it can be expected that the banks' excessively large branch networks will be streamlined. The banks' chances of surviving these pressures for change are good provided that they concentrate on actual banking activities.

The benefits deriving from the increased role of unregulated interest rates are not, however, related solely to the enhancement of the efficiency of the financial system, but more generally to the better allocation of the economy's resources. Under price competition, the availability of finance does not hamper the implementation of profitable investments, as may happen in conditions of credit rationing. Quite often, it has been more difficult for small or newly established firms than for traditional, large-scale industrial enterprises to convince suppliers of credit of the importance of financing their projects. The fact that finance has become more expensive to these firms is in itself a regrettable development, but one which may nevertheless be easier to overcome than the strict limitations on borrowing associated with the previous form of credit rationing.

The growing role of unregulated interest rates can also be expected to promote the formation of price relations between factors of production which are appropriate from the macro-economic point of view. Low interest rates have probably increased the indebtedness and the use of capital of those borrowers who have not been subject to binding credit constraints. The fact that the savings ratio has, in spite of everything, been relatively high in Finland is certainly due in large part to the tax treatment of investment income, above all the tax exemption of deposits.

Given that the free formation of interest rates seems beneficial from several points of view and that there are pressures for expanding the role of unregulated interest rates, one may ask why interest rate controls are not completely dismantled. In fact, there are a number of good reasons for favouring gradual progress in this direction.

First, it is worth noting that both firms and households have become accustomed to low and stable nominal rates of interest. As a result, their assets and liabilities structures are such that a rapid change in interest rates would place serious strains on their liquidity and hinder, for example, their investment planning. This problem is partly due to the fact that the bulk of financial contracts in Finland are by convention concluded at variable rates of interest. The more widespread use of fixed interest rates would be desirable from this point of view, *inter alia*.

Secondly, the rapid introduction of a system of unregulated interest rates could have potentially destabilizing consequences for the banking system. There are numerous small banks in Finland, for whom a rapid change could cause significant difficulties.

The third reason in favour of gradual development is the fact that the monitoring, interpretation and supervision of the state of the financial markets is difficult in very rapidly changing circumstances. Abrupt changes

could clearly impede the management of monetary policy. Once there is more experience of the interest rate sensitivity of investment – and consumption – the pursuit of monetary policy will be based on a much sounder footing than if an extensive system of unregulated interest rates, had been suddenly introduced.

In a free interest rate system, where the liquidity of economic agents is based primarily on financial assets, monetary policy needs instruments which enable the liquidity of the financial system to be regulated in an increasingly flexible fashion. However, the development of new instruments always take time.

Moreover, there are still several unresolved problems concerning the scope of the unregulated market itself. The tax treatment of financial claims is one such problem. For example, it cannot be presumed that interest earnings on funds held in high-rate "investment accounts" would be tax-exempt, as is the case with deposits at present, while the income on some other financial investment yielding the same return would be subject to tax.

As far as ordinary deposit accounts are concerned, however, the abolition of tax exemption for deposits cannot be considered. Bank deposits, whose profitability is underpinned by tax exemption, offer particularly small-savers a safe and flexible form of savings and hence will tend to maintain the savings ratio in the future, as well.

Because of the tax deductibility of interest payments, the interest rate sensitivity of the demand for credit by especially households is low. Consequently, the restriction of this right and a reduction in marginal tax rates have been considered necessary in the liberalization of the financial markets in, for instance, Sweden and Norway. Only if there is sufficient interest rate sensitivity in an unregulated rate system can monetary policy measures be used to influence the demand for and supply of credits in an effective way.

THE POTENTIAL FOR MONETARY AUTONOMY

The international integration of money and capital markets is one of the fundamental changes occurring in the economic environment. It is obvious that, just as Finland cannot remain an isolated enclave in production and trade, nor can it in the longer term stay insulated from international financial integration. Since, however, very important questions concerning monetary autonomy attach to this process of integration, there is every reason to carefully consider what kind of trends it is desirable to support and to what extent.

