



BANK OF FINLAND

Monthly Bulletin

Foreign trade

Recent developments in financial markets
and monetary policy

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

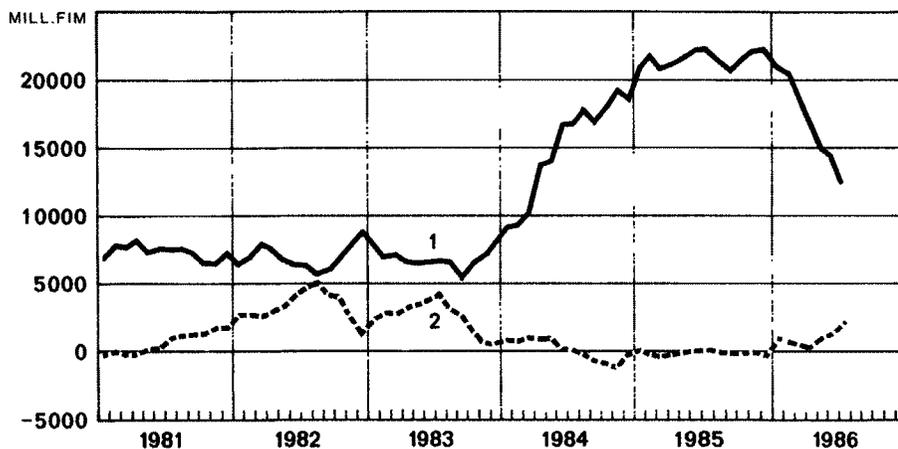
Cash reserve requirement

Supplementary budget

Finland's balance of payments January-
June 1986

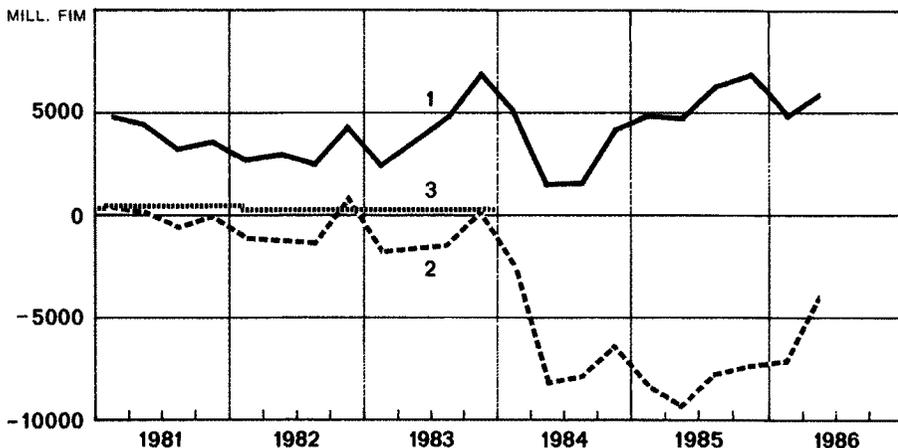
Death of President Urho Kekkonen

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



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

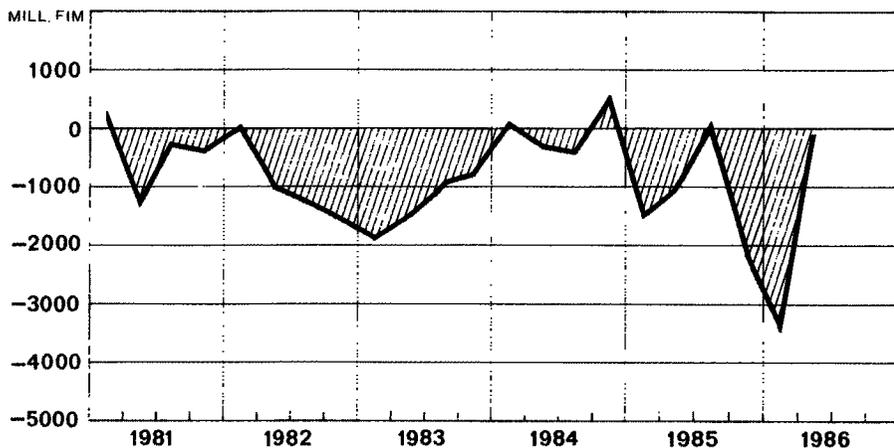
DEPOSIT BANKS' CENTRAL BANK POSITION, 1981-86



- 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

FOREIGN TRADE

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Although the prospects for the world economy have improved considerably as a result of the fall in the price of oil and the US dollar, the effects on international economic activity have been negligible so far, since the adverse effects of the price falls have outweighed the favourable effects. Industrial production in the OECD-countries has practically stagnated since the first half of 1985. The growth of world trade and Finland's export markets has also been modest. Reflecting its commodity and regional structure, Finland's foreign trade has been strongly influenced by these developments. Foreign trade prices have fallen sharply while the terms of trade have improved and the volume of exports has declined somewhat. However, the situation in western markets is gradually improving. In particular, markets for forest industry products, which were badly disrupted in 1985 by worldwide oversupply of many products and shifts in competitive positions owing to the fall in the dollar, are recovering.

Because of the bilateral nature of Finland's trade with the Soviet Union, the fall in the price of oil, for which Finland pays the world-market price, and the depreciation of the dollar, the pricing currency, have given rise to pressures for reducing Finland's exports to that country. The extent of adaptation to the lower oil price level will depend on future developments in the price of oil as well as on other measures to be taken to balance the trade, which at present accounts for one-fifth of Finland's total foreign trade.

Last year, relatively brisk domestic demand helped to sustain modest growth in all major categories of imports. However, because of a weakening in the overall growth of the Finnish economy, the growth of imports is currently stagnating.

The surplus on the trade account with western countries fell markedly in the course of last year from the exceptionally high level of the previous year. There were, however, clear signs of improvement during the first half of this year, and the trade account with western countries was modestly in surplus. With the fall in oil prices, there has been a substantial improvement in the terms of trade in the bilateral trade with the Soviet Union, and the surplus on the bilateral trade account has increased despite a fall in export volumes. All in all, Finland's merchandise trade account showed a surplus of FIM 2.0 billion in the first seven months of this year.

EXPORTS

During the past few years, there have been large investments in world production of some forest products. The resulting overcapacity, together with weakened demand, depressed world-market prices of pulp and some paper products last year. Moreover, with the fall in the dollar, Scandinavian producers suffered a loss in competitiveness in North American markets and sought alternative outlets in European markets, thus contributing to over-supply there. During 1985, export prices of Finnish pulp and paper products fell sharply and the volume of exports turned down. Now market conditions for these products are gradually returning to normal, and prices have been recovering in the course of this year. Markets for sawn goods also picked up during the spring and the volume of exports to Finland's traditional markets has grown appreciably.

