



BANK OF FINLAND

Monthly Bulletin

Finland's energy tax reform

The cost of credit to industry

Monetary and foreign exchange policy
measures from September 1985
to August 1986

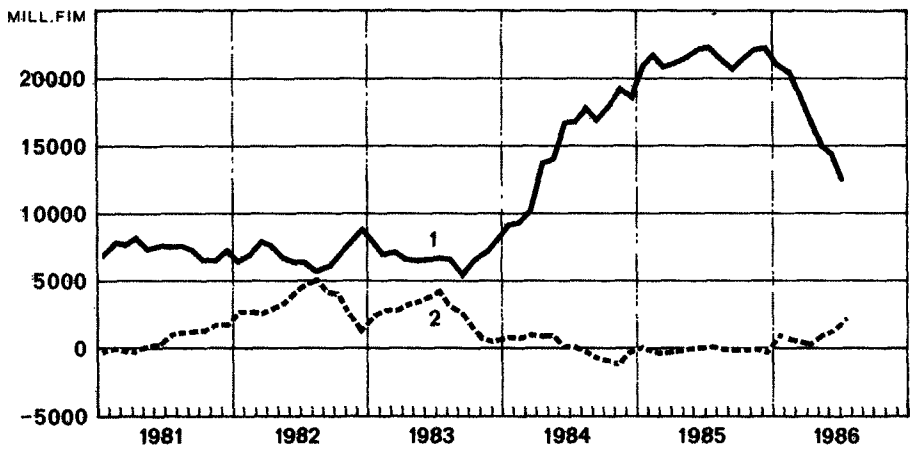
Central Bank Policy

Finland's balance of payments January-
March 1986

The Bank of Finland investment inquiry
of June 1986

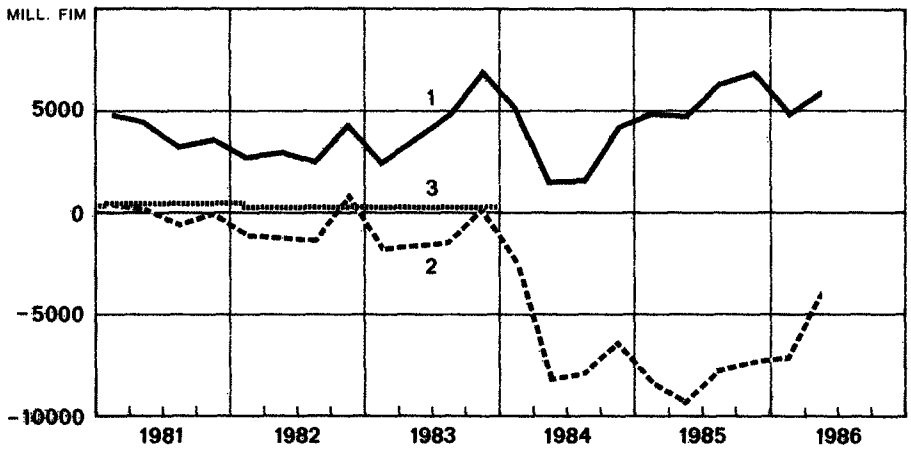
Publications of the Bank of Finland

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



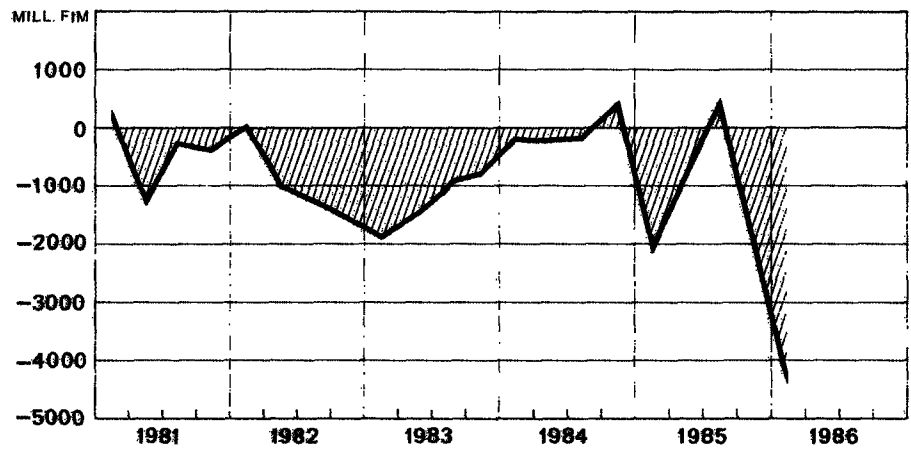
- 1. Gold and convertible currencies
- 2. Tied currencies

DEPOSIT BANKS' CENTRAL BANK POSITION, 1981-86



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

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



Seasonally adjusted quarterly figures

FINLAND'S ENERGY TAX REFORM

by **Kare Turtiainen**, Senior Budget Officer
Ministry of Finance

THE FORMER SYSTEM OF ENERGY TAXATION

In Finland, the incidence of energy taxation has been placed on electricity and imported fuels. Hence, for example, district heating and domestic fuels have been exempt from tax. Indigenous energy sources include hydro-power, peat, wood chips, by-products and waste of the forest industry, agriculture and forestry, as well as industrial waste heat. The share of domestic primary energy accounts for slightly more than 30 per cent of total primary energy. Following the sharp rise in oil prices at the end of 1973, there was a shift in energy taxation in 1974 from proportional taxes to excise duties, the amounts of which have generally been set annually by Parliament. As a rule, the tax has consisted of a fixed payment per unit of fuel or electricity. The change back to proportional taxes was begun in 1984 by altering the taxation of coal and nuclear fuel elements.

Sales tax on investments in energy production and specific energy taxes levied on energy products have been passed on at each stage of production and distribution to the prices of final products. This has strained the competitiveness of Finnish companies in comparison with the most important competitor countries. The share of cascade taxes (excluding taxes on fuels for transportation) arising from energy usage in Finnish industrial exports is estimated to amount to nearly FIM 700 million a year.

Energy taxes including sales (cascade) tax on energy investments are a significant source of income for the central government, accounting for about 9 per cent of total central government tax revenue in 1985.

TABLE 1. ENERGY TAXES PRIOR TO THE REFORM

	Amount of tax in penniä per unit, unless otherwise stated	Share of tax in taxable price as at 31 May, 1986, per cent
Petrol	146.6/litre	47
Diesel oil	90.6/litre	41
Light fuel oil	18.3/litre	17
Heavy fuel oil	8.7/kg	12
Natural gas	1.5/cu. metre	2
Electricity	1.6/kWh	8
- households	" "	5
- electric heating	" "	6
- industry	" "	10
Coal	16 %	16
Nuclear fuel elements	16 %	16

THE OBJECTIVES OF THE REFORM

The purpose of the tax reform is to standardize and simplify taxation. At the same time, the reform shifts the method of energy taxation towards a value-added system. The reform is designed to support industry's international competitiveness and otherwise seeks to be consistent with energy policy objectives.¹

THE NEW SYSTEM OF ENERGY TAXATION

The tax reform was prepared mainly during the spring of this year. When, owing to the fall in both world market prices and the dollar, the import price of oil fell rapidly in the spring, the drop in price was not passed through in full to consumer prices in Finland. Rather, fuel taxes were raised. The tax increases effected at that time anticipated the energy tax reform then under preparation. An essential prerequisite for the implementation of the reform has been the fall in the import price of oil, since the reform involves a substantial tightening in the taxation of heating energy (and thus of households).

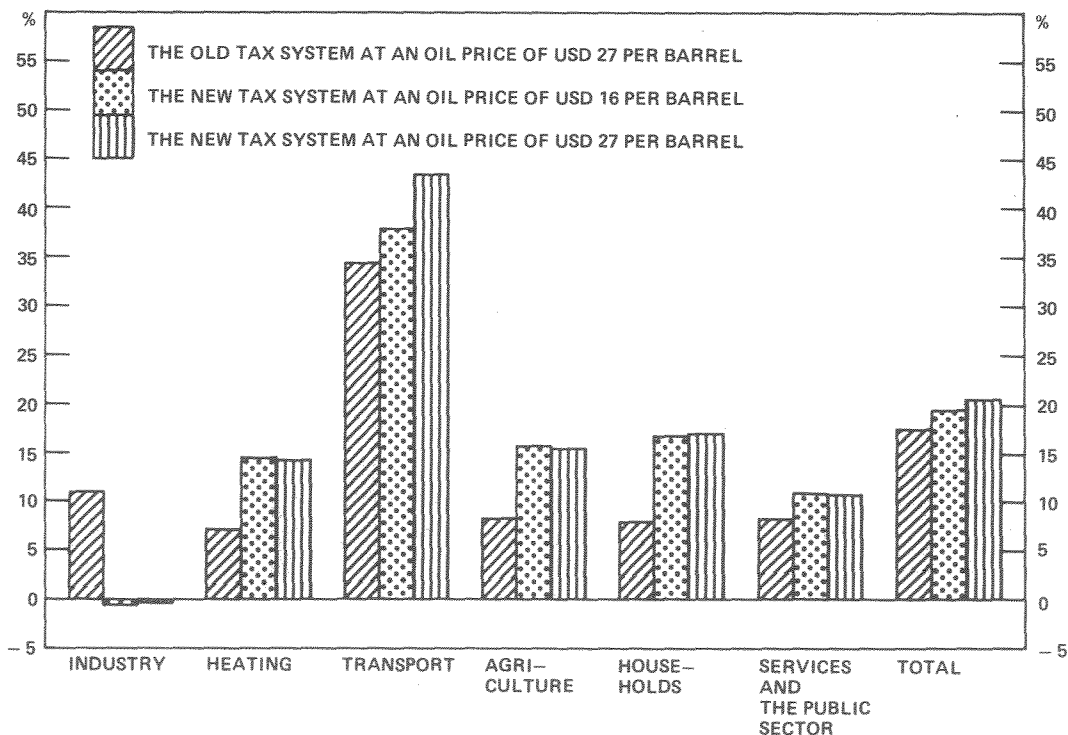
¹ On Finnish energy policy, see the back article in the August 1985 issue of the Bulletin.

By the reform, energy taxation in Finland changed over to a value-added type tax on 1 August 1986, with the exceptions listed below. The main features of the new system of energy taxation are as follows:

1. Virtually all energy sold is subject to sales tax. The tax is levied at a rate of 16 per cent of the taxable price, or 19.05 per cent of the tax-free price. District heating is the most important form of energy to be made subject to taxation for the first time. Peat, waste and wood chips remain exempt from tax. In the taxation of natural gas there will be a transition to the new tax.
2. When calculating sales tax, all persons or firms liable to the tax are allowed to deduct the costs of purchased energy which is resold or used in processing.
3. In addition to sales tax, liquid fuels for transportation are also subject to excise duty, which is, however, smaller than previously. Overall, the level of taxation remains unchanged. The excise duty on lead-free petrol is 4 per cent lower than that on petrol containing lead.
4. The deductions allowed for energy investments in sales taxation are more extensive than before, although they apply only to new plants and even then the deduction is limited to 75-80 per cent of the value of the investment. The tax concessions are aimed at capital installations which are important from the point of view of energy policy such as combined heat and power generation, district heating systems and units using indigenous fuels. Part of the electricity generating facilities, including new nuclear power and coal condensing stations and hydropower plants will continue to be liable to the full rate of sales tax applied hitherto.

(Continued on page 39)

CHART 1. THE SHARE OF TAX IN THE PRICE OF ENERGY BY SECTORS, PER CENT (EFFECTS OF TAX AND PRICE CHANGES)



	1985		1986			
	July 31	Dec. 31	June 30	July 15	July 23	July 31
Assets						
Gold and foreign currency claims	22 630	22 650	15 927	15 872	16 096	14 734
Gold	1 732	2 081	2 081	2 081	2 081	2 081
Special drawing rights	934	931	981	984	983	981
IMF reserve tranche	832	775	813	815	814	812
Convertible currencies	18 863	18 608	10 619	10 187	10 049	8 648
Tied currencies	269	255	1 433	1 805	2 169	2 212
Other foreign claims	2 808	2 645	2 567	2 567	2 567	2 567
Markka subscription to Finland's IMF quota	2 808	2 645	2 567	2 567	2 567	2 567
Claims on financial institutions	7 949	9 256	12 037	11 372	10 835	12 046
Banks' cheque accounts	72	—	—	—	—	—
Call money advances	4 391	5 219	7 939	7 362	6 809	7 936
Till-money credits	1 533	1 925	1 875	1 782	1 803	1 844
Bonds	1 929	2 065	2 121	2 145	2 145	2 153
Other claims on financial institutions	24	47	102	83	78	113
Claims on the public sector	1 580	1 023	993	981	982	982
Government promissory notes	560	—	—	—	—	—
Bonds	154	118	85	73	74	74
Total coinage	866	891	908	908	908	908
Other claims on the public sector	0	14	—	—	—	0
Claims on corporations	4 935	4 679	4 838	4 856	4 861	4 834
Financing of exports	1 739	1 601	1 610	1 632	1 631	1 614
Financing of domestic deliveries	3 019	2 924	2 942	2 940	2 946	2 938
Bonds	99	81	73	73	73	73
Other claims on corporations	78	73	213	211	211	209
Other assets	143	146	147	147	147	148
Total	40 045	40 399	36 509	35 795	35 488	35 311
Liabilities						
Foreign currency liabilities	21	576	16	82	74	63
Convertible accounts	21	36	16	80	73	60
Tied currencies	—	540	—	2	1	3
Other foreign liabilities	3 697	3 494	3 426	3 429	3 428	3 426
IMF markka accounts	2 821	2 645	2 567	2 567	2 567	2 567
Allocations of special drawing rights	876	849	859	862	861	859
Notes and coin in circulation	7 376	8 072	8 156	8 141	8 071	8 086
Notes	6 648	7 304	7 381	7 363	7 291	7 304
Coin	728	768	775	778	780	782
Liabilities to financial institutions	15 617	12 153	11 190	10 270	10 037	9 838
Banks' cheque accounts	8	0	0	0	0	0
Call money deposits	4 981	1 205	2 098	1 212	962	612
Cash reserve deposits	9 878	10 222	8 891	8 890	8 890	9 030
Capital import deposits	652	639	68	68	67	67
Other liabilities to financial institutions	98	87	133	100	118	129
Liabilities to the public sector	1 658	4 300	1 251	1 351	1 350	1 351
Cheque accounts	0	0	1	1	0	1
Government deposit account	1 600	4 300	1 250	1 350	1 350	1 350
Export deposits	58	—	—	—	—	—
Capital import deposits	—	—	—	—	—	—
Other liabilities to the public sector	0	0	0	0	0	0
Liabilities to corporations	4 400	4 267	4 871	4 938	4 914	4 951
Deposits for investment and ship purchase	3 749	3 841	4 662	4 701	4 699	4 735
Capital import deposits	647	424	205	206	206	207
Other liabilities to corporations	4	2	4	31	9	9
Other liabilities	18	14	18	19	19	19
Valuation account and reserves	910	1 639	1 697	1 681	1 711	1 693
SITRA's capital	400	400	400	400	400	400
Capital accounts	5 948	5 484	5 484	5 484	5 484	5 484
Primary capital	5 000	5 000	5 000	5 000	5 000	5 000
Reserve fund	764	764	484	484	484	484
Undisposed profits	126	—	—	—	—	—
Net earnings	58	-280	—	—	—	—
Total	40 045	40 399	36 509	35 795	35 488	35 311