Finland's chances of pursuing a monetary policy differing from that of other countries will depend largely on how strongly capital flows react to differences between domestic and foreign interest rates and to exchange rate expectations. In this respect, the regulation of capital flows plays an important role.

A prerequisite for the growth in the significance of foreign trade and continued internationalization is that Finnish firms are able to invest abroad. Similarly, in certain cases there is also a need to acquire risk capital abroad. Firms should also be ensured the opportunity to utilize international financial markets for financing their foreign trade and covering risks. It is therefore hard to imagine that official regulation of capital flows would, under conditions of free trade, be very strict. Moreover, Finland's international commitments set limits in this respect.

Nevertheless, how flexible capital movements prove to be will depend, up to a certain extent, on Finland's own discretion. In the case of securities trade, we could well — and in my opinion should — follow the practice of prior authorization. Similarly, Finland's chances of controlling long-term credit flows are, in principle, very good. By contrast, short-term capital flows and their flexibility pose a problem. Both practical needs and international commitments greatly restrict the possibilities to regulate

short-term capital flows. It is precisely these flows which respond very strongly to interest rate differentials and thus have such an important impact on the foreign exchange reserves and potentially also on the money supply. The currency inflows induced by Finland's high call money rate during 1984 are a good example of this. However, without the regulation of payments and credit flows related to foreign trade, this currency inflow would have been even stronger.

Indeed, the past year has provided clear proof of Finland's ability to pursue an independent monetary policy even in the present conditions. In spite of fairly big interest rate differentials, capital flows have nonetheless remained moderate by international standards. Currency flows have not prevented the Bank of Finland from contributing effectively to checking the overheating of the business upswing and curbing inflation, because it has been possible to sterilize most of the currency inflow at the Bank of Finland by means of a high call rate. Essentially, this reflects the fact that the markka is not an important currency in world trade and markka-denominated securities are not, as a rule, held by or available to foreign economic agents on a large scale.

The Bank of Finland places such a high value on autonomy in monetary policy that, in spite of all the trends towards internationalization, it has not considered nor does it consider it appropriate to abandon the regulation of capital flows. The increased sensitivity of capital flows has, in fact, been caused by the internationalization of the business sector and its growing interest rate and price awareness, and not by any change in the Bank's policy on capital movements. However, at the same time it must be stated that it will not be possible, especially in the longer term, to resort exclusively to quantitative regulation in this area. There will also be a need for methods operating through the price mechanism. When, in the course of time, Finland obtains a sufficiently extensive market for financial claims

of varying maturities, the Bank of Finland may perhaps be better able than at present to forestall the effects on monetary equilibrium of capital flows arising from temporary disturbances and expectations.

THE SCOPE FOR AND ROLE OF CENTRAL BANK POLICY

All in all, then, what is the scope for central bank policy in a changing financial market environment, and what kind of goals should be aimed for?

Traditionally, monetary policy has been regarded primarily as an instrument of counter-cyclical policy. As such, it is an instrument which has been believed in sometimes more and sometimes less. Everybody is familiar with the debate about the lags related to the effects of monetary policy, which can be "long and varying". In the 1970s, Finland, like other countries, learnt that the effects of monetary policy depend essentially on expectations about the future. When the inflation process is generated by strong inflation expectations, it cannot be subdued through a short-term tightening of monetary policy. In addition, the shocks experienced by the world economy in the 1970s originated from the supply side and not the demand side, the regulation of which had traditionally been entrusted to monetary policy. When, as a consequence, a number of countries underwent an unprecedented combination of high inflation and unemployment, doubts began to be expressed in many quarters as to the ability of monetary policy to even out cyclical variations.

The ongoing integration of capital markets accompanying internationalization has also increased doubts about the prospects for monetary policy. When, more than ten years ago, the major market economies were forced to abandon the system of fixed exchange rates as being no longer workable, it was strongly believed that flexible exchange rates would ensure each country an opportunity to pursue

independent monetary policy. It was felt that even fairly large deviations in interest rate levels between countries would be possible without generating disturbances. However, subsequent events have demonstrated that this has not been the case. Capital flows have had a significant impact on the money markets and monetary policies of even large market economies.