Exports of the metal and engineering industries to western markets declined somewhat last year, because of a large drop in deliveries of

ships. Demand for other metal and engineering industry products was buoyant, especially in Sweden. As, moreover, exports to CMEA countries grew rapidly, total exports of this sector increased modestly last year. In the first half of this year, the need to balance the trade with the Soviet Union has adversely affected exports of metal and engineering products, about one-third of which goes to the Soviet Union.

Export markets for basic metal products also weakened in the course of last year, along with the slowdown in the growth of industrial production and the fall in the dollar. However, for the year as a whole, exports of these products still registered a marked increase over the previous year. After declining for a few months, export volumes of the basic metals industry have again started to increase.

In other manufacturing industries export performance in western markets was less satisfactory in 1985. Chemical industry exports contracted as a result of a sharp drop in shipments of oil products to western markets. During the time the dollar was rising, the Finnish markka had appreciated vis-à-vis European currencies owing to the fact that it is pegged to a basket of the currencies of Finland's main trading partners. This particularly weakened the competitive position of the textile and clothing industry in traditional markets. Last year, however, strong growth of these exports to CMEA countries partly compensated for the losses in western markets. With the subsequent fall in the dollar, the markka has depreciated somewhat vis-à-vis European currencies thereby contributing to the improved export performance of the textile and clothing industry this year.

Thus, Finland's overall export performance during the first six months of this year has been characterized by two major trends. Falling oil prices have given rise to pressures for cutting back Finland's exports to the Soviet Union whereas demand in western markets has shown signs of recovering. Accordingly, the value of exports to CMEA countries and

OPEC countries has clearly fallen while exports to European markets have maintained approximately the same level as last year.

IMPORTS

Steady growth of domestic demand, coupled with the rebuilding of stocks, induced a 5 per cent increase in the volume of commodity imports last year. Imports of energy and other raw materials increased at a faster rate, partly reflecting the adjustment of raw material stocks to more normal levels. Private consumption grew at a fairly brisk pace last year and imports of consumer goods expanded at the same rate as total imports. By contrast, overall investment activity remained rather weak and imports of investment goods grew at a slower rate than total imports.

In the first half of the current year, the volume of imports remained at the level of the previous year. The weakness of industrial production has been reflected in reduced raw material imports. Domestic investment activity has remained sluggish and imports of investment goods have increased only modestly. By contrast, steadily rising real wages have contributed to a rapid increase in imports of consumer goods, especially passenger cars.

As in the case of export prices, the fall in the dollar induced a downward trend in import prices during last year. Prices of raw materials, including energy, which account for over 70 per cent of Finland's merchandise imports, have fallen since their peak in the first quarter of 1985. In the second quarter of this year, import unit values were approximately 11 per cent lower than a year ago. With export unit values showing a decline of some 4 per cent during the same period, Finland's terms of trade improved by some 8 per cent. This will provide a substantial boost to the disposable income of both the household and corporate sectors, the effects of which will be seen in the near future.

(Continued on page 39)

	1985		1986			
	Aug. 30	Dec. 31	Aug. 8	Aug. 15	Aug. 22	Aug. 29
Assets						
Gold and foreign currency claims	21 783	22 650	12 933	10 307	11 611	10 994
Gold	1 732	2 081	2 081	2 081	2 081	2 081
Special drawing rights	941	931	983	979	987	983
IMF reserve tranche	795	775	808	822	821	819
Convertible currencies	18 062	18 608	6 736	3 928	5 161	4 532
Tied currencies	253	255	2 325	2 497	2 561	2 579
Other foreign claims	2 841	2 645	2 567	2 549	2 549	2 549
Markka subscription to Finland's IMF quota	2 841	2 645	2 567	2 549	2 549	2 549
Claims on financial institutions	8 936	9 256	13 615	16 590	15 706	15 453
Banks' cheque accounts	52	—	—	—	—	—
Call money advances	5 553	5 219	9 631	12 689	11 758	11 525
Till-money credits	1 371	1 925	1 717	1 618	1 671	1 650
Bonds	1 938	2 065	2 164	2 167	2 161	2 161
Other claims on financial institutions	22	47	103	116	116	117
Claims on the public sector	1 575	1 023	982	982	984	984
Government promissory notes	560	—	—	—	—	—
Bonds	145	118	74	73	73	72
Total coinage	870	891	908	909	911	912
Other claims on the public sector	—	14	0	—	—	0
Claims on corporations	4 896	4 679	4 783	4 787	4 797	4 828
Financing of exports	1 693	1 601	1 577	1 565	1 575	1 584
Financing of domestic deliveries	3 041	2 924	2 927	2 944	2 944	2 966
Bonds	85	81	70	70	70	70
Other claims on corporations	77	73	209	208	208	208
Other assets	145	146	147	147	148	149
Total	40 176	40 399	35 027	35 362	35 795	34 957
Liabilities						
Foreign currency liabilities	442	576	61	62	60	60
Convertible accounts	30	36	58	60	58	57
Tied currencies	412	540	3	2	2	3
Other foreign liabilities	3 714	3 494	3 421	3 398	3 398	3 395
IMF markka accounts	2 841	2 645	2 567	2 549	2 549	2 549
Allocations of special drawing rights	873	849	854	849	849	846
Notes and coin in circulation	7 342	8 072	8 049	7 962	7 920	7 969
Notes	6 614	7 304	7 267	7 181	7 141	7 190
Coin	728	768	782	781	779	779
Liabilities to financial institutions	15 368	12 153	9 448	9 844	10 375	9 434
Banks' cheque accounts	0	0	0	1	2	0
Call money deposits	4 692	1 205	218	618	1 160	252
Cash reserve deposits	9 928	10 222	9 030	9 030	9 030	9 023
Capital import deposits	656	639	67	66	65	66
Other liabilities to financial institutions	92	87	133	129	118	93
Liabilities to the public sector	1 558	4 300	1 501	1 501	1 500	1 501
Cheque accounts	0	0	1	1	0	1
Government deposit account	1 500	4 300	1 500	1 500	1 500	1 500
Export deposits	58	—	—	—	—	—
Capital import deposits	—	—	—	—	—	—
Other liabilities to the public sector	0	0	0	0	0	0
Liabilities to corporations	4 202	4 267	4 976	4 962	4 958	4 996
Deposits for investment and ship purchase	3 771	3 841	4 754	4 747	4 743	4 792
Capital import deposits	427	424	213	212	212	201
Other liabilities to corporations	4	2	9	3	3	3
Other liabilities	16	14	24	16	16	16
Valuation account and reserves	1 185	1 639	1 663	1 733	1 684	1 702
SITRA's capital	400	400	400	400	400	400
Capital accounts	5 949	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	59	-280	—	—	—	—
Total	40 176	40 399	35 027	35 362	35 795	34 957