End of year or month	Foreign sector						Public sector			
	Gold. SDRs. IMF reserve tranche	Convertible currencies, net	Total convertible reserves (1+2)	Tied currencies, net	Other claims, net	Net claims (3 to 5)	Claims	Certificates of deposit and deposit account	Other liabilities	Net liabilities (8-7+9)
	1	2	3	4	5	6	7	8	9	10
1982	2 444	6 561	9 005	1 525	-1 447	9 083	1 040	1 700	50	710
1983	2 360	5 835	8 195	550	-794	7 951	2 178	3 000	0	822
1984	3 527	15 303	18 830	-337	-917	17 576	1 951	4 200	77	2 326
1985	3 787	18 572	22 359	-285	-849	21 225	1 023	4 300	0	3 277
1985										
July	3 498	18 842	22 340	269	-889	21 720	1 580	1 600	58	78
Aug.	3 468	18 032	21 500	-159	-873	20 468	1 575	1 500	58	-17
Sept.	3 463	17 391	20 854	-269	-865	19 720	1 297	1 500	58	261
Oct.	3 462	18 174	21 636	-283	-859	20 494	1 269	1 500	59	290
Nov.	3 447	18 811	22 258	-166	-853	21 239	1 320	4 400	0	3 080
Dec.	3 787	18 572	22 359	-285	-849	21 225	1 023	4 300	0	3 277
1986										
Jan.	3 797	17 353	21 150	1 090	-849	21 391	1 036	1 000	14	-22
Feb.	3 748	16 865	20 613	740	-833	20 520	972	1 500	0	528
March	3 837	14 581	18 418	500	-848	18 070	976	1 100	0	124
April	3 800	13 017	16 817	421	-830	16 408	978	1 100	0	122
May	3 908	11 125	15 033	989	-866	15 156	984	1 100	1	117
June	3 875	10 603	14 478	1 433	-859	15 052	993	1 250	1	258
July	3 874	8 588	12 462	2 209	-859	13 812	982	1 350	1	369

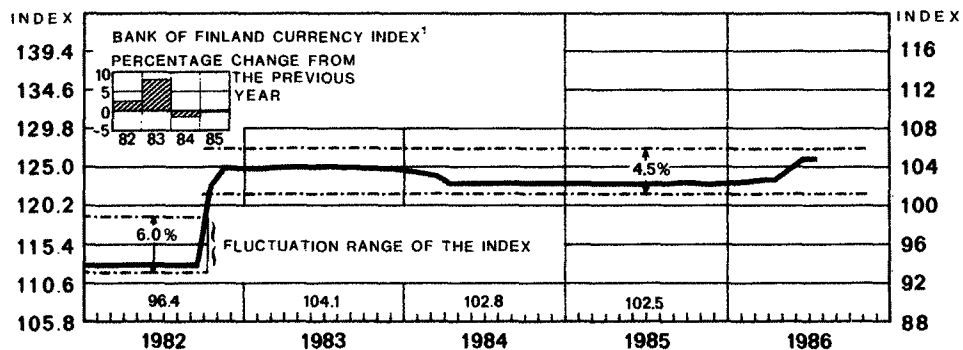
OFFICIAL FOREIGN EXCHANGE RESERVES

Mill. FIM

	Dec. 31. 1985	April 30. 1986	May 30. 1986	June 30. 1986	July 31. 1986
Gold	2 081	2 081	2 081	2 081	2 081
SDRs	931	939	989	981	981
IMF reserve tranche	775	780	838	813	812
Convertible currencies, net	18 572	13 017	11 125	10 603	8 588
Total convertible reserves, net	22 359	16 817	15 033	14 478	12 462
Tied currencies, net	-285	421	989	1 433	2 209
Total reserves, net	22 074	17 238	16 022	15 911	14 671

End of year or month	Domestic financial sector						Corporate sector				Notes and coin in circulation
	Till-money credits	Claims on cheque accounts, net	Demand for call money by deposit banks	Supply of call money by deposit banks	Cash reserve deposits	Other liabilities, net	Net claims (1+2+3-4-5-6)	Permanent special financing schemes	Liabilities, net	Net claims (8-9)	
	1	2	3	4	5	6	7	8	9	10	11
1982	889	163	3 126	1 470	3 132	-1 042	618	4 302	999	3 303	6 062
1983	942	443	5 785	610	5 039	-1 555	3 076	4 529	1 282	3 247	6 574
1984	1 563	383	5 018	2 216	8 696	-1 235	-2 713	4 646	2 614	2 032	7 442
1985	1 925	0	5 219	1 205	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1985											
July	1 533	64	4 391	4 981	9 878	-1 203	-7 668	4 758	4 223	535	7 376
Aug.	1 371	52	5 553	4 692	9 928	-1 212	-6 432	4 734	4 040	694	7 342
Sept.	1 617	182	7 396	5 940	9 983	-1 352	-5 376	4 660	4 094	566	7 352
Oct.	1 567	-28	5 950	5 381	10 019	-1 384	-6 527	4 789	4 111	678	7 322
Nov.	1 450	-8	5 901	3 881	10 097	-1 992	-4 643	4 707	4 094	613	7 442
Dec.	1 925	0	5 219	1 205	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1986											
Jan.	1 558	0	1 852	1 734	9 828	-1 454	-6 698	4 654	4 434	220	7 455
Feb.	1 531	0	3 174	2 221	9 556	-1 530	-5 542	4 654	4 282	372	7 499
March	1 657	0	3 806	1 102	8 942	-1 494	-3 087	4 691	4 299	392	7 840
April	1 984	0	5 285	1 204	8 846	-1 541	-1 240	4 665	4 513	152	8 094
May	1 842	0	6 070	477	8 862	-1 411	-16	4 644	4 067	577	8 046
June	1 875	0	7 939	2 098	8 891	-2 022	847	4 552	4 585	-33	8 156
July	1 844	0	7 936	612	9 030	-2 070	2 208	4 552	4 669	-117	8 086

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).

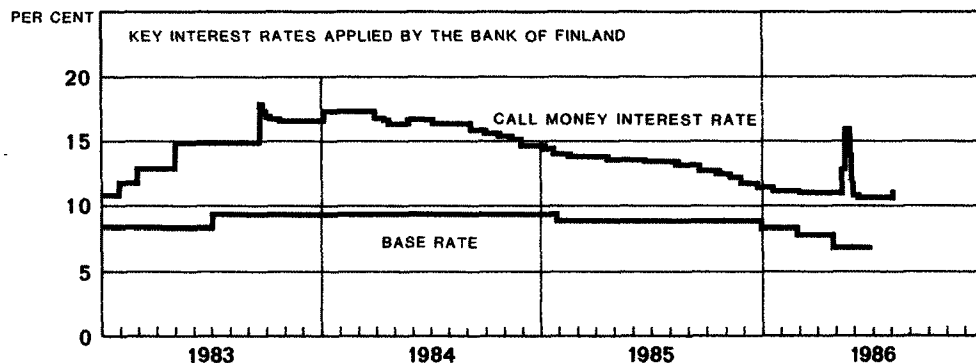


MONETARY POLICY INDICATORS

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 ² %
	1	2	3	4	5	6	7	8	9
1981	4 095	-33	2 795	3.5	2 161	11.48	11.61	9.25	9.84
1982	3 201	-783	2 778	3.1	1 571	11.64	11.99	8.81	9.33
1983	4 539	-1 213	4 345	4.3	2 724	15.37	15.14	9.00	9.56
1984	3 176	-6 365	6 325	5.4	-39	16.53	16.53	9.50	10.49
1985	5 812	-8 293	9 578	5.6	1 285	13.37	13.37	9.04	10.41
1985									
May	4 691	-9 268	9 504	5.6	236	13.80	13.80	9.00	10.37
June	4 337	-10 150	9 588	5.6	-562	13.77	13.77	9.00	10.37
July	5 444	-8 711	9 695	5.6	984	13.60	13.60	9.00	10.40
Aug.	6 153	-7 843	9 881	5.6	2 038	13.43	13.43	9.00	10.43
Sept.	7 771	-6 928	9 930	5.6	3 002	13.11	13.11	9.00	10.42
Oct.	7 516	-7 079	9 982	5.6	2 904	12.78	12.78	9.00	10.43
Nov.	6 407	-8 485	10 024	5.6	1 539	12.37	12.37	9.00	10.40
Dec.	7 084	-6 784	10 101	5.6	3 317	11.96	11.96	9.00	10.37
1986									
Jan.	5 280	-7 742	10 210	5.3	2 467	11.64	11.64	8.50	9.90
Feb.	4 242	-8 187	9 818	5.0	1 631	11.40	11.40	8.50	9.90
March	5 146	-5 927	9 457	4.7	3 530	11.21	11.21	8.00	9.49
April	5 034	-5 565	8 939	4.7	3 374	11.20	11.20	8.00	9.49
May	6 645	-3 566	8 847	4.7	5 281	12.02	12.02	7.00	8.78
June	6 393	-3 409	8 863	4.7	5 454	10.83	10.83	7.00	8.82
July	7 556	-2 677	8 895	4.7	6 218	10.80	10.80	7.00	..

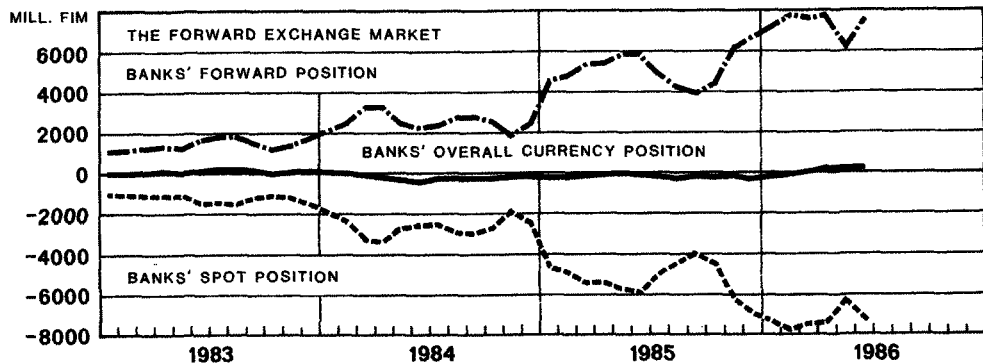
¹ End of period for monthly figures.

² End of period.



FORWARD EXCHANGE MARKETS IN FINLAND

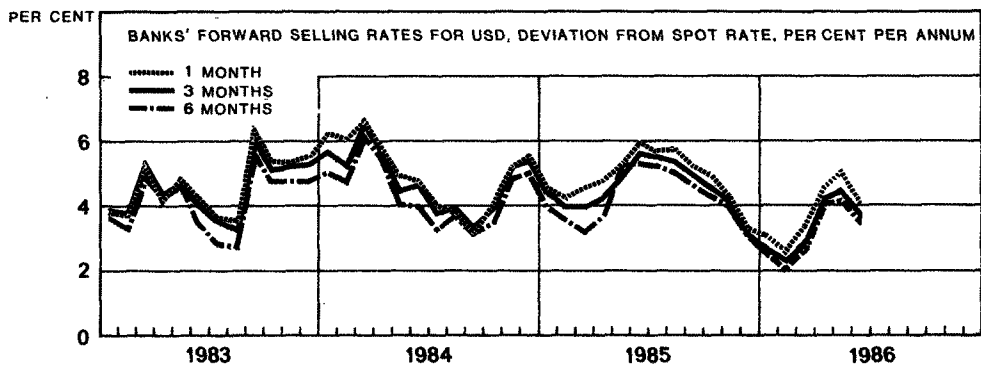
Period	Banks' forward positions in mill. FIM with						Banks' forward selling rates for USD		
	Domestic firms			Foreign banks	Bank of Finland	Overall	Deviation from spot rate, per cent per annum		
	Assets	Liabilities	Net	Net	Net	Net	1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
1984	22 921	1 394	21 527	2 002	-19 962	3 746	5.6	5.5	5.1
1985	16 982	1 733	15 249	708	-9 005	6 876	3.3	3.2	3.1
1985									
Feb.	22 602	1 592	21 010	2 971	-18 323	5 186	4.3	4.0	3.6
March	23 344	2 247	21 097	1 048	-16 848	5 575	4.6	4.0	3.3
April	22 987	2 219	20 769	1 640	-16 768	5 753	4.8	4.3	3.8
May	22 085	2 316	19 769	1 708	-15 704	5 865	5.3	4.9	4.5
June	21 221	2 259	18 962	1 941	-15 352	5 478	6.0	5.7	5.4
July	19 534	2 250	17 284	2 418	-14 224	5 558	5.7	5.6	5.3
Aug.	18 271	2 727	15 544	1 083	-12 493	4 163	5.8	5.4	5.1
Sept.	17 755	2 889	14 866	92	-11 101	3 811	5.3	5.0	4.7
Oct.	17 666	2 795	14 871	805	-9 813	5 986	5.0	4.6	4.3
Nov.	17 510	2 014	15 496	1 200	-10 032	6 702	4.3	4.1	4.0
Dec.	16 982	1 733	15 249	708	-9 005	6 876	3.3	3.2	3.1
1986									
Jan.	17 233	1 945	15 288	543	-8 349	7 457	3.1	2.7	2.6
Feb.	16 911	1 989	14 923	0	-7 015	7 952	2.7	2.4	2.1
March	16 365	2 095	14 270	11	-6 298	8 042	3.5	3.0	2.8
April	15 350	1 713	13 638	-854	-4 742	7 956	4.6	4.2	4.1
May	15 231	2 505	12 726	-1 642	-3 956	6 957	5.1	4.5	4.2
June	13 094	1 665	11 429	-575	-2 619	8 068	4.2	3.8	3.6



FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange, FIM

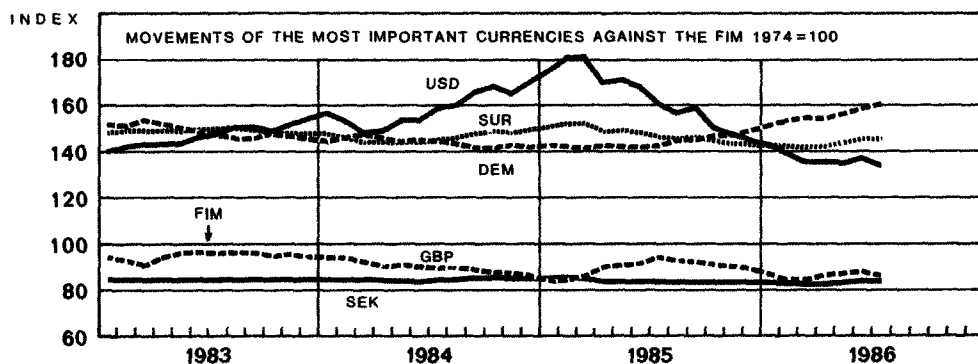
Period	New York 1 US \$ USD	Montreal 1 C \$ CAD	London 1 £ GBP	Dublin 1 Ir£ IEP	Stockholm 100 Skr SEK	Oslo 100 Nkr NOK	Copenhagen 100 Dkr DKK	Frankfurt 100 DM DEM	Amsterdam 100 Hfl NLG	Brussels 100 FB BEC BEL	
	1	2	3	4	5	6	7	8	9	10	11
1981	4.315	3.602	8.731	6.976	85.74	75.54	60.96	191.31	173.43	11.688	11.095
1982	4.820	3.913	8.423	6.854	77.03	74.84	57.93	198.76	180.66	10.584	9.859
1983	5.570	4.524	8.456	6.957	72.75	76.44	61.07	218.61	195.66	10.934	10.742
1984	6.010	4.645	8.023	6.533	72.77	73.84	58.16	211.65	187.72	10.428	10.274
1985	6.206	4.554	8.000	6.590	72.22	72.31	58.71	211.42	187.45	10.483	10.421
1985											
June	6.371	4.665	8.172	6.535	72.10	72.40	58.06	208.37	184.78	10.347	10.298
July	6.099	4.516	8.402	6.570	71.95	72.29	58.26	209.37	185.97	10.398	10.316
Aug.	5.942	4.387	8.253	6.653	71.70	72.30	58.93	213.31	189.63	10.547	10.425
Sept.	6.025	4.404	8.232	6.611	71.89	72.39	58.60	212.50	188.92	10.510	10.431
Oct.	5.690	4.168	8.106	6.676	71.63	72.10	59.41	215.47	191.11	10.633	10.556
Nov.	5.579	4.060	8.042	6.668	71.60	71.66	59.53	215.40	191.26	10.654	10.608
Dec.	5.487	3.941	7.952	6.737	71.57	71.85	60.23	218.51	194.03	10.722	10.666
1986											
Jan.	5.419	3.860	7.747	6.772	71.49	71.90	60.64	222.15	197.11	10.875	10.733
Feb.	5.258	3.748	7.513	6.827	71.14	72.27	61.15	225.39	199.50	11.018	10.904
March	5.131	3.659	7.531	6.868	71.01	72.07	61.43	226.89	200.97	11.087	10.962
April	5.128	3.700	7.682	6.853	70.92	71.80	61.17	225.64	200.20	11.066	10.970
May	5.105	3.717	7.774	6.985	71.57	68.98	62.01	229.35	203.69	11.237	11.168
June	5.195	3.745	7.840	7.055	72.17	68.34	62.77	232.54	206.54	11.389	11.307
July	5.074	3.681	7.671	7.067	71.93	68.03	63.06	235.78	209.25	11.460	11.372



Average selling rates for foreign exchange. FIM

Zurich 100 Sfr CHF	Paris 100 FF FRF	Rome 100 Lit ITL	Vienna 100 OS ATS	Lisbon 100 Esc PTE	Reykjavik 100 Ikr ISK	Madrid 100 Ptas ESB	Tokyo 100 Y JPY	Moscow 1 Cl Rbl SUR	1 special drawing right SDR	Currency index ¹
12	13	14	15	16	17	18	19	20	21	22
220.34	79.92	0.385	27.17	7.17	60.35	4.72	1.967	5.986	5.071 40	113.1
237.79	73.65	0.358	28.31	6.13	40.79	4.41	1.943	6.624	5.305 63	115.9
265.70	73.53	0.369	31.11	5.14	23.25	3.91	2.351	7.491	5.943 25	125.1
256.42	69.07	0.344	30.13	4.14	19.39	3.75	2.534	7.357	6.147 39	102.8
253.60	69.40	0.327	30.12	3.67	15.20	3.66	2.610	7.419	6.278 77	102.5
248.20	68.49	0.328	29.67	3.69	15.52	3.67	2.564	7.455	6.344 84	102.4
252.74	68.98	0.323	29.82	3.64	15.07	3.64	2.529	7.359	6.211 68	102.5
259.72	69.98	0.319	30.40	3.63	14.77	3.64	2.509	7.319	6.131 58	102.5
258.26	69.77	0.318	30.25	3.57	14.57	3.59	2.550	7.366	6.183 31	102.6
262.81	70.80	0.320	30.69	3.52	13.85	3.54	2.653	7.262	6.051 77	102.6
262.36	70.80	0.320	30.66	3.50	13.63	3.51	2.740	7.209	6.016 47	102.4
261.01	71.57	0.322	31.12	3.48	13.36	3.54	2.710	7.183	5.971 01	102.5
262.42	72.55	0.327	31.63	3.49	13.03	3.56	2.712	7.164	5.940 24	102.6
269.08	73.58	0.332	32.10	3.50	12.80	3.59	2.850	7.161	5.926 58	102.7
269.37	73.91	0.335	32.36	3.48	12.67	3.62	2.876	7.131	5.888 85	102.8
269.68	71.33	0.331	32.17	3.46	12.61	3.58	2.931	7.148	5.886 47	102.7
275.83	72.13	0.335	32.65	3.46	12.74	3.62	3.062	7.230	5.954 02	103.8
282.20	73.11	0.340	33.12	3.47	12.81	3.65	3.099	7.301	6.039 58	105.0
290.80	73.42	0.345	33.55	3.45	12.58	3.70	3.201	7.313	6.024 88	105.0

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



DEPOSITS BY THE PUBLIC

Mill. FIM

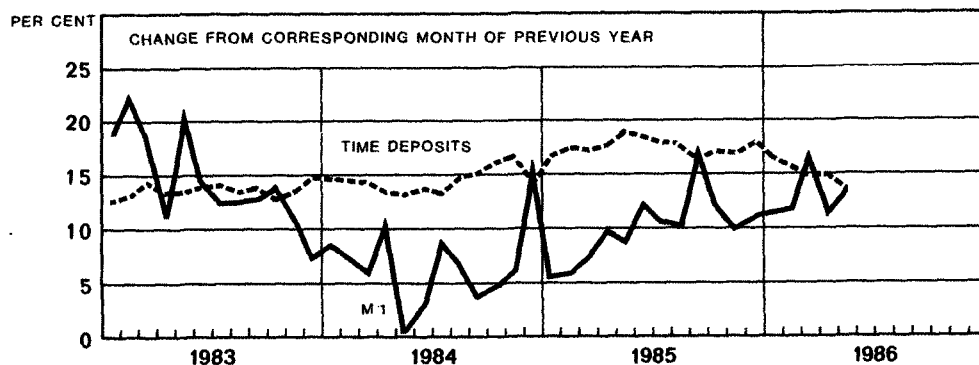
End of year and month	Demand deposits				Time deposits				Total (4 + 9)	
	Commercial banks	Savings banks & Co-op. banks	Posti-pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Posti-pankki		All deposit banks (5 to 8)
	1	2	3	4	5	6	7	8	9	10
1982	7 155	3 874	3 049	14 078	29 465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

1985*

April	7 660	4 505	4 786	16 950	42 772	34 904	29 368	11 726	118 770	135 720
May	7 463	4 733	4 364	16 559	43 804	35 347	29 838	11 893	120 881	137 440
June	7 621	4 755	5 168	17 544	44 443	36 047	30 500	11 768	122 758	140 302
July	7 927	4 874	5 283	18 084	44 294	36 219	30 455	11 799	122 767	140 851
Aug.	7 222	4 917	5 739	17 878	44 796	36 551	30 741	12 083	124 171	142 049
Sept.	8 081	5 072	6 243	19 397	44 770	36 469	30 658	11 973	123 870	143 267
Oct.	8 281	5 194	5 547	19 022	45 896	36 825	30 892	12 366	125 979	145 001
Nov.	7 654	5 038	5 057	17 749	46 887	37 016	31 155	12 220	127 278	145 027
Dec.	9 382	5 988	5 027	20 397	49 240	38 167	32 133	12 671	132 210	152 607

1986*

Jan.	8 239	5 350	5 210	18 798	49 624	38 550	32 842	12 867	133 883	152 681
Feb.	7 854	5 028	5 133	18 015	50 700	39 154	33 413	12 983	136 250	154 265
March	7 552	5 105	5 678	18 335	49 777	39 307	33 586	13 032	135 703	154 037
April	8 228	5 464	5 045	18 737	50 261	39 407	33 796	13 184	136 647	155 384



ADVANCES TO THE PUBLIC – MONEY SUPPLY

Mill. FIM

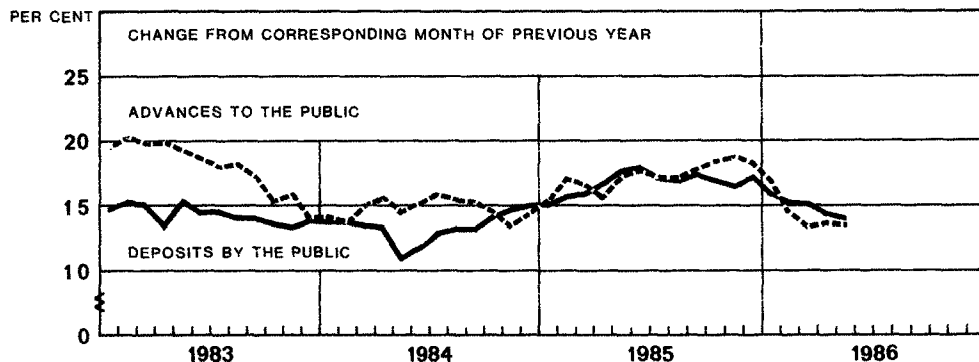
End of year and month	Advances granted by				Types of advances			Total (1 to 4) (5 to 7)	Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency		M.	M ₁ = Quasi-Money
	1	2	3	4	5	6	7		8	9
1982	48 620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

1985*

April	73 567	33 860	32 184	15 484	124 351	6 320	24 425	155 095	23 595	147 783
May	75 015	34 172	32 621	15 883	126 022	6 365	25 304	157 691	23 423	149 700
June	77 246	34 390	32 983	15 959	127 596	6 279	26 703	160 579	24 750	153 455
July	77 104	34 848	33 378	16 074	128 886	6 242	26 275	161 403	24 902	154 118
Aug.	77 677	35 276	33 824	16 082	130 846	6 333	25 680	162 859	24 783	155 013
Sept.	79 367	35 764	34 411	16 376	133 113	6 637	26 167	165 917	26 092	156 195
Oct.	80 304	36 141	34 826	16 442	134 924	6 333	26 456	167 712	25 607	158 054
Nov.	81 573	36 467	35 216	16 727	136 739	6 373	26 872	169 984	24 691	157 772
Dec.	81 669	36 991	35 751	16 745	140 139	6 313	24 704	171 155	27 694	166 652

1986*

Jan.	83 252	37 502	36 049	17 168	142 071	7 148	24 751	173 971	26 029	167 354
Feb.	83 136	37 729	36 388	17 140	143 206	7 294	23 893	174 393	25 304	168 731
March	82 513	38 022	36 698	17 094	144 392	6 935	23 000	174 327	25 881	168 792
April	83 121	38 497	37 076	17 829	145 838	7 269	23 416	176 523	26 370	170 568



STATE FINANCES

Mill. FIM

Revenue	Jan.-Dec.		Expenditure	Jan.-Dec.	
	1984	1985		1984	1985
Income and wealth tax (net)	21 894	25 137	Wages, salaries, pensions etc.	13 243	14 534
Gross receipts	58 650	66 054	Repair and maintenance	1 605	1 810
Refunds & local authorities	-36 757	-40 917	Other consumption expenditure	7 306	8 490
Other taxes on income and wealth	632	614	Total consumption expenditure	22 155	24 835
Employers' child allowance payments	278	671	State aid to local authorities	18 444	21 183
Sales tax	22 129	24 811	State aid to industries	9 317	9 811
of which: agric. price subsidies			Child allowances	2 347	2 480
Customs duties and import charges and levies	1 732	1 642	Share in national pensions and sickness insurance schemes	2 279	2 083
Excise duties	11 657	12 697	Deficit of State enterprises	1 087	1 103
Excise duty on alcoholic bev.	4 298	4 494	Other transfer expenditure	10 858	12 608
Excise duty on tobacco	1 741	1 820	Total transfer expenditure	44 333	49 269
Excise duty on liquid fuel	4 052	4 465	Machinery and equipment	1 822	2 132
Other excise duties	1 566	1 917	Construction of buildings	1 277	1 172
Tax on autom. and motor-cycles	2 678	2 864	Land and waterway construction	2 357	2 395
Stamp duties	2 274	2 755	Total real investment	5 455	5 700
Special diesel etc. vehicles tax	450	490	Interest on State debt	3 965	4 686
Other taxes and similar revenue	2 138	2 194	Other expenditure	4	31
Total taxes	65 861	73 875	Total other expenditure	3 969	4 717
Miscellaneous revenue	5 661	6 110	Increase in inventories	251	219
Interest, dividends etc.	2 159	2 341	Lending	4 014	4 088
Surplus of state enterprises	1 891	1 964	Other financial investment	702	894
Redemptions of loans granted	1 894	2 071	Total expenditure	80 878	89 722
Total revenue	77 466	86 361	Redemption of foreign loans	1 936	1 766
Foreign borrowing	4 633	3 374	Redemption of domestic loans	3 616	5 916
Domestic borrowing	6 119	7 815	Total redemptions	5 552	7 682
Total borrowing	10 752	11 189			
Deficit (+) or surplus (-)	-1 788	-145			
Total	86 430	97 405	Total	86 430	97 404

State debt	1984	1985	1986			
	Dec.	Dec.	Jan.	Feb.	March	April
Foreign debt	24 946	25 677	26 139	25 684	25 098	25 184
Long-term debt	19 057	20 872	21 718	21 680	22 233	22 118
Short-term credit	266	432	666	666	666	667
Domestic debt	19 323	21 304	22 384	22 346	22 899	22 785
Total State debt	44 269	46 981	48 523	48 030	47 997	47 969
Total debt mill. \$	6 855	8 562	8 954	9 135	9 354	9 354

FOREIGN TRADE

Mill. FIM

Value, mill. FIM

Period	Value, mill. FIM		
	Exports f.o.b	Imports c.i.f.	Surplus of exports (+) or imports (-)
	1	2	3
1981	60 308	61 269	-961
1982	63 026	64 751	-1 725
1983	69 692	71 528	-1 836
1984	80 904	74 682	+6 222
1985	84 028	81 520	+2 508