As a consequence of these experiences, there has been clearly wider support in many countries for the notion that central banks should give up their ambitious counter-cyclical policy objectives to concentrate on taking care of the stability of the financial system in general. It is obvious that the smooth functioning of the financial system is an important objective when, at the same time as there are strong pressures for structural change, several countries are encountering severe debt problems. Finland is fortunate in not facing any serious threat in this respect. Nevertheless, the functioning of the financial system presupposes confidence in the system, and this confidence can be maintained only by preventing the emergence of disturbances beforehand.

It would be wrong, however, to suppose that the only task of the monetary authority is to ensure the proper functioning of the monetary system. The importance of the economic policy role of the central bank remains indisputable. There are, both in Finland and other countries, good examples of the effectiveness of tight monetary policies. There can be little doubt that the tight monetary policy pursued in the United States had a decisive impact on economic developments in 1979–1982 and on the breaking of the inflationary spiral. Tight monetary policy also played a key role in the stabilization of the Finnish economy in the mid-1970s. In both cases, the curbing of inflation involved substantial costs in the form of foregone output and employment. Monetary policy is an efficient, but also painful, way of curbing inflation when other economic policies have failed. Experience shows how difficult a

choice a country has to face if the onset of inflation is not forestalled in good time.

The experiences gained in the 1970s underline the importance of a stable price level as a key economic policy objective. The inflation process rapidly develops into a self-sustaining mechanism, whose management is impossible without heavy social costs. Economic policy should therefore be prepared to make small

sacrifices in the short run, so as to be able to avoid major losses in the longer run.

It is vital that a counter-inflationary stance and the attitudes consistent with it are adopted in all areas of economic policy. Monetary policy is best used in coordination with other policies in order to prevent the emergence of major economic imbalances.

MONETARY AND FOREIGN EXCHANGE POLICY MEASURES FROM JANUARY 1984 TO JANUARY 1985

1984

January

Quotas at base rate. The commercial banks' central bank quotas at base rate are abolished as from January 1.

Call money market. Foreign-owned banks are extended the same rights as the domestic banks to participate in the call money market as from January 1. At the same time, an upper limit is imposed on call money deposits of 20 per cent of each bank's balance sheet total.

The Bank of Finland raises the call money rate from 16.7 to 17.5 per cent on January 1.

Regulation of average lending rates. On January 1, the Bank of Finland raises the proportion of the banks' funding costs in the unregulated money market which they may pass on in their lending rates from 50 to 60 per cent. In the same context, the 14 per cent upper limit on the banks' lending rates is abolished for credit extended to corporations in the form of cheque account overdrafts and bills.

Currency index. As from January 1, only the convertible currencies most important for Finland's foreign trade are taken into account when calculating the currency index number expressing the external value of the markka.

Revised Nordic agreement on short-term foreign exchange support. According to the revised swap agreement entering into force on January 1, the central banks of Denmark, Finland, Norway and Sweden are each entitled to receive credit up to a maximum of SDR 150 million. In addition, each bank is required to extend credit up to a maximum of SDR 100 million. In the case of the central bank of Iceland, the right to credit is SDR 30 million and the lending requirement SDR 20 million.

Liberalization of Foreign Exchange Regulations. The provision prohibiting the export and import of 500 markka banknotes is cancelled on January 1.

As from the same date, most of the upper limits on the markka amounts specified in the Foreign Exchange Regulations are raised by slightly more than an adjustment for inflation requires. For example, the maximum value of the means of payment that may be freely exported from the country is raised from FIM 5 000 to FIM 10 000 per person per journey.

Payments arrangements between Finland and Czechoslovakia. Finland and Czechoslovakia agree that in 1984 and 1985 payments between the two countries can be effected in any convertible currency.