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										
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
Aug.	3 883	4 475	8 358	2 576	-846	10 088	984	1 500	1	517

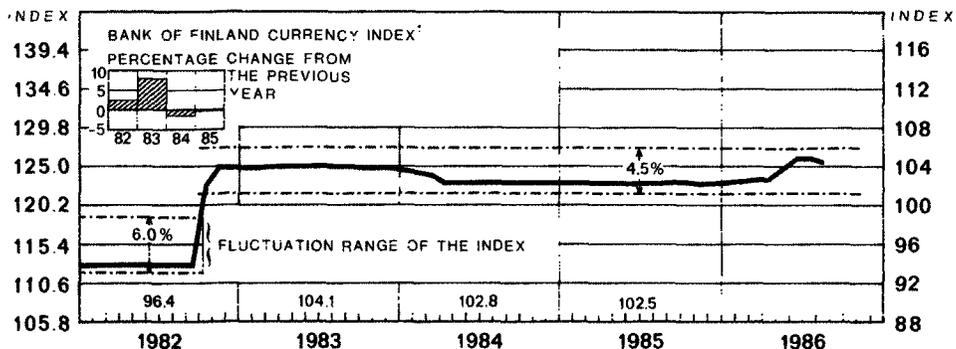
OFFICIAL FOREIGN EXCHANGE RESERVES

Mill. FIM

	Dec. 31. 1985	May 30. 1986	June 30. 1986	July 31. 1986	Aug. 29. 1986
Gold	2 081	2 081	2 081	2 081	2 081
SDRs	931	989	981	981	983
IMF reserve tranche	775	838	813	812	819
Convertible currencies, net	18 572	11 125	10 603	8 588	4 475
Total convertible reserves, net	22 359	15 033	14 478	12 462	8 358
Tied currencies, net	-285	989	1 433	2 209	2 576
Total reserves, net	22 074	16 022	15 911	14 671	10 934

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											
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
Aug.	1 650	0	11 525	252	9 023	-2 119	6 019	4 550	4 718	-168	7 969

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).

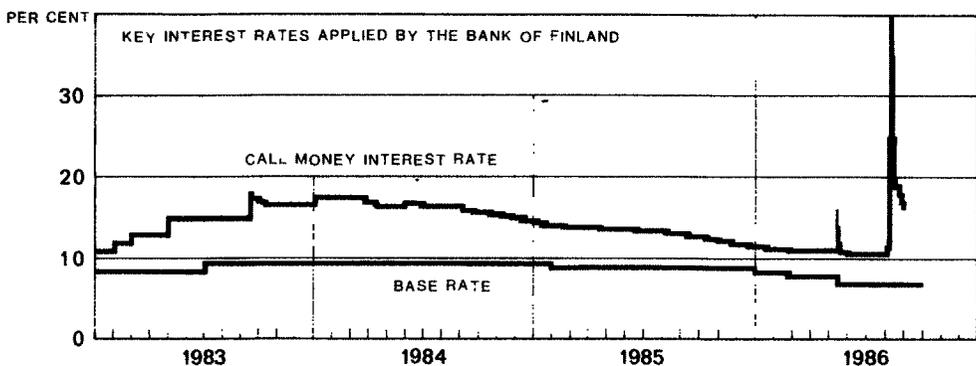


MONETARY POLICY INDICATORS

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									
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	8.76
Aug.	11 014	1 239	9 030	4.7	10 269	24.17	24.17	7.00	..

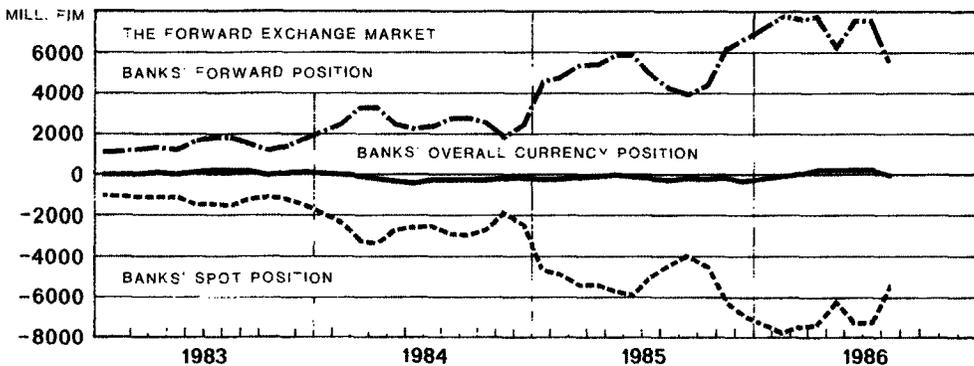
¹ End of period for monthly figures.

² End of period.



FORWARD EXCHANGE MARKETS IN FINLAND

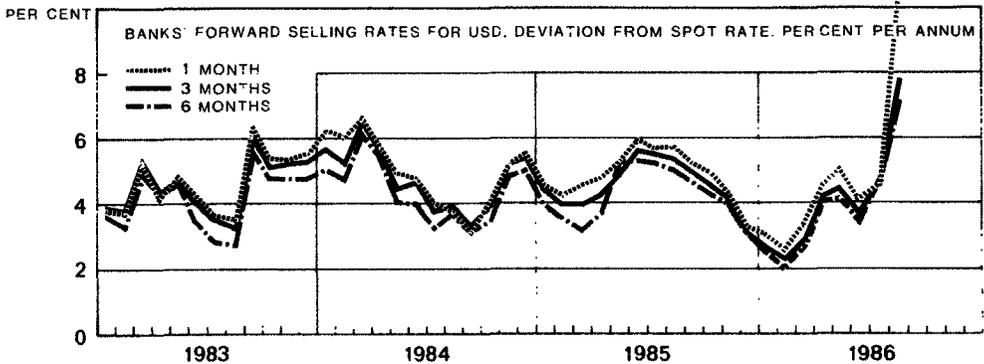
Period	Banks' forward positions in mill. FIM with						Banks' forward selling rates for USD		
	Domestic firms			Foreign banks	Bank of Finland	Overall	Deviation from spot rate, per cent per annum		
	Assets	Liabilities	Net	Net	Net	Net	1 month	3 months	6 months
1	2	3	4	5	6	7	8	9	
1984	22 921	1 394	21 527	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									
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
July	12 032	1 518	10 514	-1 170	-1 949	7 619	4.6	4.7	4.8



FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange, FIM

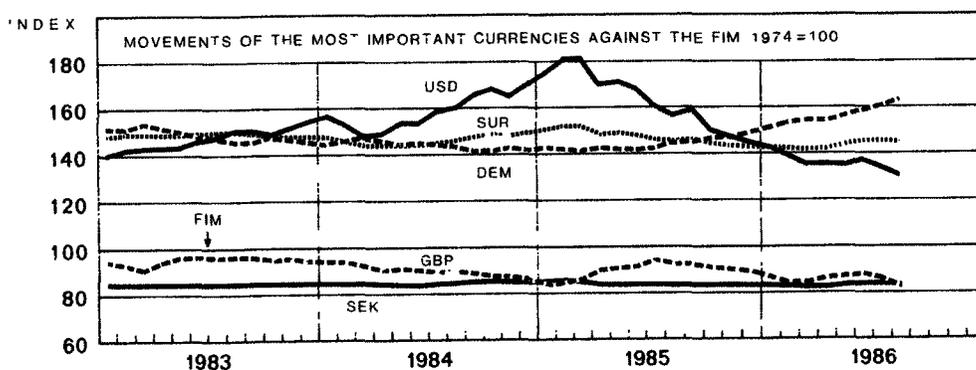
Period	New York 1 US USD	Montreal 1 C CAD	London 1 £ GBP	Dublin 1 Ir£ IEP	Stockholm 100 Skr SEK	Oslo 100 Nkr NOK	Copenhagen 100 Dkr DKK	Frankfurt 100 DM DEM	Amsterdam 100 Hfl NLG	Brussels 100 FB BEC	
	1	2	3	4	5	6	7	8	9	10	11
1981	4.315	3.602	8.731	6.976	85.74	75.54	60.96	191.31	173.43	11.688	11.095
1982	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											
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
Aug.	4.940	3.564	7.356	6.665	71.41	67.31	63.72	239.66	212.56	11.580	11.465



Average selling rates for foreign exchange, FIM

Zurich 100 Sfr CHF	Paris 100 FF FRF	Rome 100 Lit LTL	Vienna 100 ÖS ATS	Lisbon 100 Esc PTE	Reykjavik 100 lkr ISK	Madrid 100 Ptas ESB	Tokyo 100 Y JPY	Moscow 1 Cl Rbl SUR	1 special drawing right SDR	Currency index ¹
12	13	14	15	16	17	18	19	20	21	22
220.34	79.92	0.385	27.17	7.17	60.35	4.72	1.967	5.986	5.071 40	113.1
237.79	73.65	0.358	28.31	6.13	40.79	4.41	1.943	6.624	5.305 63	115.9
265.70	73.53	0.369	31.11	5.14	23.25	3.91	2.351	7.491	5.943 25	125.1
256.42	69.07	0.344	30.13	4.14	19.39	3.75	2.534	7.357	6.147 39	102.8
253.60	69.40	0.327	30.12	3.67	15.20	3.66	2.610	7.419	6.278 79	102.5
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
297.48	73.68	0.350	34.09	3.41	12.40	3.69	3.209	7.278	5.960 80	104.5

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



DEPOSITS BY THE PUBLIC

Mill. FIM

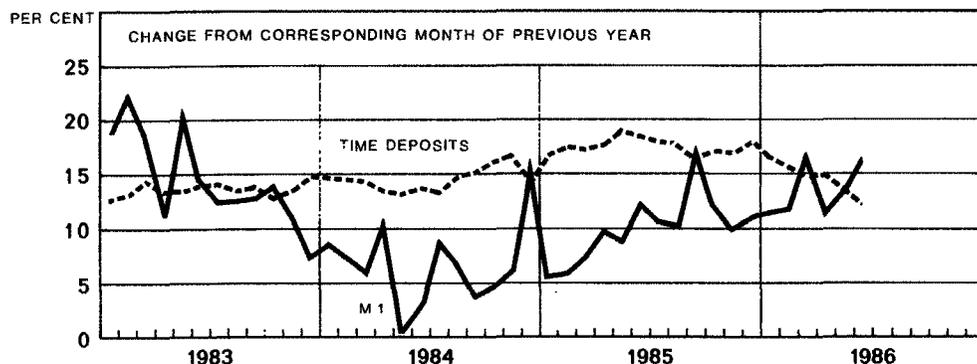
End of year and month	Demand deposits				Time deposits					Total (4 + 9)
	Commercial banks	Savings banks & Co-op. banks	Posti-pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	All deposit banks (5 to 8)	
	1	2	3	4	5	6	7	8	9	10
1982	7 155	3 874	3 049	14 078	29 465	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*

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
May	8 188	5 532	5 542	19 262	50 549	39 737	33 966	13 283	137 534	156 796



ADVANCES TO THE PUBLIC – MONEY SUPPLY

Mill. FIM

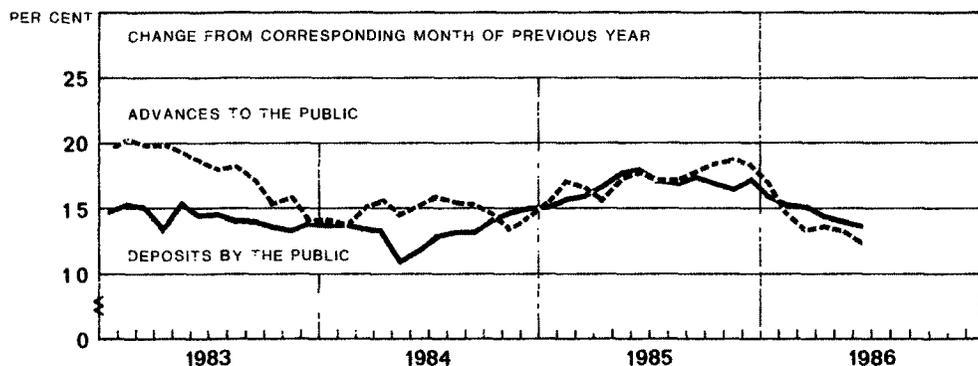
End of year and month	Advances granted by				Types of advances			Total (1 to 4) (5 to 7)	Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-bankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency		M ₁	M ₁ + Quasi-Money
	1	2	3	4	5	6	7		8	9
1982	48 620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