1985

Aug.	6 659	5 789	+870
Sept.	6 902	7 035	-133
Oct.	7 467	8 155	-688
Nov.	6 727	6 641	+86
Dec.	6 556	7 011	-455

1986*

Jan.	6 792	7 466	-674
Feb.	6 924	6 309	+615
March	6 314	7 014	-700
April	6 459	6 783	-324

Jan.-April

1985	27 198	25 936	+1 262
1986*	26 490	27 572	-1 082

Indices of exports and imports
1980 = 100

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

1984

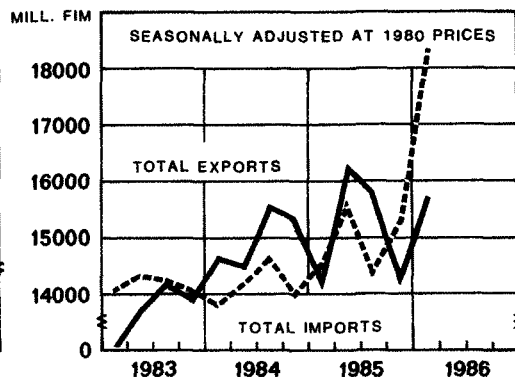
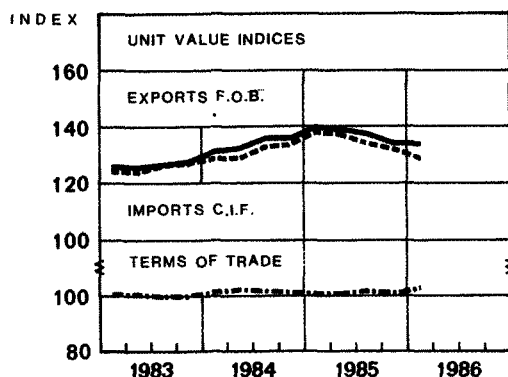
Jan.-March	114	90	132	129	102
Apr.-June	113	99	133	130	103
July-Sept.	108	99	137	133	102
Oct.-Dec.	121	101	137	134	102

1985

Jan.-March	108	93	141	139	101
Apr.-June	122	106	139	138	101
July-Sept.	113	100	138	135	102
Oct.-Dec.	117	113	135	133	102

1986*

Jan.-March	113	110	134	130	104
------------	-----	-----	-----	-----	-----



FOREIGN TRADE BY MAIN GROUPS

Mill. FIM

Period	Exports, f.o.b.					Imports, c.i.f.				
	Agricultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Raw materials and intermediate goods	Fuels and lubricants	Finished goods		Other goods
								Investment goods	Consumer goods	
1	2	3	4	5	6	7	8	9	10	
1981	2 036	6 852	17 127	14 858	19 435	39 156	5 115	8 877	8 015	106
1982	1 676	6 278	17 502	18 908	18 662	41 144	4 869	9 195	9 130	413
1983	1 723	6 944	19 327	20 211	21 487	44 757	5 006	10 860	10 572	333
1984	2 865	7 145	23 573	22 998	24 323	47 028	5 034	10 993	11 454	173
1985	2 678	6 728	25 030	24 412	25 179	50 944	5 502	11 675	12 967	432

1985

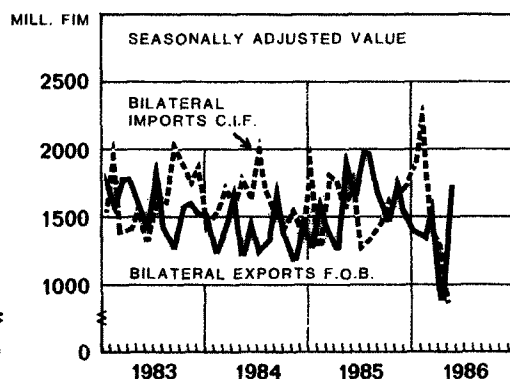
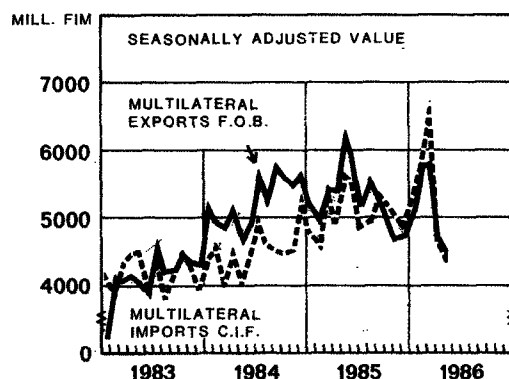
Aug.	143	506	2 250	1 832	1 928	3 434	492	833	1 020	10
Sept.	156	503	2 097	2 019	2 127	4 448	458	939	1 186	5
Oct.	185	629	2 162	1 964	2 526	4 987	742	1 169	1 250	5
Nov.	155	588	1 885	2 175	1 924	3 895	557	1 074	1 105	9
Dec.	128	538	1 797	2 114	1 979	4 539	441	1 027	996	8

1986*

Jan.	274	490	1 855	2 201	1 973	4 866	475	1 038	1 080	7
Feb.	350	486	1 829	1 940	2 319	3 726	316	888	1 369	8
March	319	516	1 803	1 705	1 971	4 078	218	1 192	1 503	24
April	148	584	2 052	2 103	1 572	3 853	389	1 101	1 418	22

Jan.-April

1985	1 256	2 159	8 417	7 166	8 199	16 149	1 177	3 800	4 456	354
1986*	1 092	2 075	7 539	7 949	7 835	16 523	1 397	4 219	5 371	61



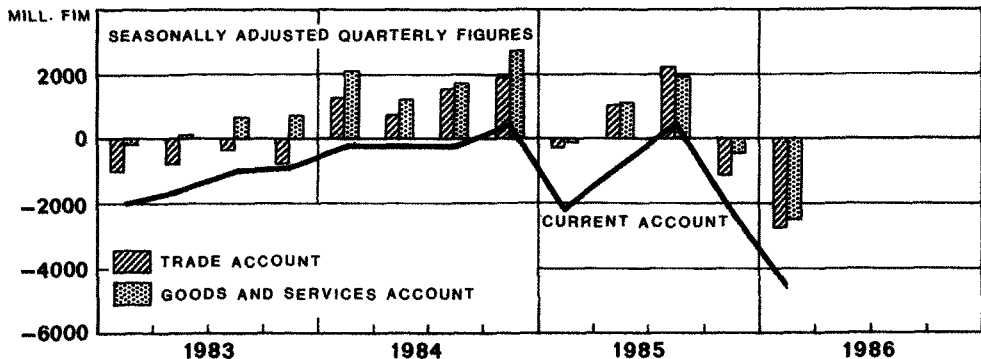
FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January–April				January–April			
	1985		1986*		1985		1986*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
OECD countries in Europe	57.8	15 732	64.4	17 050	59.1	15 335	60.1	16 571
Austria	0.7	179	0.9	234	1.1	298	1.3	347
Belgium and Luxembourg	1.6	429	1.8	489	2.1	534	2.2	607
Denmark	3.8	1 047	4.6	1 221	2.3	608	2.7	736
France	4.5	1 224	4.6	1 220	3.7	953	4.0	1 094
Federal Republic of Germany	9.3	2 532	10.1	2 681	15.5	4 014	16.8	4 619
Italy	2.1	570	2.2	589	3.4	890	4.1	1 118
Netherlands	3.5	956	3.8	996	2.8	739	3.0	817
Norway	4.3	1 161	4.6	1 213	3.2	830	2.6	707
Portugal	0.3	82	0.3	70	0.8	216	0.8	221
Spain	0.8	222	1.0	274	1.1	296	1.2	321
Sweden	13.1	3 564	16.4	4 333	12.2	3 159	13.1	3 609
Switzerland	1.5	400	1.8	465	1.6	427	1.8	497
United Kingdom	10.9	2 954	10.8	2 868	8.4	2 170	6.1	1 673
Other	1.5	412	1.5	398	0.8	201	0.7	205
OECD countries outside Europe	11.5	3 135	9.4	2 486	11.7	3 041	12.3	3 379
Canada	1.3	360	1.2	307	0.7	184	0.4	112
Japan	1.8	499	1.5	399	5.5	1 420	6.7	1 841
United States	7.0	1 906	5.6	1 477	5.3	1 370	4.9	1 342
Other	1.4	370	1.1	303	0.3	66	0.3	84
CMEA countries	20.0	5 436	17.8	4 702	21.9	5 686	19.0	5 245
Czechoslovakia	0.3	84	0.4	106	0.5	117	0.4	121
German Democratic Republic	0.6	161	0.3	89	0.5	124	0.5	144
Poland	0.5	134	0.2	61	1.3	340	1.4	385
Soviet Union	17.9	4 880	15.8	4 196	19.1	4 947	16.1	4 445
Other	0.6	176	0.9	250	0.6	159	0.5	151
Latin America	1.9	514	1.7	439	2.5	658	2.7	742
Argentina	0.1	23	0.1	21	0.1	36	0.1	32
Brazil	0.2	48	0.2	48	0.8	207	0.8	217
Colombia	0.2	41	0.1	28	0.6	157	0.8	218
Other	1.5	403	1.3	342	1.0	256	1.0	276
Other	8.8	2 381	6.8	1 813	4.7	1 216	5.9	1 635
GRAND TOTAL	100.0	27 198	100.0	26 490	100.0	25 936	100.0	27 572
of which								
EFTA countries	20.0	5 435	23.7	6 275	19.2	4 976	18.8	5 196
EEC countries	36.8	10 010	40.3	10 669	38.7	10 048	41.2	11 357
OECD countries	69.4	18 866	73.7	19 536	70.9	18 376	72.4	19 950

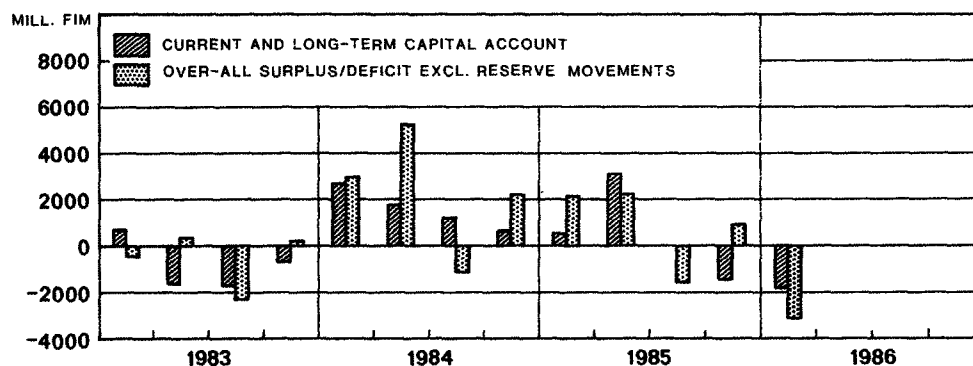
BALANCE OF PAYMENTS

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- required transfers, net	Other, net	Current account (7 to 10)
	1	2	3	4	5	6	7	8	9	10	11
1982	62 867	65 147	-2 280	+2 856	-277	+1 732	+2 031	-5 447	-643	+161	-3 898
1983	69 368	72 139	-2 771	+3 200	-748	+1 610	+1 291	-5 817	-797	+96	-5 227
1984	80 608	75 127	+5 480	+4 008	-1 211	-306	+7 971	-6 786	-1 050	-238	-103
1985*	83 769	81 870	+1 899	+3 677	-1 766	-859	+2 951	-6 259	-1 003	-390	-4 700
1983											
Apr.-June	17 098	17 538	-440	+753	-229	+288	+372	-1 492	-176	+42	-1 254
July-Sept.	16 180	17 970	-1 790	+888	+45	+487	-370	-1 463	-174	+53	-1 954
Oct.-Dec.	19 350	20 162	-812	+815	-272	+693	+424	-1 305	-204	-4	-1 089
1984											
Jan.-March	19 678	17 069	+2 609	+1 018	-370	-60	+3 197	-2 010	-284	-60	+843
Apr.-June	19 700	18 852	+849	+1 009	-326	-174	+1 357	-1 225	-202	-39	-108
July-Sept.	19 395	19 330	+65	+1 144	-123	-265	+820	-1 593	-279	-46	-1 098
Oct.-Dec.	21 834	19 877	+1 958	+837	-392	+194	+2 597	-1 958	-285	-93	+261
1985*											
Jan.-March	20 057	18 937	+1 120	+872	-517	-288	+1 187	-1 809	-322	-145	-1 088
Apr.-June	22 436	21 407	+1 030	+993	-481	-370	+1 172	-1 679	-230	-71	-808
July-Sept.	20 612	19 652	+961	+907	-295	-261	+1 312	-1 283	-180	-75	-226
Oct.-Dec.	20 663	21 875	-1 211	+905	-473	+60	-719	-1 489	-271	-99	-2 578
1986*											
Jan.-March	20 024	20 907	-884	+748	-543	-123	-801	-1 571	-491	-126	-2 989