Export deposits. On January 17, the Council of State decides to collect export deposits for pine sawnwood as from January 20. The deposits are to be made at the Bank of Finland, and will bear interest at a rate of 8 $\frac{3}{4}$ per cent.

Investment reserves. On January 17, the Government decides to raise maximum permissible transfers to investment reserves from 50 per cent to 70 per cent of profits for accounting periods ending in 1984. The Bank of Finland decides to pay interest at a rate of 1 $\frac{1}{2}$ percentage points below the base rate, i.e. 8 per cent, on investment deposits made on the basis of this decision. These decisions enter into force on January 26.

February

Cash reserve requirement. At the end of February, the Bank of Finland raises the reserve requirement from 4.7 to 5.0 per cent.

Repayment of standby credit. On February 29, 1984, the Bank of Finland repays a USD 150 million standby credit.

March

Repayment of standby credit. On March 23, 1984, the Bank of Finland repays its last standby credit in use, amounting to USD 200 million.

The external value of the markka. On March 27, 1984, the Bank of Finland raises the external value of the markka by about one per cent within the range of fluctuation of the currency index number.

Financing of domestic suppliers' credits. The Bank of Finland reduces its share in the financing of domestic suppliers' credits from 40 to 30 per cent as from March 27, 1984.

Arrangement for the financing of short-term export credits. On March 27, 1984, the Bank of Finland decides to reduce the maximum annual average amount of the Bank's financing of short-term export credits from FIM 50 to FIM 30 million as from January 1, 1984.

Cash reserve requirement. The Bank of Finland raises the cash reserve requirement from 5.0 per cent to 5.4 per cent at the end of March.

April

Call money market. The Bank of Finland rescinds the upper limit on the banks' call money deposits as from April 1, 1984. The Bank of Finland lowers the call money rate from 17.5 to 17.0 per cent as from the same date. The call money rate is lowered further to 16.7 per cent as from April 17 and to 16.5 per cent as from April 19.

Cash reserve requirement. The Bank of Finland raises the cash reserve requirement from 5.4 to 5.6 per cent at the end of April.

Revisions in Foreign Exchange Regulations. In a decision of the Council of State, the foreign branch offices of commercial banks and Postipankki are defined as non-residents as from March 1, 1984. Because of this decision, the Bank of Finland announces certain other revisions in the Foreign Exchange Regulations, which enter into force on April 11, 1984. The right of Finnish residents to use credit and debit cards for purchasing goods to be imported to Finland is extended as from the same date, provided that the value of any one purchase does not exceed FIM 10 000.

May

Call money market. The Bank of Finland raises the call money rate from 16.5 to 16.8 per cent as from May 29.

June

Export deposits. On June 5, the Council of State decides to collect export deposits for pulp to be exported between June 8, 1984 and June 7, 1985. The deposits are to be made at the Bank of Finland, and will bear interest at a rate of 8 ¼ per cent.

July

Call money market. The Bank of Finland lowers the call money rate from 16.8 to 16.5 per cent as from July 3.

September

Central bank financing. The Bank of Finland decides to extend to Peruspankki Ltd, as from the beginning of September, the same rights to central bank financing and the use of the call money market as the other commercial banks.

Call money market. The Bank of Finland lowers the call money rate from 16.5 to 16.0 per cent as from September 7 and further to 15.8 per cent as from September 28.

Cash reserve requirement. On September 7, 1984, the Bank of Finland concludes a new cash reserve agreement with the banks. According to it, the cash reserve base comprises, in addition to deposits received on normal terms, the total stock of deposits denominated in foreign currency, special deposits and the banks' net foreign liabilities after certain deductions.

Regulation of average lending rates. On September 7, 1984, the Bank of Finland decides to revise its regulation of the banks' average lending rates. According to the new system, the average lending rate applied by a banking institution to its domestic markka-denominated lending is allowed to rise by not more than 30 per cent of the increase in the average deposit rate on the bank's total stock of deposits. The new system is to become effective progressively as from the beginning of October.