1985*

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
May	84 423	38 968	37 488	18 026	148 109	7 074	23 722	178 905	26 622	171 161



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
Customs duties and import charges and levies	1 732	1 642	of which: agric. price subsidies	4 362	5 156
Excise duties	11 657	12 697	Child allowances	2 347	2 480
Excise duty on alcoholic bevs.	4 298	4 494	Share in national pensions and sickness insurance schemes	2 279	2 083
Excise duty on tobacco	1 741	1 820	Deficit of State enterprises	1 087	1 103
Excise duty on liquid fuel	4 052	4 465	Other transfer expenditure	10 858	12 608
Other excise duties	1 566	1 917	Total transfer expenditure	44 333	49 269
Tax on autom. and motor-cycles	2 678	2 864	Machinery and equipment	1 822	2 132
Stamp duties	2 274	2 755	Construction of buildings	1 277	1 172
Special diesel etc. vehicles tax	450	490	Land and waterway construction	2 357	2 395
Other taxes and similar revenue	2 138	2 194	Total real investment	5 455	5 700
Total taxes	65 861	73 875	Interest on State debt	3 965	4 686
Miscellaneous revenue	5 661	6 110	Other expenditure	4	31
Interest, dividends etc.	2 159	2 341	Total other expenditure	3 969	4 717
Surplus of state enterprises	1 891	1 964	Increase in inventories	251	219
Redemptions of loans granted	1 894	2 071	Lending	4 014	4 088
Total revenue	77 466	86 361	Other financial investment	702	894
Foreign borrowing	4 633	3 374	Total expenditure	80 878	89 722
Domestic borrowing	6 119	7 815	Redemption of foreign loans	1 936	1 766
Total borrowing	10 752	11 189	Redemption of domestic loans	3 616	5 916
Deficit (+) or surplus (-)	-1 788	-145	Total redemptions	5 552	7 682
Total	86 430	97 405	Total	86 430	97 404

State debt	1984	1985	1986			
	Dec.	Dec.	April	May	June	July
Foreign debt	24 946	25 677	25 184	26 159	26 737	26 896
Long-term debt	19 057	20 872	22 118	22 465	22 444	22 648
Short-term credit	266	432	667	667	600	600
Domestic debt	19 323	21 304	22 785	23 132	23 044	23 248
Total State debt	44 269	46 981	47 969	49 291	49 781	50 144
Total debt mill. \$	6 855	8 562	9 354	9 655	9 582	9 883

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

Oct.	7 467	8 155	-688
Nov.	6 727	6 641	-86
Dec.	6 556	7 011	-455

1986*

Jan.	6 792	7 467	-674
Feb.	6 924	6 309	+615
March	6 312	6 977	-665
April	6 453	6 812	-359
May	6 312	5 175	+1 137
June	5 564	3 948	+1 616

Jan.-June

1985	42 609	40 156	+2 453
1986*	38 358	36 688	+1 670

Indices of exports and imports
1980 = 100

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

1984

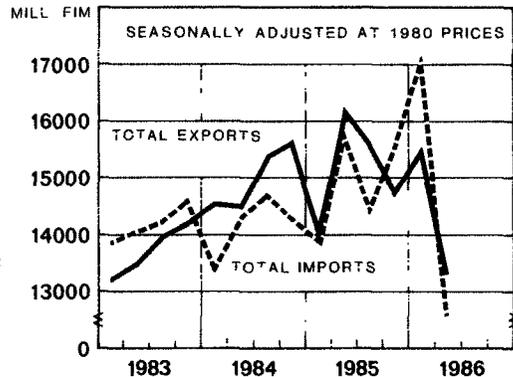
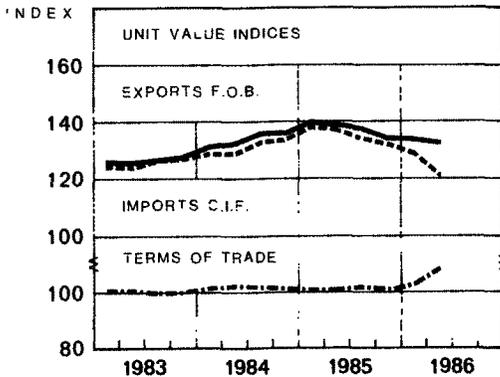
Apr.-June	113	99	133	130	103
July-Sept.	108	99	137	133	102
Oct.-Dec.	121	101	137	134	102

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
Apr.-June	104	90	133	122	109



FOREIGN TRADE BY MAIN GROUPS

Mill. FIM

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

1985

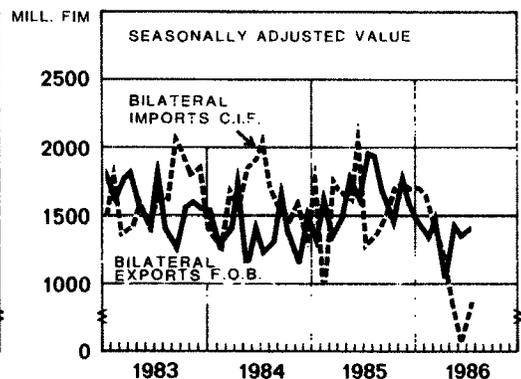
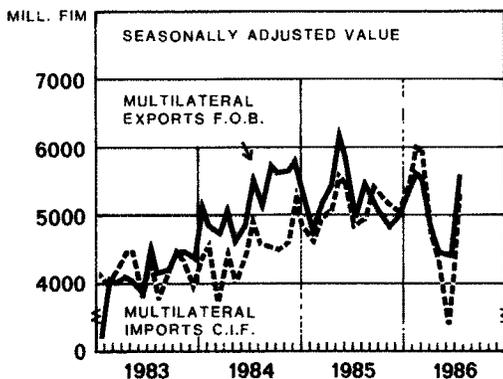
Oct.	185	629	2 162	1 964	2 526	4 987	742	1 169	1 250	5
Nov.	155	588	1 885	2 175	1 924	3 895	557	1 074	1 105	9
Dec.	128	538	1 797	2 114	1 979	4 539	441	1 027	996	8