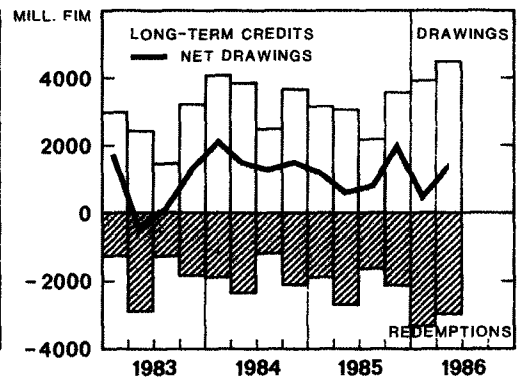
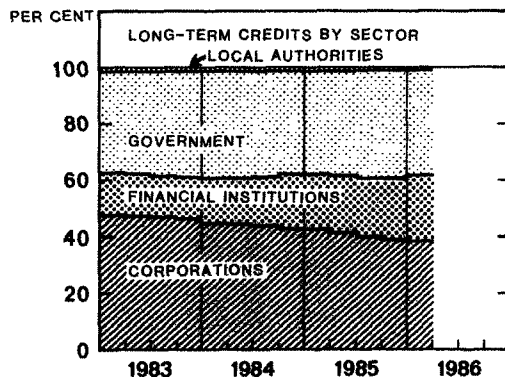
Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net	Long-term capital account (12 to 15)	Current and long-term capital account (11 + 16)	Prepayments and liabilities related to imports	Prepayments and receivables related to exports	Short-term capital of authorized banks, net	Miscellaneous, short-term capital items, incl. errors and omissions	Over-all surplus deficit excl. reserve movements (17 to 21)	Bank of Finland foreign exchange reserves
12	13	14	15	16	17	18	19	20	21	22	23
+10 213	-4 721	-1 239	-3 642	+611	-3 287	-914	+771	+1 493	+1 811	-126	+126
+10 112	-7 273	+423	-1 388	+1 874	-3 353	+3 273	-3 380	+1 266	+32	-2 162	+2 162
+14 087	-7 538	-1 682	+1 428	+6 295	+6 192	+760	+2 995	+2 086	-2 758	+9 275	-9 275
+11 870	-8 255	+1 339	-1 840	+6 794	+2 094	+440	-2 062	+5 267	-1 994	-3 744	-3 744
+2 435	-2 895	+273	-204	-391	-1 645	+1 261	-343	+699	+425	+397	-397
+1 479	-1 269	+142	-129	+223	-1 731	+1 197	-1 662	-593	+476	-2 313	+2 313
+3 213	-1 838	-92	-873	+410	-679	+930	-2 029	+2 380	-366	+236	-236
+4 075	-1 887	-235	-47	+1 906	+2 749	-1 049	+1 283	+2 443	-2 441	+2 986	-2 986
+3 858	-2 351	+89	+276	+1 872	+1 764	+1 083	+121	+2 531	-276	+5 222	-5 222
+2 495	-1 185	-603	+1 475	+2 182	+1 084	+426	-128	-2 186	-336	-1 140	+1 140
+3 659	-2 115	-933	-276	+335	+596	+300	+1 718	-702	+295	+2 208	-2 208
+3 173	-1 855	+336	-31	+1 623	+535	+533	-1 058	+2 208	-65	+2 153	-2 153
+3 023	-2 632	+354	+3 139	+3 884	+3 076	+836	-1 714	-1 911	-1 881	-2 228	-2 228
+2 139	-1 557	+263	-626	+219	-7	-74	-427	-1 400	+342	-1 566	+1 566
+3 535	-2 211	+386	-642	+1 068	-1 510	-855	+1 137	+2 548	-390	+930	-930
+3 952	-3 027	+222	-45	+1 102	-1 887	+2 982	-604	-3 085	-568	-3 162	+3 162

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

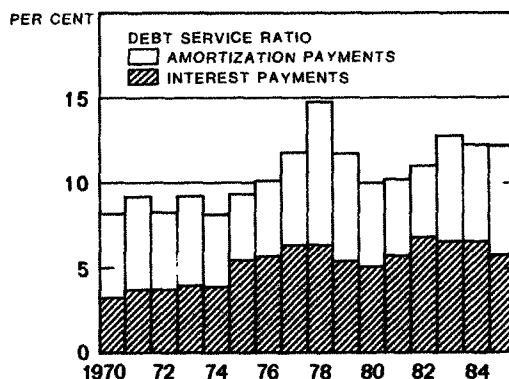
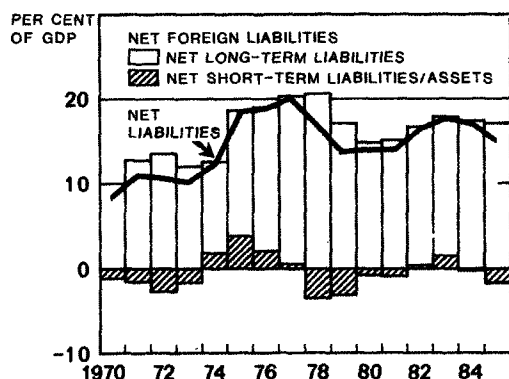


FINLAND'S FOREIGN ASSETS AND LIABILITIES

End of year and month	Long-term assets				Long-term liabilities						Net long-term liabilities (10-4)
	Export credits	Direct investment	Other	Total (1 to 3)	Financial loans	Import credits	Direct investment	Portfolio investment	Other	Total (5 to 9)	
	1	2	3	4	5	6	7	8	9	10	11
1982	6 628	4 626	3 796	15 050	47 547	4 608	2 223	..	752	55 130	40 080
1983	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1984	8 920	8 689	1 915	19 524	63 958	3 865	2 905	2 013	805	73 546	54 022
1985*	6 566	10 553	2 787	19 906	63 178	2 892	3 277	6 313	1 065	76 725	56 819
1983											
June	6 458	4 998	3 956	15 412	49 921	4 462	2 306	..	812	57 501	42 089
Sept.	6 411	5 392	3 935	15 738	50 705	4 566	2 303	..	798	58 372	42 634
Dec.	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1984											
March	6 658	6 687	3 539	16 884	54 014	4 225	2 354	987	731	62 311	45 427
June	6 827	7 435	3 230	17 492	57 198	3 937	2 393	1 640	729	65 897	48 405
Sept.	7 767	7 834	1 839	17 440	60 497	3 951	2 410	1 957	834	69 649	52 209
Dec.	8 920	8 689	1 915	19 524	63 958	3 865	2 905	2 013	805	73 546	54 022
1985*											
March	8 504	9 408	2 071	19 983	64 521	3 939	2 899	2 900	778	75 037	55 054
June	8 034	9 824	2 195	20 053	64 822	3 602	2 763	6 317	873	78 377	58 324
Sept.	7 200	10 290	2 179	19 669	63 388	3 064	2 809	6 210	867	76 338	56 669
Dec.	6 566	10 553	2 787	19 906	63 178	2 892	3 277	6 313	1 065	76 725	56 819
1986*											
March	6 300	10 572	2 712	19 584	63 503	2 803	3 338	6 407	993	77 044	57 460



Short-term assets				Short-term liabilities				Net short-term liabilities (19-15)	Net liabilities (11+20)	Debt service flow	Of which amortization payments flow
Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (12 to 14)	Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (16 to 18)				
12	13	14	15	16	17	18	19	20	21	22	23
12 737	22 899	13 858	49 494	5 348	31 331	13 782	50 461	967	41 047	9 069	3 464
11 842	29 263	15 915	57 020	5 705	39 443	16 180	61 328	4 308	49 116	11 591	5 621
22 912	43 319	12 804	79 035	4 562	55 695	17 988	78 245	-790	53 232	12 878	5 896
25 183	38 760	13 311	77 253	4 070	51 374	16 241	71 685	-5 568	51 251	13 467	7 031
12 905	23 008	14 878	50 791	4 705	31 137	16 563	52 405	1 614	43 703	3 788	2 243
10 556	23 605	15 681	49 842	4 737	31 289	16 805	52 831	2 989	45 623	2 542	1 049
11 842	29 263	15 915	57 020	5 705	39 443	16 180	61 328	4 308	49 116	2 726	1 387
14 740	25 724	15 374	55 838	3 657	37 966	15 571	57 193	1 355	46 782	3 523	1 452
20 705	31 935	14 978	67 618	3 775	47 084	16 836	67 694	76	48 481	3 260	1 987
21 064	34 621	14 727	70 411	4 815	47 882	17 431	70 128	-283	51 926	2 448	821
22 912	43 319	12 804	79 035	4 562	55 695	17 988	78 245	-790	53 232	3 647	1 636
24 785	44 984	13 833	83 602	4 535	59 386	18 360	82 281	-1 321	53 733	3 639	1 802
26 208	46 661	14 778	87 647	3 729	62 896	18 884	85 509	-2 138	56 186	3 785	2 033
24 770	44 927	14 573	84 271	4 240	59 370	17 918	81 528	-2 743	53 926	2 795	1 489
25 183	38 760	13 311	77 253	4 070	51 374	16 241	71 685	-5 568	51 251	3 248	1 707
21 647	40 409	14 039	76 095	3 659	50 424	19 184	73 267	-2 828	54 632	5 084	3 485



PRICE INDICES

Period	Wholesale price index 1949 = 100	Basic price index for domestic supply 1980 = 100						Building costs 1980 = 100		
		Total	Origin		Purpose			Total	Wages in building trade	Building materials
			Domestic goods	Imported goods	Raw materials	Consumer goods	Investment goods			
	1	2	3	4	5	6	7	8	9	10
1984	1 261	134.5	136.0	130.0	132.6	137.5	135.8	136.5	133.7	136.1
1985	1 324	140.5	143.1	132.8	137.5	145.8	142.4	144.3	144.4	142.8
1985										
Nov.	1 314	139.5	143.1	128.7	134.5	146.8	144.6	146.1	146.0	144.7
Dec.	1 316	139.5	143.1	128.7	134.3	147.2	144.6	146.4	146.2	145.0
1986										
Jan.	1 312	139.0	143.2	126.2	133.2	147.4	144.9	148.4	150.8	146.1
Feb.	1 297	137.0	142.9	119.2	129.1	147.3	146.1	148.5	151.0	146.6
March	1 279	135.0	141.6	115.2	125.5	146.7	147.0	148.8	151.0	146.7
April	1 265	133.6	140.5	112.5	123.0	146.2	147.3	149.3	151.5	147.3
May	1 257	132.6	139.3	112.1	121.3	145.8	147.2	149.8	151.6	147.8
June	1 256	132.4	139.3	111.2	120.9	145.5	147.7	150.8	155.6	148.2

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
1984	127.1	129.1	132.5	119.5	124.5	123.0	145.2	125.4	126.4	130.8
1985	134.6	139.1	140.3	126.1	130.9	129.7	155.7	130.4	132.5	140.4
1985										
Nov.	136.1	140.0	141.4	130.2	133.0	132.0	159.0	129.4	134.9	142.7
Dec.	136.2	139.8	141.4	130.3	133.0	132.1	159.0	130.1	135.0	142.8
1986										
Jan.	137.2	141.4	144.7	126.6	133.2	132.6	162.5	130.1	136.0	146.1
Feb.	137.8	142.1	144.7	128.4	133.7	133.3	162.6	130.9	136.1	147.2
March	138.1	143.2	144.7	130.8	133.6	133.6	162.6	129.9	136.2	147.4
April	138.6	144.2	144.9	131.3	133.6	134.2	162.8	130.4	137.6	147.6
May	139.1	143.9	145.1	131.8	135.7	134.8	162.3	129.2	139.4	148.3
June	139.8	144.9	147.4	131.6	135.7	135.1	162.9	130.2	140.1	148.9

WAGES

Index of wage and salary earnings 1980 = 100

Period	By industries				By institutional sectors			All salary earners	All wage earners	All employees
	Wage earners in			Employees in services	State employees	Municipal employees	Employees in private sector			
	Agriculture	Industry	Construction							
1	2	3	4	5	6	7	8	9	10	
1983	132.1	137.3	138.2	138.8	137.3	140.0	137.3	138.4	136.9	137.8
1984*	148.5	149.9	152.8	152.8	147.1	154.7	150.5	151.4	149.7	150.8
1985*	160.6	161.2	168.8	165.0	158.9	166.1	163.5	164.1	162.2	163.4
1985*										
Jan.-March	150.6	156.8	164.3	160.5	154.7	162.5	157.4	158.5	157.1	158.0
Apr.-June	163.2	162.8	168.6	166.2	160.3	167.0	164.9	165.3	163.6	164.7
July-Sept.	161.9	162.0	168.2	166.5	160.1	167.2	164.7	165.7	162.6	164.6
Oct.-Dec.	166.7	163.1	174.1	167.0	160.6	167.7	167.1	166.9	165.3	166.3
1986*										
Jan.-March	170.1	165.3	178.1	173.2	166.9	174.6	169.3	171.2	167.7	170.0

PRODUCTION

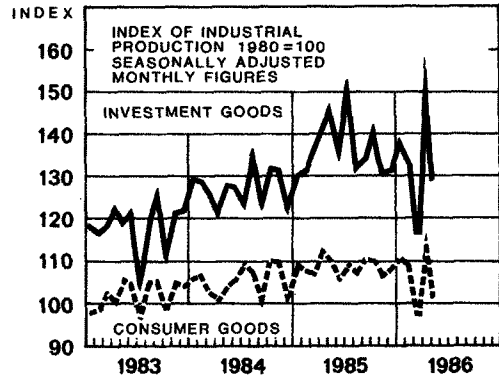
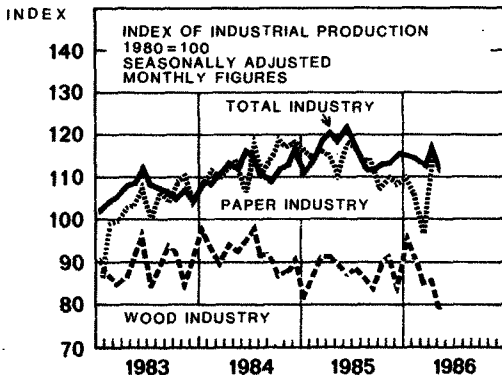
Volume indices of production 1980 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communication	Commerce	Public sector services	Others
1984*										
Jan.-March	104	110	75	88	82	93	104	98	114	112
Apr.-June	109	114	83	89	85	104	110	108	114	121
July-Sept.	109	102	198	45	114	105	108	110	115	119
Oct.-Dec.	121	122	92	117	140	108	121	119	116	127
1985*										
Jan.-March	107	112	74	102	81	94	106	100	117	117
Apr.-June	113	121	78	109	85	113	111	112	117	126
July-Sept.	112	106	178	37	109	114	111	113	118	124
Oct.-Dec.	123	124	85	110	140	116	125	124	120	132
1986*										
Jan.-March	108	108	72	96	79	96	110	105	120	122

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
1983	107.1	119.0	102.6	107.1	108.9	89.9	103.5	106.2	115.0	114.5	107.1
1984*	112.4	127.8	106.0	112.5	110.1	92.4	114.3	110.8	109.2	121.6	112.7
1985*	115.8	137.0	109.0	115.0	109.4	87.8	113.9	115.0	112.9	130.1	116.2
1985*											
May	128.7	175.4	117.5	125.6	114.1	115.9	108.2	126.8	125.3	160.3	119.2
June	115.2	153.1	103.3	114.0	102.8	93.7	106.7	108.2	115.5	138.0	122.8
July	80.9	66.7	71.7	87.7	102.5	40.2	127.5	76.7	71.6	67.8	118.5
Aug.	115.1	127.6	108.5	115.8	112.5	81.9	119.7	121.1	132.3	123.4	112.3
Sept.	118.2	134.0	111.9	118.1	107.8	94.5	112.9	121.7	137.1	132.2	112.1
Oct.	129.4	157.5	124.5	126.5	136.6	108.1	113.0	126.2	138.5	150.4	113.5
Nov.	123.1	142.9	120.0	120.7	128.0	95.4	117.7	116.0	121.1	139.0	113.8
Dec.	106.8	126.8	102.5	105.1	103.0	62.0	103.6	108.3	99.1	121.4	115.8
1986*											
Jan.	122.0	142.8	118.3	119.8	103.7	91.8	112.0	120.8	103.8	138.5	115.0
Feb.	110.3	129.7	107.2	108.2	91.2	80.9	103.0	110.8	84.5	124.1	114.5
March	107.5	127.3	102.6	106.1	90.1	82.5	95.9	122.2	86.2	122.4	112.9
April	126.0	164.0	116.4	123.6	111.6	112.2	115.6	134.2	101.1	153.8	117.9
May	118.1	156.3	108.2	115.9	103.6	97.9	108.2	122.3	101.6	147.2	112.8