October

Call money market. The Bank of Finland lowers the call money rate from 15.8 to 15.6 per cent as from October 26.

November

Financing of domestic suppliers' credits. The Bank of Finland raises the rate of interest applied to domestic suppliers' credits by one percentage point to 10 ½ per cent. At the same time, the Bank raises the lower limit on the contract price of a delivery which can be financed to FIM 1 million and the commitment

fee to a maximum of 0.35 per cent. The revisions are to concern domestic suppliers' credits granted as from November 1, 1984.

Export deposits. The Council of State decides to discontinue the collection of export deposits on sawn pine wood as from November 1, 1984.

Call money market. The Bank of Finland lowers the call money rate from 15.6 to 15.4 per cent as from November 14 and further to 15.2 per cent as from November 30.

Bank of Finland's credit facility agreements. On November 16, the Bank of Finland cancels its credit facility agreements totalling FIM 1.5 billion with international banking consortia.

December

Call money market. The Bank of Finland lowers the call money rate from 15.2 to 14.8 per cent as from December 21.

1985

January

Arrangement for the financing of short-term export credits. On January 1, 1985, the Bank of Finland raises the rate of interest on short-term export credits so that, irrespective of the credit period, it is the same as the Bank of Finland's base rate at any one time. At the same time, the Bank of Finland decides to reduce 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 lowers the call money rate from 14.8 to 14.6 per cent as from January 11.

ITEMS

Lowering of the base rate. At their meeting on January 8, the Bank Supervisors delegated by Parliament decided, on the proposal of the Board of Management of the Bank of Finland, to lower the base rate from 9.5 to 9 per cent as from February 1, 1985. As a consequence of this decision, the banks' lending and deposit rates will fall, in general, by 0.5 percentage point from the same date.

During the past year, the economic upswing continued to be balanced. The rate of inflation decelerated and the current account strengthened. Positive real interest rates contributed to this development. The call money rate was lowered gradually in the course of 1984 from 17.5 per cent in the early months of the year to 14.8 per cent by the end of the year. As the base rate remained at 9.5 per cent throughout the year, the difference between the call money rate and the base rate fell from 8 percentage points to about 5 percentage points.

In many industrial sectors, the demand prospects for this year are fairly favourable and the level of capacity utilization is high. Export developments are, however, expected to weaken during the year, in which case the growth in output will depend, to an increasing extent, on domestic demand. Given the lag in monetary policy effects, the gradual easing of monetary policy has become appropriate. Because of the low rate of international inflation, the curbing of inflation must still be regarded as a key economic policy goal in Finland. From the point of view of the country's competitiveness, the deceleration in inflation is a basic prerequisite for a significant relaxation in the monetary policy stance.

Protocol on the exchange of goods between Finland and the U.S.S.R. for 1985. Finland and the U.S.S.R. have agreed on their reciprocal trade for 1985, which is the last year of the current 5-year framework agreement on trade. The protocol concerning

the exchange of goods was signed in Moscow on December 13, 1984.

Under the agreement, the total value of trade between the two countries in 1985, including cross border trade, is set to reach about SUR 5 billion or about FIM 37.5 billion at 1984 prices. The value of trade will therefore increase slightly on 1984.

The value of Finnish exports to the U.S.S.R., including construction projects, will amount to about SUR 2.4 billion. This represents an increase of about 10 per cent from the previous year. Finnish exports will centre on shipments of the metal and engineering industries, which are set to grow more than 20 per cent as compared with 1984. Exports of raw materials and intermediate products will also grow appreciably. Exports of chemicals, forest products and agricultural produce will maintain their previous levels or decline slightly. Exports of consumer goods and construction projects are estimated to fall from last year's levels.