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	1 704	1 969	4 041	218	1 192	1 503	24
April	148	583	2 051	2 103	1 568	3 883	389	1 101	1 418	22
May	128	494	1 809	2 339	1 542	3 153	231	784	991	18
June	142	506	2 015	1 412	1 490	2 350	166	687	743	2

Jan.-June

1985	1 760	3 459	12 626	12 039	12 724	25 461	2 175	5 742	6 413	365
1986*	1 362	3 074	11 361	11 699	10 862	22 019	1 794	5 691	7 104	80



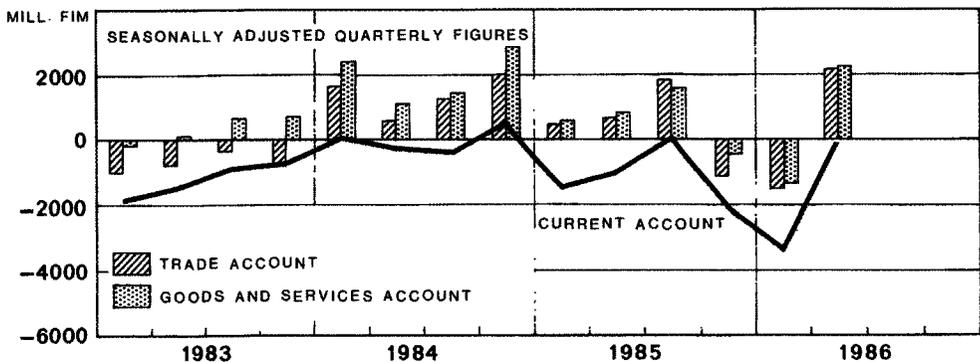
FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports f.o.b.				Imports c.i.f.			
	January-June				January-June			
	1985		1986*		1985		1986*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
OECD countries in Europe	57.0	24 283	62.1	23 812	56.4	22 646	61.6	22 606
Austria	0.7	277	0.9	330	1.1	444	1.3	461
Belgium and Luxembourg	1.5	624	1.8	679	2.0	809	2.3	860
Denmark	3.9	1 653	4.2	1 599	2.4	957	2.7	1 006
France	4.3	1 848	4.7	1 790	3.4	1 376	4.1	1 497
Federal Republic of Germany	9.2	3 921	9.9	3 797	14.7	5 918	17.0	6 228
Italy	2.0	857	2.2	830	3.3	1 334	4.1	1 521
Netherlands	3.3	1 425	3.7	1 410	2.9	1 179	3.0	1 085
Norway	4.2	1 808	4.6	1 756	2.8	1 116	2.5	908
Portugal	0.3	123	0.3	101	0.7	296	0.8	282
Spain	0.8	349	1.1	412	1.0	399	1.1	416
Sweden	13.1	5 570	14.9	5 732	11.6	4 651	13.6	4 980
Switzerland	1.6	662	1.6	624	1.6	631	1.9	706
United Kingdom	10.7	4 554	10.8	4 161	8.0	3 217	6.4	2 360
Other	1.4	612	1.5	592	0.8	320	0.8	297
OECD countries outside Europe	10.7	4 558	9.0	3 470	11.7	4 703	12.3	4 507
Canada	1.2	530	1.1	422	0.7	266	0.4	149
Japan	1.6	684	1.5	561	5.3	2 132	6.6	2 419
United States	6.6	2 818	5.4	2 072	5.5	2 192	4.9	1 800
Other	1.2	526	1.1	414	0.3	114	0.4	138
CMEA countries	22.0	9 369	20.7	7 935	23.3	9 372	18.2	6 677
Czechoslovakia	0.4	157	0.3	132	0.4	176	0.5	171
German Democratic Republic	0.5	230	0.3	127	0.5	187	0.6	204
Poland	0.5	225	0.3	101	1.4	567	1.3	492
Soviet Union	19.9	8 489	18.9	7 250	20.4	8 210	15.3	5 614
Other	0.6	268	0.8	325	0.6	232	0.5	197
Latin America	1.8	773	1.6	608	2.9	1 148	2.7	976
Argentina	0.1	37	0.1	30	0.1	60	0.1	44
Brazil	0.1	63	0.2	77	1.0	384	0.8	297
Colombia	0.2	68	0.1	41	0.6	260	0.7	272
Other	1.4	604	1.2	460	1.1	444	1.0	362
Other	8.5	3 626	6.6	2 533	5.7	2 287	5.2	1 922
GRAND TOTAL	100.0	42 609	100.0	38 358	100.0	40 156	100.0	36 688
of which								
EFTA countries	20.0	8 514	22.1	8 496	17.9	7 204	19.4	7 110
EEC countries	35.9	15 300	39.5	15 162	37.4	15 024	42.2	15 472
OECD countries	67.7	28 841	71.1	27 282	68.1	27 349	73.9	27 112

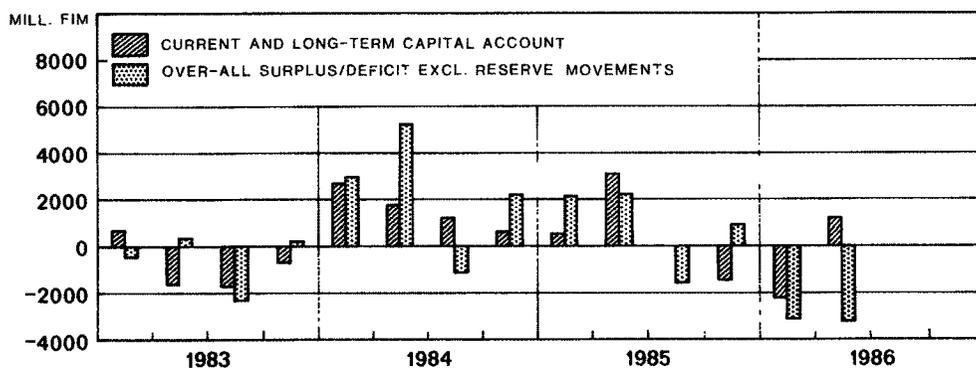
BALANCE OF PAYMENTS

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- requested 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											
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	+798	-553	-136	-774	-1 584	-542	-126	-3 026
Apr.-June	18 247	16 014	+2 233	+678	-598	-43	+2 271	-1 946	-398	-101	-174