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
1984*	3 700	2 572	2 414	159	6.2	41 288	109	109
1985*	3 710	2 600	2 437	163	6.3	43 349	114	110
1985*								
April	3 707	2 565	2 394	171	6.6	5 882	109	111
May	3 709	2 611	2 461	150	5.7	4 598	121	118
June	3 708	2 761	2 594	167	6.1	2 407	115	102
July	3 708	2 780	2 621	159	5.7	1 121	120	95
Aug.	3 712	2 631	2 481	150	5.7	1 212	117	112
Sept.	3 714	2 563	2 405	158	6.2	1 951	111	113
Oct.	3 714	2 556	2 396	160	6.3	2 962	118	124
Nov.	3 714	2 580	2 409	171	6.6	3 768	115	119
Dec.	3 714	2 563	2 406	157	6.1	4 729	134	119
1986*								
Jan.	3 714	2 553	2 360	193	7.6	4 232	110	103
Feb.	3 715	2 540	2 346	195	7.7	4 596	100	102
March	3 716	2 551	2 365	186	7.3	4 709	105	109
April	3 716	2 551	2 365	186	7.3	4 534
May	3 718	2 609	2 438	170	6.5	3 292

CONSTRUCTION OF BUILDINGS

Period	Building permits granted					Buildings completed					Building-works under construction
	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	
Million cubic metres											
	1	2	3	4	5	6	7	8	9	10	11
1984*	49.69	19.93	5.65	17.45	3.14	44.24	17.65	5.13	15.76	2.83	52.13
1985*	48.17	18.17	6.70	16.53	3.41	44.74	17.40	4.94	15.97	3.35	49.64
1984*											
Oct.-Dec.	10.28	3.44	0.81	4.65	0.72	14.40	5.84	1.96	5.00	0.65	52.13
1985*											
Jan.-March	9.19	3.44	1.10	3.20	0.86	8.62	3.85	0.56	2.92	0.73	47.81
Apr.-June	17.13	7.27	3.09	4.80	0.75	10.18	4.08	0.72	3.57	1.05	53.07
July-Sept.	12.16	4.48	1.61	4.21	0.92	10.10	3.80	1.77	3.04	0.75	56.42
Oct.-Dec.	9.69	2.98	0.90	4.32	0.88	15.84	5.67	1.89	6.44	0.82	49.64
1986*											
Jan.-March	8.76	2.84	1.13	3.81	0.48	7.51	3.32	0.52	2.58	0.65	46.92

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.

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

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

FORWARD EXCHANGE MARKETS IN FINLAND

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

FOREIGN EXCHANGE RATES

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

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

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

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

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

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

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

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

STATE FINANCES

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

FOREIGN TRADE

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

BALANCE OF PAYMENTS

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

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

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

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

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

FOREIGN ASSETS AND LIABILITIES

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

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

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

Columns 22 and 23 during the year and the quarter.

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

PRICE INDICES

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

WAGES - PRODUCTION

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

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

LABOUR - TIMBER FELLINGS - INTERNAL TRADE - CONSTRUCTION OF BUILDINGS

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

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

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

SOME PARTICULARS ABOUT FINLAND

FORM OF GOVERNMENT

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

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

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

INTERNATIONAL ORGANIZATIONS

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

LAND

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

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

POPULATION

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

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

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

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

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

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

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

TRADE AND TRANSPORT

NATIONAL INCOME (1985), in million FIM: Gross domestic product at factor cost by industrial origin: agriculture and fishing 13 190 (4%), forestry 10 977 (4%), manufacturing 85 794 (29%), construction 23 138 (8%), trade, restaurants and hotels 33 163 (11%), transport and communication 23 672 (8%), banking and insurance 12 973 (4%), ownership of dwellings 19 097 (6%), other services 74 707 (25%), total 296 711. Index of real domestic product 114 (1980 = 100).

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

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

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

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

MERCHANT FLEET (June 30, 1986): Passenger vessels 161 (293 997 gross reg. tons), tankers 33 (594 112 gross reg. tons), dry cargo vessels 127 (490 807 gross reg. tons), other vessels 105 (21 501 gross reg. tons), total 426 (1 400 417 gross reg. tons).

AUTOMOBILES (Dec. 31, 1985): Passenger cars 1 546 094, lorries and vans 179 637, buses 9 017, other automobiles 11 867, total 1 746 615.

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

FINANCE AND BANKING

CURRENCY. Since 1860, Finland has had its own monetary system. From 1877 until 1914 the country was on the gold standard, and returned to it in 1926. In 1931, the Central Bank's duty to redeem bank notes in gold was suspended and at the end of 1962 was entirely cancelled. The monetary unit is the markka (plural: markkaa), which is divided into 100 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 19.8, DEM 19.0, GBP 15.1, USD 9.9, other currencies 36.20. The permissible range of fluctuation is about 2.25 per cent on either side of the theoretical arithmetic mean. The fluctuation limits are 106.0 and 101.3.

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

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

RATES OF INTEREST (May 19, 1986). The Bank of Finland's base rate is 7%. The interest rates for domestic lending other than bank financing by the Bank of Finland vary between 4½% and 9%. Other credit institutions: time deposits 2%; 6 month deposits 4%; 12 month deposits 5%; 24 month deposits 7%.

THE COST OF CREDIT TO INDUSTRY

by Juhani Huttunen, Economist
Confederation of Finnish Industries

Up to the early 1980s, the Finnish financial markets remained strictly regulated. Most rates of interest on credits were administratively controlled by the authorities either directly or indirectly. The banks have maintained and still maintain an interest rate agreement covering the bulk of deposit-taking. Bank savings are the dominant household financial asset, reflecting the fact that bank deposits are subsidized through tax exemption. On the other hand, dividend income is taxed according to a progressive scale, although minor deductions are allowed for capital income. Hence, funds have been channelled to industry mainly through banks, insurance companies and the public sector.

The low interest rate policy was pursued in Finland for some fifty years. Up till a few years ago, banks' average lending rates were strictly regulated. In addition, the Bank of Finland at times issued guidelines to banks on lending. In these guidelines, priority in the allocation of credit was generally accorded to industrial firms engaged in exports or competing with imports. Together with housing mortgages, industry was also given preference in the Bank of Finland's sectoral guidelines on rates of interest.

The availability of credit rather than its cost constituted the main problem for companies. As a rule, companies were not even interested in rates of interest on loans, as there was little possibility of negotiating on them and real rates of interest were low, frequently negative.

FINANCIAL MARKETS IN TRANSITION

From the point of view of the cost of finance to industry, a period of structural change can be considered to have started in 1983, since when the role of interest rates in monetary policy has been enhanced. At the same time,

particularly real rates of interest on short-term funds have been high by international standards. One explanation put forward for this is the fact that inflation expectations in Finland have - owing to historical reasons - been noticeably more persistent than in other OECD countries in general.

The year 1983 also saw the start of deregulation of financial markets. The average interest rate controls were relaxed and the guidelines on sectoral differentiation of interest rates were formally abolished. Prior to 1983, the interbank interest rate agreement had already broken down because of the rapid expansion of the unregulated money market. Moreover, the banks had learnt to circumvent lending rate regulations, inter alia, by raising borrowing costs other than rates of interest. This was an additional reason for discontinuing the regulation of average interest rates.

At about the same time, the first foreign-owned banks commenced operations in Finland, thereby contributing to increased competition in Finnish financial markets, particularly as regards the provision of foreign finance. Despite these developments, however, competition still continues to be imperfect in the sense that there is little information on rates of interest and other credit costs. Furthermore, many companies, particularly the small ones, depend for their finance on one lender, which has also been a factor reducing the efficiency of market forces in financial markets. Statistics on interest rates are deficient and Finnish banks do not publish reference rates of interest similar to prime rates.

At present, the situation is such that the regulation of bank lending has been removed in practice. Financial institutions can set rates of interest on new loans virtually freely, and industry is no longer in a more favourable position in relation to other sectors. In fact,

rates of interest on new loans are nowadays determined largely in accordance with market rates of interest, that is, they depend mainly on the call money rate.

The availability of risk capital to industry continues to be constrained by the tax exemption of bank deposits and government bonds. This renders these financial assets generally more attractive to households than investments in shares and makes debt capital more favourable to companies than equity capital. Companies are allowed only partial deduction in taxation for dividends paid out, whereas interest expenses on debt capital are deductible in full. Coupled with the traditional low interest rate policy, this has meant that corporate capital structures have been highly geared. Weak corporate balance sheets have, in turn, increased companies' dependence on external sources of finance. Against this background it is understandable that the Finnish capital markets are small and undeveloped, even if their significance has increased in recent years.

A SAMPLE SURVEY OF INDUSTRY'S CREDITS

Given the lack of data from official statistics and banks on the cost of credit, the Confederation of Finnish Industries has twice investigated it by means of sample surveys. The sample in 1985 covered 130 and that in 1986 about 200 member companies of the Confederation of Finnish Industries. The surveys did not examine the cost of leasing and factoring finance, nor the rates of interest on and cost of foreign currency credits.

These two surveys give a fairly reliable picture of the cost of credit to large companies (with a turnover exceeding FIM 300 million) and medium-sized companies (with a turnover between FIM 50 and 300 million). By contrast, an insufficient number of replies was received from small companies (with a turnover of less than FIM 50 million), and hence the results for this group are not fully reliable. It turned out that virtually all small companies were unable to calculate the weighted average interest rates

TABLE 1. WEIGHTED AVERAGE RATES OF INTEREST ON MANUFACTURING INDUSTRY'S MARKKA-DENOMINATED CREDITS AND THE STOCK OF CREDITS IN 1984 - 1985, PER CENT

	New credits drawn in	
	1984	1985
Short-term credits	14.1	10.5
Long-term credits	10.3	10.4
All credits (excl. cheque account overdrafts)	10.7	10.4
	Stock of credits on December 31st.	
Short-term credits	13.5	10.4
Long-term credits	10.1	10.0
All credits (excl. cheque account overdrafts)	10.2	10.1
Memorandum items:	On December 31st.	
Average lending rate applied by commercial banks	10.7	10.4
Rates of interest applied by the Bank of Finland		
Base rate	9.5	9.0
Call money rate	14.8	11.7

on their credits or to convert other borrowing costs into annual rates.

The main results of the surveys are summarised in the accompanying tables. It can be seen from Table 1 that the average rate of interest on the total stock of credits of the industrial companies replying to the survey hardly fell at all in 1985 from the previous year, even though the Bank of Finland's base rate and particularly the call money rate were lowered substantially. This was due to the fact that this period coincided with the start of the gradual relaxation of the regulation of banks' average rates of interest. Market conditions allowed the banks to utilize this increased freedom in the determination of interest rates particularly in setting rates of interest on new loans extended by them. As a rule, rates of interest on outstanding loans are linked to the Bank of Finland's base rate, moving in line with the latter. By contrast, rates of interest on short-term credits follow fairly closely rates of interest on short-term money and hence the Bank of Finland's call money rate. The bulk of industry's short-term credits consists of credits granted by other companies and finance companies and of other finance not subject to the

TABLE 2. MANUFACTURING INDUSTRY'S CREDITS, PERCENTAGE BREAKDOWN

	Stock on December 31, 1985	Drawn in 1985
Short-term markka-denominated credits	4	9
- Export financing	1	2
- Other credits	3	7
Long-term markka-denominated credits	61	57
- Domestic suppliers' credits,		
Export financing	12	9
- From banks	11	12
- Reborrowing from employment pension funds	19	8
- From insurance companies	6	4
- From KERA, INRA, TR, MBF ¹	3	2
- Bonds and debentures	6	14
- Other credits	4	7
Credits denominated in foreign currency	35	33
Total credits (excl. cheque account overdrafts)	100	100

¹ KERA = Regional Development Fund
INRA = Investment Fund of Finland
TR = Industrialization Fund of Finland Ltd
MBF = Mortgage Bank of Finland

average interest rate controls. Accordingly, the survey indicates that rates of interest on these credits fell appreciably.

BREAKDOWN OF THE STOCK OF CREDITS

Table 2 shows the breakdown of industry's credits in 1985. Since the survey covered virtually all large companies but only a small part of small and medium-sized companies, the breakdown of total industry's credits is approximately the same as that of large companies. Small companies have, in relative terms, a far smaller share of credits denominated in foreign currency (12 per cent) and hardly any domestic suppliers' credits at all. By contrast, a fairly large proportion of the credit of small and medium-sized companies consists of reborrowing from employment pension funds (about 30 per cent of the stock of credits).

Foreign currency credits account for more than one-third of industry's total stock of credits. About one-half of these loans have been raised abroad and the other half from domestic sources.

Short-term markka-denominated credits consist mainly of bills of exchange or of finance intermediated through banks and the trust departments of banking groups and finance companies which is not subject to interest rate regulation, i.e., unregulated market funds. Domestic suppliers' credits also consist mainly of bank finance, although part is granted by the central bank. Reborrowing from employment pension funds consists of the automatic relending to companies of their compulsory contributions relating to the Finnish pensions system. It is of major importance for labour-intensive companies in small and medium-sized industry.

WEIGHTED AVERAGE RATES OF INTEREST

Table 3 shows manufacturing industry's average rates of interest weighted by credit volumes. Finance raised through bond and debenture issues was the most expensive, domestic suppliers' credits and export financing the cheapest. In 1985, reborrowing from employment pension funds was no longer as favourable as previously. Rates of interest on this type of credit are set by the Ministry for

TABLE 3. RATES OF INTEREST ON MANUFACTURING INDUSTRY'S CREDITS, WEIGHTED AVERAGES, PER CENT

	Stock on December 31, 1985	Drawn in 1985
Short-term markka-denominated credits	10.4	10.5
- Export financing	9.2	9.5
- Other credits	10.9	10.7
Long-term markka-denominated credits	10.0	10.4
- Domestic suppliers' credits,		
export financing	9.0	9.0
- From banks	10.2	10.6
- Reborrowing from employment pension funds	10.0	10.0
- From insurance companies	11.0	11.3
- From KERA, INRA, TR, MBF ¹	9.6	10.3
- Bonds and debentures	11.6	11.3
- Other credits	9.2	9.9
Total markka-denominated credits (excl. cheque account overdrafts)	10.1	10.4

¹ See footnote 1 in Table 2.

Social Affairs and Health, and they have not been reduced despite the lowering in the base rate.

In 1984, differences between rates of interest on the credits of large and small companies were noticeably greater than in 1985. However, the figures for small companies are subject to some uncertainty, because of the high proportion of companies in this category which failed to reply to the survey. It can probably be assumed that rates of interest on the credits of small companies are higher than the average.