The value of Finnish imports from the U.S.S.R. in 1985 is estimated to total about SUR 2.5 billion. The composition of imports will remain broadly unchanged. The import quota for crude oil has been set at 8.5–9.0 million tonnes. Imports of the main import products, crude oil and heavy and light fuel oils, may, however, fall slightly, in which case part of the quotas can be replaced by other products. Imports of coal, coke and electricity will remain unchanged, whereas imports of natural gas will increase by more than 10 per cent. The value of imports of Soviet machinery and equipment is set to rise slightly. The agreement also provides for increases in imports of ores and metals. Imports of chemical products will decline slightly and timber imports by almost 10 per cent.

The clearing account between Finland and the U.S.S.R. is expected to remain fairly well balanced in 1985, unless world oil prices undergo significant changes.

Supplementary budget. The third supplementary budget for 1984 was approved by

Parliament in December. It provides for additional expenditure totalling about FIM 1.6 billion in net terms. Together with extra outlays of more than FIM 0.4 billion in the first and second supplementary budgets, the three supplementary budgets for 1984 involve a total addition of over FIM 2 billion, or 2.4 per cent, to planned expenditure in the ordinary budget.

Budgeted central government expenditure for 1984 totals FIM 86.6 billion, or 12.2 per cent more than actual expenditure in 1983. In volume terms, this represents an increase of some 4.5 per cent. Of budgeted central government revenue, taxes and revenue comparable to taxes account for some FIM 1.2 billion more than foreseen in the original budget proposal.

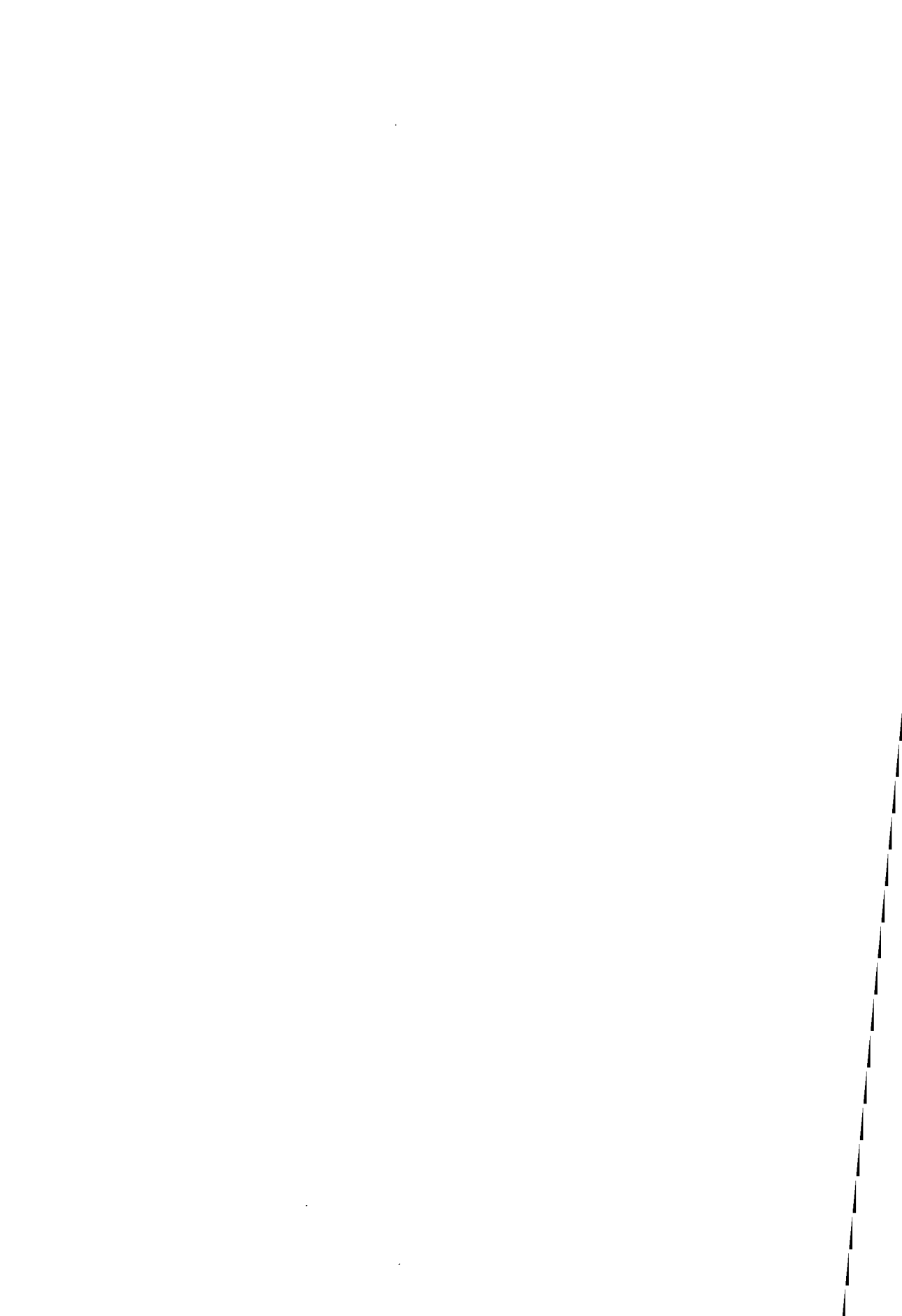
Increases in budgeted expenditure in the third supplementary budget total FIM 2.2 billion and decreases about FIM 0.6 billion. Of the additional outlays, almost FIM 0.6 billion is attributable to agricultural export subsidies for the financing of grain purchases by the State Granary. Of the decreases in expenditure, about FIM 45 million represents a reduction in interest payments on domestic debt due to smaller-than-forecast borrowing by the central government, while FIM 55 million is for a reduction in outlays for redemptions of long-term foreign debt.