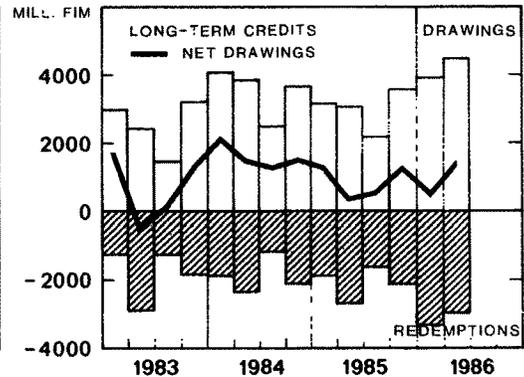
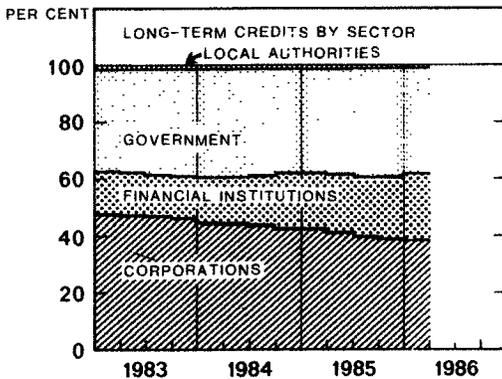
Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net	Long-term capital account (12 to 15)	Current and long-term capital account (11 + 16)	Prepayments and liabilities related to imports	Prepayments and receivables related 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
-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
3 954	-3 377	+222	-44	+755	-2 271	-1 971	+651	-3 085	-429	-3 162	+3 162
+4 480	-2 990	-67	-54	+1 369	+1 195	-3 772	-1 956	-3 790	+1 175	-3 236	+3 236

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

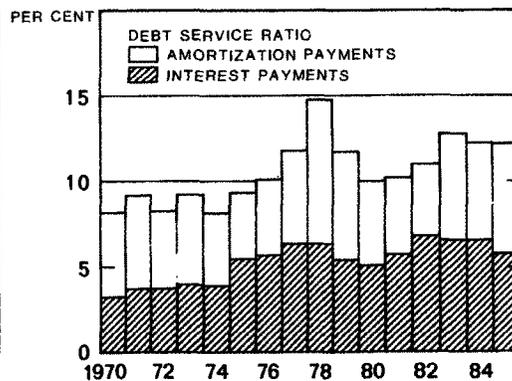
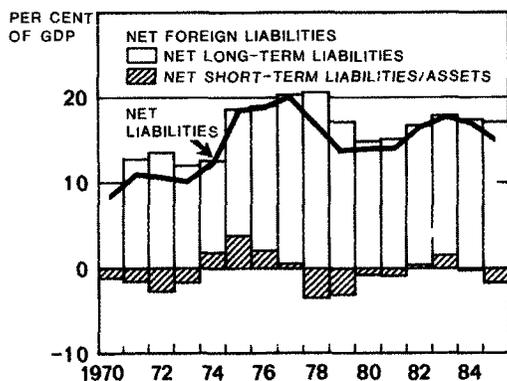


FINLAND'S FOREIGN ASSETS AND LIABILITIES

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*	6 538	10 516	2 774	19 828	63 197	2 892	3 274	6 313	1 065	76 741	56 913
1983											
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.	6 538	10 516	2 774	19 828	63 197	2 892	3 274	6 313	1 065	76 741	56 913
1986*											
March	6 300	10 572	2 712	19 584	63 503	2 803	3 348	6 407	993	77 054	57 470
June	6 133	11 343	2 783	20 259	66 535	2 546	3 391	7 117	1 012	80 601	60 342



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	16 181	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	12 877	5 896
25 183	38 760	13 084	77 027	4 070	51 374	15 999	71 443	-5 584	51 329	13 459	7 024
10 556	23 605	15 681	49 841	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	16 181	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	3 646	1 636
24 785	44 984	13 827	83 596	4 535	59 386	18 362	82 283	-1 313	53 741	3 639	1 802
26 208	46 661	14 868	87 737	3 729	62 896	18 727	85 352	-2 385	55 939	3 780	2 029
24 770	44 927	14 573	84 271	4 240	59 370	17 808	81 418	-2 853	53 816	2 793	1 488
25 183	38 760	13 084	77 027	4 070	51 374	15 999	71 443	-5 584	51 329	3 247	1 705
21 647	40 409	12 115	74 171	3 659	50 424	17 585	71 668	-2 503	54 967	5 097	3 485
18 470	48 448	9 637	76 555	3 499	54 673	13 357	71 529	-5 025	55 317	5 260	3 236



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										
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
July	1 249	131.7	139.2	108.8	119.4	145.1	148.9	151.2	156.2	148.4

Period	Consumer prices 1981 = 100									
	Total	Food	Beverages and tobacco	Clothing and footwear	Rent, heating and lighting	Household goods and services	Health and medical services	Transport and communication	Education and recreation	Other goods and services
	1	2	3	4	5	6	7	8	9	10
1984	127.1	129.1	132.5	119.5	124.5	123.0	145.2	125.4	126.4	130.8
1985	134.6	139.1	140.3	126.1	130.9	129.7	155.7	130.4	132.5	140.4
1985										
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
July	139.9	145.7	147.4	130.1	135.7	135.1	163.0	130.4	140.2	149.0

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*										
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	166.4	160.1	167.2	164.7	165.7	162.6	164.6
Oct.-Dec.	166.8	163.1	174.0	166.9	160.6	167.7	167.1	166.9	165.3	166.3
1986*										
Jan.-March	170.2	166.8	175.5	173.2	166.7	174.5	169.5	171.3	167.9	170.0
Apr.-June	175.0	172.7	183.9	177.4	169.9	178.3	175.5	175.7	174.5	175.3

PRODUCTION

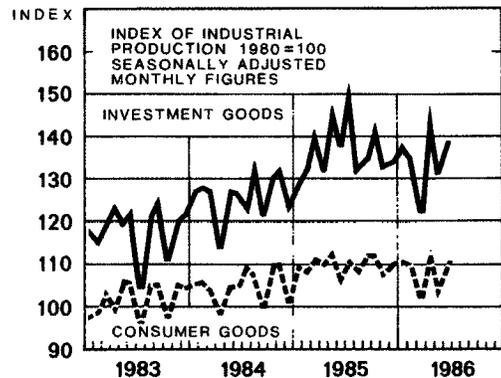
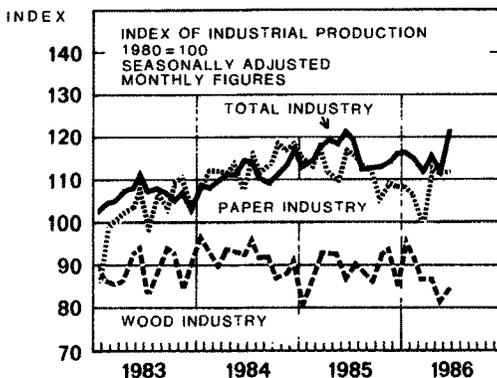
Volume indices of production 1980 = 100