In 1985, the dispersion of interest rates between different types of credit was narrower than in 1984. This was mainly due to the fact that the call money rate was lowered substantially during 1985 in relation to the base rate, so that the difference between unregulated market rates and administratively-controlled rates diminished. It is possible that the narrowing in the dispersion of interest rates as well as a reduction in bank guarantee commissions in 1985 also reflected a general increase in companies' interest rate and cost awareness.

TABLE 4. WEIGHTED AVERAGE RATE OF INTEREST ON TOTAL MARKKA-DENOMINATED CREDITS¹, PER CENT

	Stock on December 31, 1985	Drawn in 1985
Total manufacturing industry	10.1	10.4
- Small companies	10.3	10.5
- Medium-sized companies	10.1	10.7
- Large companies	10.1	10.4

¹ Excl. cheque account overdrafts

TABLE 5. BREAKDOWN OF BANK CREDITS DRAWN IN 1985, BY SIZE OF COMPANY, PER CENT

Weighted average rate of interest %	Small	Medium- sized	Large
9.9 and below	13	10	25
10.0 - 10.9	20	32	20
11.0 - 11.9	47	45	36
12.0 - 12.9	20	9	16
13.0 and above	0	3	2
Total	100	100	100

TABLE 6. THE MOST COMMON BANK GUARANTEE COMMISSION, PER CENT PER ANNUM, TOTAL MANUFACTURING INDUSTRY

	1984	1985
Arithmetic mean	1.3	1.1
- Quartile I	0.6	0.5
- Quartile II	1.0	0.9
- Quartile III	1.5	1.3
- Quartile IV	2.0	1.8
Median	1.25	1.0
Range	0.35 - 2.5	0.20 - 2.5

The figures in Table 3 show only weighted average rates of interest per annum. If borrowing costs other than interest expenses (mainly bank charges, commitment fees and stamp duties) are taken into account, the cost of credit to industry is, on average, more than one per cent per annum higher. The range of variation is large, however, being between 0.02 and 3.6 per cent per annum for long-term bank loans and even larger for short-term loans. In addition to these items, in many cases allowance should be made in the calculation of the cost of credit for bank guarantee commission, which was on average 1.25 per cent per annum in 1984 and 1.0 per cent per annum in 1985 (median values).

CONCLUSIONS

The following conclusions can be drawn from the surveys:

1. Particularly the replies of small companies were deficient. More information on the calculation of the total cost of borrowing and on changes in financial markets in general is needed.
2. Manufacturing industry still obtains credit at a marginally lower rate of interest than the average. There was a clear fall in rates of interest on short-term credits in 1985 compared with the previous year as a result of a fall in the call money rate. By contrast, rates of interest on long-term loans remained virtually unchanged in spite of the fall in the base rate. Among other things, this was due to the relaxation of the regulation of average lending rates.

3. The dispersion of interest rates on credit is very wide. As a rule, large companies obtain credit on more favourable terms than small companies.
4. Markets for short-term money have developed rapidly in Finland. On the other hand, cheque accounts with overdraft facilities held by companies with banks are expensive. In 1985, the effective rates of interest on these averaged 15 - 16 per cent, exceeding 18 per cent for one-fifth of the companies examined. Since last spring, companies have been allowed to issue commercial paper. It can be assumed that large, financially sound companies will to an increasing extent meet their liquidity needs in these markets or demand appreciably lower overdraft line commissions on their cheque accounts.
5. Competition between financial institutions has increased in the provision of foreign services and in bank guarantee commissions. Nevertheless, the survey revealed that the market mechanism still operates defectively in many respects in the Finnish financial markets, partly because borrowers' information on interest rates and costs is inadequate. Increasing the number of alternative sources of finance, for example, by further relaxing exchange controls, would improve competition and the efficiency of markets.
6. The profitability of Finnish companies is rather vulnerable to variations in the cost of financing, i.e., in the rate of interest, because the proportion of loan capital in total financing is high by international standards. More uniform tax treatment of dividends, on the one hand, and of bank deposits and government bonds, on the other, would increase the availability of risk finance to industrial companies.

MONETARY AND FOREIGN EXCHANGE POLICY MEASURES FROM SEPTEMBER 1985 TO AUGUST 1986

1985

September

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

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

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

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

October

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

November

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

December

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

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

1986

January

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

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

Regulation of average lending rates. The Bank of Finland revises its regulation of banks' average lending rates. With effect from the beginning of 1986, the average interest rate at the end of each calendar month may at most be the Bank of Finland's base rate plus 1.75 percentage points. If the average interest rate

on a bank's total markka-denominated deposits exceeds the Bank of Finland's base rate by more than 1.25 percentage points, a bank's average lending rate may at most equal the average deposit rate for the month in question plus 0.5 percentage point.

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

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

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

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

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

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

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

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

February

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

March

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

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

Investment reserves. On March 20, the Council of State decides to release, as from October 1,

1985, investment reserves made by companies for accounting periods ending in 1984 for use elsewhere than in the Greater Helsinki area. The utilization period is to expire on December 31, 1987.

May

Interest rate policy. The Bank of Finland lowers its base rate from 8.0 to 7.0 per cent as from May 19, 1986. At the same time, the rates applied by the banks to existing loans fall by one percentage point, whereas the rates applied to 12 and 24 month deposits fall, at most, by 0.75 percentage point. The rates applied to other tax-free deposits fall, at most, by one percentage point.

Regulation of average lending rates. The Bank of Finland raises the upper limit on the banks' average lending rate in relation to the base rate by 0.25 percentage point with effect from May 19, 1986. The new upper limit is the Bank of Finland's base rate plus 2 percentage points or 9.0 per cent. If the average interest rate on a bank's total markka-denominated deposits exceeds the Bank of Finland's base rate by more than one percentage point, the bank's average lending rate may at most equal the average deposit rate for the month in question plus one percentage point.

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

Effective as from	Rate on call money advances	Rate on call money deposits
	Per cent	Per cent
May 13	13.0	12.3
May 14	16.0	15.3
May 16	14.0	13.3
May 20 (I)	13.0	12.3
May 20 (II)	12.0	11.3
May 22	11.0	10.3

Amendments to Foreign Exchange Regulations. The authorized banks are granted permission to use foreign credit to finance their customers' long-term export receivables as

from May 13, 1986. Similarly, exporters are, on application, granted permission to raise foreign finance in their own names in order to finance their long-term export receivables.

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

June

Call money market. The Bank of Finland lowers the rate on call money advances from 11.0 to 10.8 per cent and the rate on call money deposits from 10.3 to 10.1 per cent as from June 6.

Amendments to Foreign Exchange Regulations. The Bank of Finland revises the Foreign Exchange Regulations in some respects with effect from June 16, 1986. The main points of the amendments are as follows:

The prohibition concerning the sale of Finnish bonds and debentures to non-residents is rescinded on the condition that they are bought with earnings or sales proceeds from Finnish bonds and debentures acquired previously or with funds held in Finland by persons who have emigrated from Finland.

The authorized banks and other securities agents are permitted to sell foreign securities from their own portfolios to residents within the quantitative limits set in the Foreign Exchange Regulations.

In addition, the Foreign Exchange Regulations are relaxed mainly with respect to payments for goods and services, and certain quantitative limits included in the Foreign Exchange Regulations are raised.

FIM bond issue by the Nordic Investment Bank. The Nordic Investment Bank issues FIM bonds in Finland totalling FIM 250 million, up to half of which the Bank of Finland permits to be sold directly to foreign investors. At least half of the issue is to be sold to domestic investors, but once quoted on the Helsinki Stock Exchange, the bonds can be sold and purchased abroad on the secondary market through the Stock Exchange.

August

Call money market. On July 31, the Parliamentary Bank Supervisors extend to the Board of Management of the Bank of Finland, until further notice, unlimited powers to raise the call money rate. In this context, the Bank of Finland decides to introduce, as from August 1, a call money rate policy under which call money rates are henceforth to be determined in accordance with the foreign exchange reserves. Thus, call money rates are to rise when foreign exchange reserves decline and fall when foreign exchange reserves grow.

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

Effective as from	Rate on call money advances	Rate on call money deposits
	Per cent	Per cent
1.8. (I)	11.2	10.2
1.8. (III)	11.6	10.6
4.8.	12.4	11.4
5.8. (I)	13.2	12.2
5.8. (II)	15.2	14.2
5.8. (III)	25.0	24.0
7.8.	40.0	39.0
14.8.	35.0	34.0
15.8. (I)	30.0	29.0
15.8. (II)	25.0	24.0
18.8.	20.0	19.0
20.8	19.0	18.0

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

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

ITEMS

Central Bank Policy. Mr. Rolf Kullberg, Governor of the Bank of Finland, issued the following statement in connection with the measures decided by the Bank on July 31, 1986:

In recent years, Finland's economic performance has been favourable, and the underlying structure of the economy is sound. However, the economy has not adjusted quickly enough to the falling international rate of inflation. Hence, Finland's competitiveness has weakened in recent years. It is nevertheless quite adequate in order for the economy to be adjusted, supported by the measures now implemented and the international economic upswing already in sight, to the framework of the present level of the exchange rate. This adjustment is a demanding task which requires that all segments of economic policy work towards the same end.

The Bank of Finland has decided to continue with its policy of keeping the external value of the Finnish markka unchanged. This policy is fully supported by the Government. In negotiations with the Government, the difficulties and sacrifices relating to adjustment were recognized, but at the same time it was noted that, after adjustment, this policy will offer the best prerequisites for the long-term development of the economy by preventing a recurrence of the cycle of devaluation and inflation.

At their meeting today, the Parliamentary Bank Supervisors have granted the Board of Management of the Bank of Finland, until further notice, unlimited powers to raise the call money rate, if this is deemed necessary for supporting the exchange rate and the foreign exchange reserves.

The flexible call money rate policy now to be introduced, together with the abolition of the regulation of average lending rates, means that potential currency speculation will rapidly

prove costly both to speculators and to those financing it.

Henceforth, rates of interest on new and renewable credits can be freely adjusted to the money market situation prevailing at any time. The Bank of Finland will continue to monitor interest rate developments and, whenever needed, control them through the means at its disposal. It is important that banks use their freedom in setting the price of credit with prudence. This applies particularly to rates of interest on long-term loans extended for investment purposes and, above all, to housing loans.

In case of manufacturing and shipping companies, the lifting of the controls on the use of long-term foreign loans is connected with the abolition of the regulation of average interest rates. Henceforth, companies will be allowed to have recourse to long-term foreign credit instead of domestic credit, thereby increasing the number of competing financing alternatives.

Finland's balance of payments January-March 1986. According to the Bank of Finland's preliminary figures, the current account showed a deficit of FIM 2 989 million in January-March of this year. The net inflow of long-term capital amounted to FIM 1 102 million and the net outflow of short-term capital to FIM 1 275 million. Consequently, the Bank of Finland's foreign exchange reserves decreased by FIM 3 162 million. During the corresponding period of 1985, the current account had shown a deficit of FIM 1 088 million.

Current account. Compiled on a balance-of-payments (SNA) basis, the trade account registered a deficit of FIM 884 million in January-March. In the corresponding period last year the trade account had shown a surplus of FIM 1 120 million. The value of commodity exports reached the same level as in January-March 1985. In the manufacturing sectors, the value

of exports grew in the metal and engineering industries, the chemical industry and the textile, clothing and leather industries. The value of commodity imports increased by 10 per cent. Imports of consumer goods grew by a quarter compared with January-March last year. The value of imports of investment goods increased by 13 per cent and that of raw materials and intermediate goods by 8 per cent.

The surplus on the services account amounted to FIM 83 million in January-March, the same as in the corresponding period last year. The surplus on the transport account decreased from FIM 872 million to FIM 748 million. Travel receipts and travel expenditure each grew by 5 per cent, giving rise to a deficit of FIM 543 million on the travel account. In the first quarter of the previous year, it had shown a deficit of FIM 517 million. The "other services account" recorded a deficit of FIM 123 million in January-March.

Interest payments on foreign loans amounted to FIM 3 395 million. With interest income on foreign assets reaching FIM 1 824 million, the investment income account showed a deficit of FIM 1 571 million in January-March. This was FIM 238 million less than in the corresponding period last year. The unrequited transfers account registered a deficit of FIM 491 million.

Capital account. Drawings of long-term loans amounted to FIM 3 952 million in January-March, which was almost FIM 1 000 million more than in the corresponding period last year. The central government accounted for FIM 1 177 million of the drawings. Redemptions of long-term loans totalled FIM 3 027 million. Drawings of long-term export credits granted to foreign customers reached FIM 92 million and redemptions of outstanding export credits FIM 314 million. Finnish net direct investment abroad totalled FIM 155 million and net foreign direct investment in Finland FIM 49 million. The total net inflow of long-term capital reached FIM 1 102 million, which was

about FIM 500 million less than in the corresponding period last year.

The inflow of short-term capital (including errors and omissions) totalled FIM 1 275 million in January-March. Short-term liabilities related

MAJOR BALANCE OF PAYMENTS ITEMS JANUARY - MARCH 1986, MILLION FIM¹

	Receipts	Expenditure	Net
Trade (exports f.o.b., imports c.i.f.)	20 068	20 784	-716
Adjustment items	-44	123	-168
Trade account	20 024	20 907	-884
Transport (c.i.f.)	1 358	610	748
Travel	575	1 117	-543
Other services	1 297	1 420	-123
Services account	3 229	3 146	83
GOODS AND SERVICES ACCOUNT	23 253	24 054	-801
Investment income, net	1 824	3 395	-1 571
Unrequited transfers	145	636	-491
Other	813	940	-126
A. CURRENT ACCOUNT	26 034	29 024	-2 989
	Change in assets	Change in liabilities	Net
Long-term financial loans and suppliers' credits: ²			
drawings	-92	3 952	3 860
redemptions	314	-3 027	-2 713
Direct investment	-155	49	-106
Other long-term capital	32	29	61
B LONG-TERM CAPITAL ACCOUNT	99	1 003	1 102
BASIC BALANCE (A + B)			-1 887
Prepayments and liabilities related to imports			2 982
Prepayments and receiv- ables related to exports			-604
Short-term capital of authorized banks ³			-3 085
Other short-term capital			-218
Errors and omissions			-350
C. SHORT-TERM CAPITAL ACCOUNT			-1 275
D. ALLOCATIONS OF SDRs			-
OVERALL BALANCE (A + B + C + D)			-3 162
Change in the foreign ex- change reserves of the Bank of Finland			3 162

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

¹ Preliminary figures.

² Assets include export credits only.

³ Figures include the foreign assets and liabilities of foreign branches.

to imports grew by an estimated FIM 2 982 million, while net prepayments and receivables related to exports fell by FIM 604 million. The net short-term liability of the authorized banks fell by FIM 3 085 million.

The foreign exchange reserves of the Bank of Finland decreased by FIM 3 162 million in January-March. The convertible foreign exchange reserves declined by FIM 3 944 million while tied currency claims rose by FIM 782 million. At the end of March, the convertible foreign exchange reserves of the Bank of Finland totalled FIM 18 418 million and tied currency claims FIM 500 million.