Increases in revenue in the third supplementary budget total FIM 1.6 billion and are mainly attributable to a greater-than-forecast accrual of revenue. The largest increase is an additional accrual of FIM 0.5 billion for revenue

from income and wealth taxes. An increase in revenue of FIM 150 million has also been budgeted for repayments of State housing loans.

Publication of the Bank of Finland. The following publication has appeared in series B:37, Urho Lempinen, *Optimizing Agents, Exogenous Shocks and Adjustments in the Economy*, doctoral dissertation presented to the faculty of Princeton University, Helsinki 1984, 271 pp. ISBN 951-686-100-8, ISSN 0357-4776.

The study investigates, on the one hand, the well-known question of policy neutrality in the closed economy context and, on the other hand, the nature of cyclical fluctuations in a small open economy. Considering the former question, the argument that anticipated monetary measures can also have real effects via the Tobin effect is further developed and extended. In addition, it is shown that economic policies can be ranked in the spirit of Leijonhufvud's notion of corridor. The notion itself is given a new information-theoretic interpretation. Secondly, it is shown that a small open economy following a fixed exchange rate regime has a structural propensity to experience endogenously generated devaluations and revaluations, i.e. exchange rate cycles. These fluctuations are accompanied by cycles in the unemployment rate and output. The dynamics of the real and exchange rate cycles are studied under two alternative wage setting policies. It is shown that, under certain empirically quite plausible conditions, the cycles are biased towards devaluations and high levels of unemployment.



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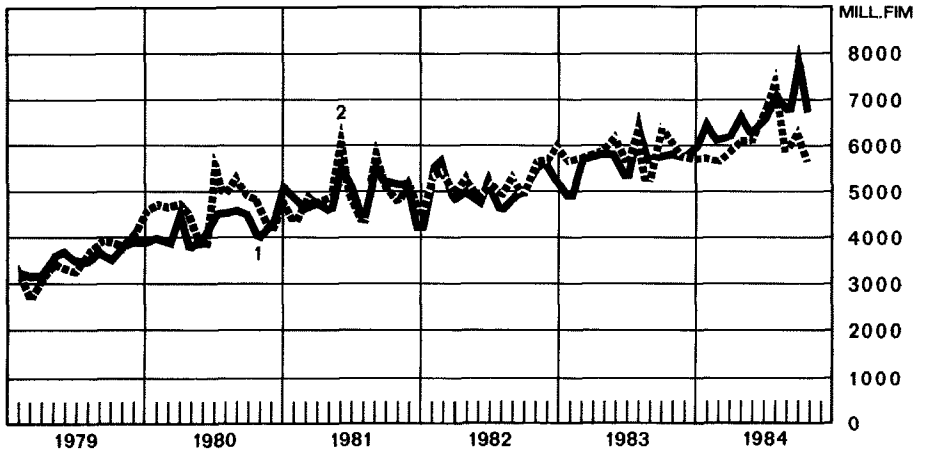
Kari Pekonen
Foreign Exchange

Markus Fogelholm
Foreign Financing

FOREIGN TRADE, 1979 - 84

- 1. Exports f.o.b.
- 2. Imports c.i.f.

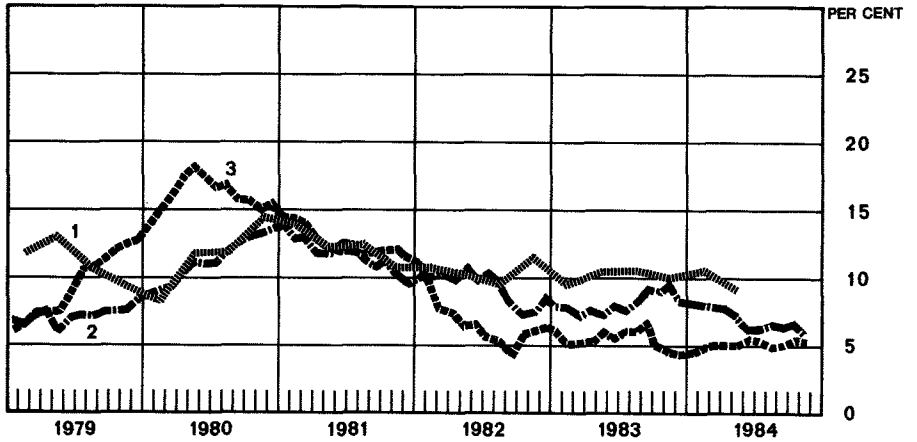
Seasonally adjusted monthly figures



PRICES AND WAGES, 1979 - 84

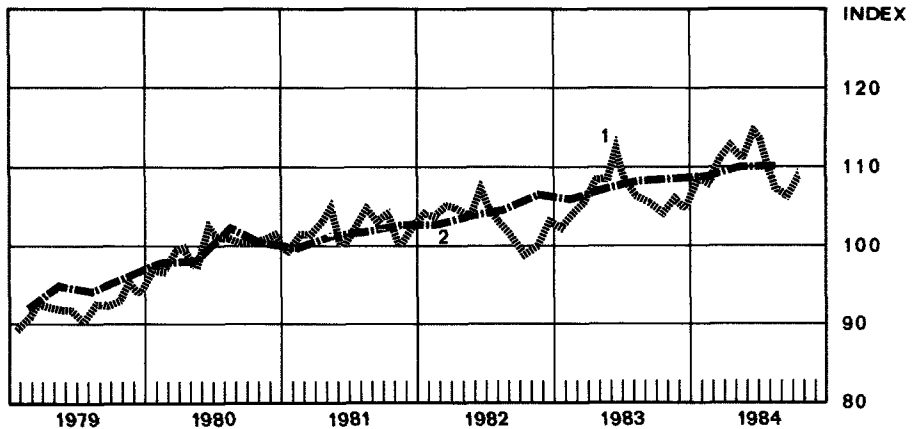
- 1. Index of wage and salary earnings 1975=100, quarterly figures
- 2. Consumer price index 1981 = 100, monthly figures
- 3. Basic price index for domestic supply 1980 = 100, monthly figures

Percentage change on previous year



PRODUCTION, 1979 - 84

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



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