At the end of March, Finland's net foreign debt totalled FIM 54 632 million, of which the central government accounted for FIM 24 814 million. The net long-term debt amounted to FIM 57 460 million and net short-term claims to FIM 2 828 million.

The Bank of Finland's investment inquiry of June 1986. Industrial investment is continuing to grow at a steady pace. According to the Bank of Finland's investment inquiry of June 1986, the volume of fixed industrial investment will increase by 8 per cent this year, with the emphasis on machinery and equipment.

Industrial companies' investment plans for next year indicate a slightly lower level of activity than for this year. However, since not all investment projects to be implemented are normally known when the survey horizon exceeds 12 months, investment activity is likely to continue to expand next year. Also pointing to favourable investment developments is the fact that companies expect a rise in their capacity utilization in 1986 and a further - albeit slight - rise in 1987.

Industrial investment in 1985. According to the investment inquiry, the volume of fixed industrial¹ investment grew by 13 per cent last year.

In manufacturing, the corresponding figure was 8 per cent. The increase was slightly smaller than that suggested by the results of the investment inquiry in December. Investment activity was buoyant among large and medium-sized companies, whereas the investment volumes of small companies declined.

Planned investment for 1986. Investment activity is forecast to pick up during the course of the year in all main sectors except mining and quarrying and the forest industries. Companies' plans point to an increase of 8 per cent in the investment volumes of both total industry and manufacturing. The sharpest increase in investment volumes is forecast by the metal and engineering industries and the industry group "other manufacturing". Investment activity is centred on acquisitions of machinery and equipment, with non-residential construction expected to increase at about the same rate as in 1985.

Planned investment for 1987. Companies' investment plans for 1987 suggest that the level of industrial investment in 1987 will be slightly lower than planned for this year. However, an expansion in capacity is planned in many sectors, above all in the chemical industries. After declining in 1986, investment in the forest industries will remain almost unchanged next year. As an exception to the recent downward trend, small companies forecast a marked increase in their investment next year. The share of state-owned companies in total industrial investment will fall, though not very sharply.

Experience from earlier inquiries suggests that companies' estimates of investment for the following year in the spring inquiry are generally lower than their actual investment. According to the companies' replies to the latest inquiry, the anticipated decline in investment is smaller than usual. Hence, taking underestimation into account, industrial investment can be expected to continue to grow in 1987, even if implementation of plans may, in part, depend on whether actual economic developments conform with companies' expectations.

¹ In addition to manufacturing industries, industry includes mining and quarrying, and electricity, gas and water supply.

Expenditure on research and development. According to the inquiry, expenditure on research and development in industry amounted to about FIM 2 700 million in 1985. In volume terms, outlays on research and development were about 15 per cent greater than in the previous year. The increase has been especially pronounced in the metal and engineering industries, which now account for almost 60 per cent of total industry's expenditure on research and development.

Capacity utilization. Capacity utilization rates started to fall off slightly last year, reaching their lowest point, less than 85 per cent on average, during the first half of this year. Capacity utilization rates are expected to rise slightly this year and further next year. If companies' expectations are fulfilled, capacity utilization rates will remain appreciably higher than during the previous, likewise relatively weak, recession.

TABLE 1. ANNUAL CHANGES IN THE VOLUME OF INDUSTRIAL FIXED INVESTMENT IN 1985 AND PLANNED CHANGES FOR 1986 AND 1987, BY INDUSTRIAL SECTOR, PER CENT

	1985	1986	1987
Forest industries	5	-11	-5
Metal and engineering industries	15	18	-9
Other manufacturing	7	16	1
TOTAL MANUFACTURING	8	8	-4
Electricity, gas and water	27	10	-14
TOTAL INDUSTRY	13	8	-6

TABLE 2. ANNUAL CHANGES IN THE VOLUME OF INDUSTRIAL FIXED INVESTMENT IN 1985 AND PLANNED CHANGES FOR 1986 AND 1987, BY TYPE OF INVESTMENT, PER CENT

	1985	1986	1987
Buildings	2	3	-15
Machinery and equipment	8	10	-3

TABLE 3. EXPENDITURE ON RESEARCH AND DEVELOPMENT IN MANUFACTURING IN 1985 AND PLANNED EXPENDITURE IN 1986, MILLION FIM, AND CHANGE, PER CENT

	1985	Change	Planned expenditure	Change
	Mill. FIM	%	1986 Mill. FIM	%
Forest industries	184	13	199	8
Metal and engineering industries	1 554	23	1 786	15
Other manufacturing	965	23	1 210	25
TOTAL INDUSTRY	2 704	22	3 195	18

Publications of the Bank of Finland. The Bank of Finland Year Book for 1985 has been published. The first section reviews the Finnish economy in 1985, and the subsequent sections examine the central bank's monetary and foreign exchange policy, its balance sheet and profit and loss account and its relations with international organizations. A summary of new items relating to monetary and foreign exchange policy measures taken during the year is included. The Bank's financial statements and various banking transactions during the year under review are included in a statistical appendix. Helsinki 1986. 68 pp. ISSN 0081-9468.

The Bank of Finland's publication "Finnish Bond Issues 1985" has been published as a trilingual edition in Finnish, Swedish and English. The book contains data on all ordinary bonds, debentures and so-called other bonds issued by Finnish borrowers in 1985. All in all, 283 bond issues with a total nominal value of FIM 22 049 million were floated in Finland in 1985. Of the loans, 150 were public issues with a total nominal value of FIM 14 464 million. At the end of 1985, the total stock of domestic bonds outstanding amounted to about FIM 58 billion.

At FIM 8 092 million, the total volume of Finnish bond issues abroad in 1985 reached the record level of the previous year. The issues numbered 29. At the end of the year, the outstanding stock of external bonds amounted to FIM 38 billion or about a half of Finland's total gross foreign debt. Helsinki 1986. 393 pp. ISBN 951-686-118-0, ISSN 0781-4437.

(Continued from page 2)

TABLE 2. ESTIMATED EXPENDITURE ON ENERGY IN THE FINNISH ECONOMY IN 1986, FIM BILLION

	Based on the price prevailing at the beginning of 1986	Effect of tax reform	Effect of lower prices	Based on the forecast average price level for 1986
Industry	9.2	-1.0	-0.8	7.4
Heating	7.7	+0.5	-0.9	7.3
- District Heating	2.9	+0.3	-0.2	3.0
- Electric Heating	1.4	+0.1	-0.0	1.5
- Oil Heating	2.4	-0.1	-0.6	1.9
- Other heating	1.0	+0.0	-0.0	1.0
Transport	12.3	-0.4	-2.3	10.4
Agriculture	1.3	-0.1	-0.3	1.1
Construction	0.3	+0.0	-0.0	0.3
Households	2.6	+0.3	-0.1	2.8
Services and the public sector	2.3	+0.0	-0.0	2.3
Total	35.7	+0.1	-4.1	31.7

EFFECTS OF THE REFORM

The figures in Table 2 illustrate the immediate effects of the tax reform on energy expenditure in 1986. Owing to the different taxation of investments and changing patterns of fuel consumption in the long term, inter alia, the share of tax in electric heating is higher than that in district heating.

In the reform, close attention has been paid to energy policy objectives, and it also seeks to advance environmental protection objectives.

The tax system favours regionally decentralized electricity generation and promotes the use of indigenous fuels and energy conservation. The tax applied to the separate generation of electricity is higher than that applied to the combined generation of heat and power. Notwithstanding this, coal clearly retains its competitive position on the coast, in the separate generation of electricity. The lowering of cascade taxes will reduce costs of production in all methods of electricity generation.

The reform will contribute towards more balanced economic development. The new system of taxation supports corporate profitability and competitiveness. The rise in consumer prices resulting from the tax reform is about 0.5 per cent. Indeed, its effect in raising housing costs is the major drawback of the reform and was felt to pose considerable problems. However, the decline in other components of housing costs is estimated to be sufficient to offset this effect. Overall, housing costs are expected to fall slightly during the current year. The tax reform will not have any effect on central government tax revenue at estimated average energy prices for 1986.

July 30, 1986

TABLE 3. EFFECTS OF THE TAX REFORM ON PRODUCTION COSTS (penniä/kWh) IN ELECTRICITY GENERATION, CASE STUDIES

	Nuclear power 1000 MW		Nuclear power 2x500 MW		Coal power 2x500 MW		Peat power	
	Former taxation	New taxation	Former taxation	New taxation	Former taxation	New taxation	Former taxation	New taxation
Capital costs	7.7	7.7	9.1	9.1	4.7	4.7	5.3	4.8
Fuels costs	3.4	2.9	3.4	2.9	12.6	10.6	12.7	10.7
Operating costs	1.8	1.8	2.1	2.1	2.3	2.3	2.6	2.6
Disposal of nuclear waste	1.3	1.3	1.3	1.3
Total	14.2	13.7	15.9	15.4	19.6	17.6	20.6	18.1
Change in production costs		-0.5		-0.5		-2.0		-2.5
Tax	1.3	0.8	1.4	0.9	2.5	0.5	0.5	-2.0

BANK OF FINLAND

Board of Management

Rolf Kullberg
Chairman

Pentti Uusivirta

Ele Alenius

Harri Holkeri

Seppo Lindblom
*Absent as Minister
of Trade and Industry*

Esko Ollila
*Absent as Minister
of Finance*

Markku Puntila
Acting Member of the Board

Directors

Markku Puntila

Eino Helenius

Pentti Koivikko

Sirkka Hämäläinen

Matti Vanhala

Senior officials

H.T. Hämäläinen
*Secretary to the Board
of Management*

Timo Männistö
Internal Audit

Ossi Leppänen
Accounting

Urpo Levo
Administration

Reijo Mäkinen
Cash

Raimo Hyvärinen
Domestic Financing

Anton Mäkelä
Personnel

Heikki Koskenkylä
Research

Riitta Jokinen
Acting Head, Data Processing

Kari Puumanen
Economics

Antti Heinonen
Information

Ralf Pauli
Monetary Policy

Kari Holopainen
Bilateral Trade

Esa Ojanen
Exchange Control

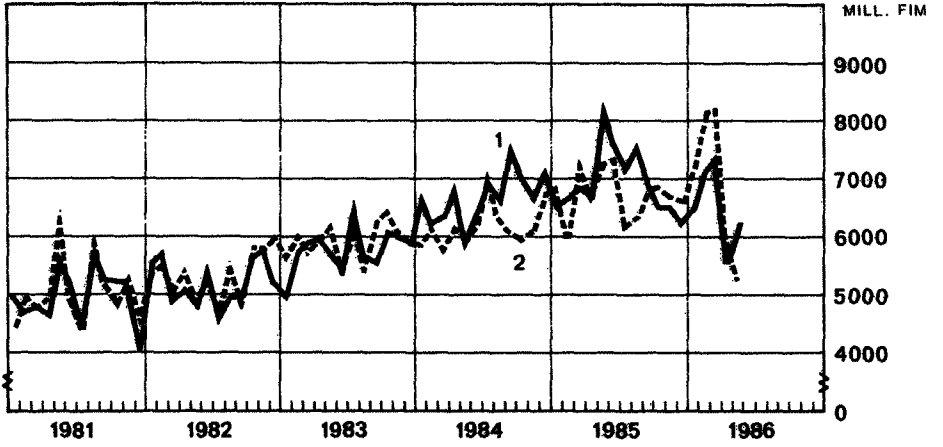
Johnny Åkerholm
Exchange Policy

Kari Pekonen
Foreign Exchange

Markus Fogelholm
Foreign Financing

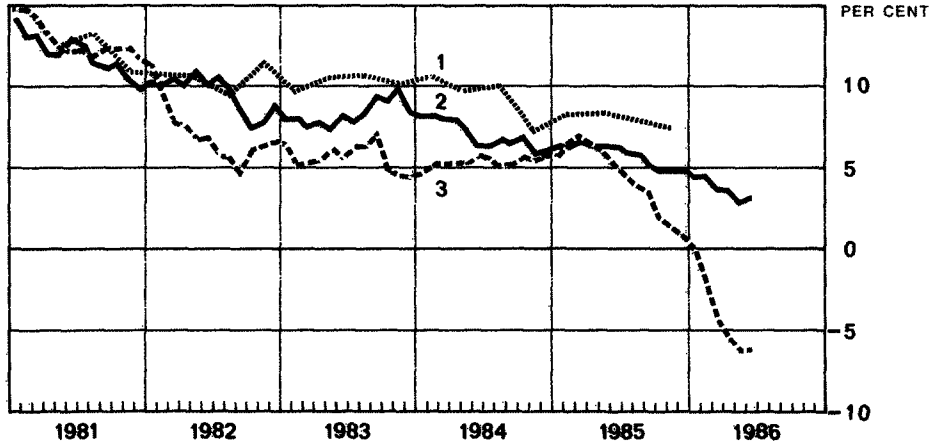
FOREIGN TRADE, 1981-86

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



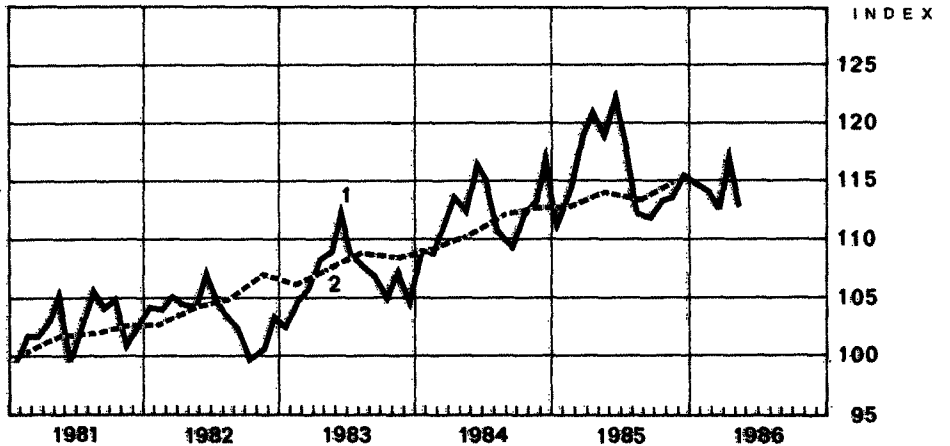
PRICES AND WAGES, 1981-86

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



PRODUCTION, 1981-86

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



Bank of Finland Monthly Bulletin
Suomen Pankki — Finlands Bank
P.O. Box 160, SF-00101 Helsinki, Finland
Telephone: Helsinki 1832629
Telex: 121224 spfb sf
Cables: SUOMENPANKKI Helsinki

EDITOR-IN-CHIEF Antero Arimo
EDITOR Marja Hirvensalo

ISSN 0005-5174

Helsinki 1986. Government Printing Centre