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	Total	Investment goods	Consumer goods	Other producer goods	Special indices of manufacturing						Total adjusted for seasonal variations
					Food industrv	Wood industrv	Paper industrv	Chemical industries	Non-metallic mineral industrv	Metals industrv	
	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*	111.8	126.8	105.6	111.9	109.3	92.4	114.3	111.5	108.4	120.0	112.1
1985*	116.1	137.8	110.3	114.7	111.3	89.4	113.1	115.1	109.7	129.9	116.5
1985*											
June	115.0	153.5	102.8	113.8	104.3	97.1	105.8	106.8	112.3	137.8	121.9
July	82.2	68.4	73.6	88.5	103.8	41.1	126.5	77.8	71.2	68.0	119.7
Aug.	114.8	125.9	110.0	114.7	114.8	83.1	118.8	121.5	128.0	121.9	112.8
Sept.	118.8	137.4	113.4	117.7	109.5	96.5	112.0	121.0	130.4	134.1	113.1
Oct.	129.7	157.4	126.3	126.1	138.6	109.6	112.2	127.4	135.4	149.9	113.5
Nov.	124.5	148.9	122.2	120.9	130.4	96.7	116.8	117.1	118.6	142.5	114.5
Dec.	108.0	130.9	104.2	105.4	104.7	63.2	102.8	108.3	95.9	123.6	116.6
1986*											
Jan.	122.4	143.3	119.8	119.7	106.8	93.6	111.2	121.9	103.0	137.5	116.9
Feb.	110.5	132.8	108.0	107.5	93.1	82.9	102.2	111.0	83.3	123.9	115.4
March	107.5	127.0	104.0	105.5	91.3	83.6	95.2	121.8	81.3	121.3	112.4
April	124.9	157.7	117.7	122.2	114.4	113.5	114.7	133.4	97.8	148.9	116.5
May	118.6	157.7	109.7	115.6	104.6	100.1	107.4	121.5	97.8	147.2	113.0
June	118.3	151.0	104.8	118.6	105.0	98.0	101.5	113.8	104.1	140.4	121.6



LABOUR – TIMBER FELLINGS – INTERNAL TRADE

Period	Population of working age, '000 persons	Total labour force, '000 persons	Employed, '000 persons	Unemployed, '000 persons	Unemployment, % of total labour force	Commercial timber fellings, '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*								
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	118	123
May	3 718	2 609	2 438	170	6.5	3 292	122	120
June	3 717	2 788	2 598	190	6.8	2 472		

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 1155 to 1809 Finland formed a part of the kingdom of Sweden. Connected from 1809 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 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 (for 1983/1980 = 100).

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

MERCHANT FLEET (June 30, 1986): Passenger vessels 161 (292 997 gross reg. tons), tankers 33 (594 112 gross reg. tons), dry cargo vessels 27 (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 20.0, DEM 19.2, GBP 14.7, USD 9.7, other currencies 36.4C. The permissible range of fluctuation is about 2.25 per cent on either side of the theoretical arithmetic mean. The fluctuation limits are 106.0 and 101.3.

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

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

RATES OF INTEREST (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 9½%. Other credit institutions: time deposits 2½%; 6 month deposits 4%; 12 month deposits 5½%; 24 month deposits 7%.

RECENT DEVELOPMENTS IN FINANCIAL MARKETS AND MONETARY POLICY

by Helvi Kinnunen, M.Pol.Sc.

Economics Department

Bank of Finland

As in most other countries, financial markets in Finland have, in recent years, been undergoing change towards a market-oriented financial system. Some of the major factors underlying this development have been the same as elsewhere. General yield awareness and the interest rate volatility of capital have increased. This has taken place within the framework of largely unchanged regulation of capital flows. The Bank of Finland has adapted its methods of regulation and control to the new circumstances and, at the same time, itself introduced market-oriented elements in its methods of monetary control. In central bank financing, the call money market has replaced the traditional features of the central bank debt mechanism and the regulation of banks' interest rates has been simplified and relaxed.

In the early 1980s, the Finnish financial markets were characterized by the coexistence of an unregulated segment and a segment subject to interest rate control. This dichotomy has more or less disappeared as deregulation of financial markets has progressed. Starting in 1983, the Bank of Finland successively relaxed the regulation of average interest rates by allowing banks to pass on part of funding costs in their lending rates. The regulation of bank lending rates was officially abolished as of August 1. Consequently, rates of interest on new loans are now market-determined. On the other hand, existing legislation exempting household deposits from taxation still effectively precludes competition in traditional deposit-taking.

In addition to discretionary changes in the methods of monetary control, the decline in the significance of credit rationing has also

been affected by the interest rate policy pursued. Because of persistent inflationary pressures, interest rates in Finland have been lowered only cautiously. Thus, real rates of interest on credits have risen substantially. This has reduced the demand for credit from what it would otherwise have been and to some extent stimulated the supply of credit, thereby contributing to clearing credit markets.

The prime goal of monetary policy and economic policy in general for the past several years has been the lowering of inflation permanently to the same level as in competitor countries. The rate of inflation did in fact slow down appreciably in the latter part of last year and in the early months of the current year. This was, however, mainly due to a fall in foreign trade prices; domestic cost inflation has not yet decelerated as much as in OECD countries on average. Uncertainty about the outcome of last spring's incomes policy negotiations and the implications for domestic cost and price expectations prompted cautiousness in interest rate policy. With an improvement in the terms of trade supporting domestic demand, it was feared that a rapid reduction in interest rates would jeopardize not only the goal of bringing down inflation but also the external balance of the economy.

RECENT MONETARY POLICY MEASURES

In line with the moderate slowdown in inflation and the fall in international interest rates, rates of interest in Finland have been lowered cautiously since mid-1984. The call money rate was reduced by a total of some 3 percentage points

in the course of last year.¹ The downward trend has been maintained during the current year as well. The differential between domestic and foreign interest rates narrowed substantially during the course of last year. In the current year, however, the call money rate has fallen at a slightly slower pace than international rates of interest. Although last year the foreign exchange reserves rose to a high level by historical standards owing to the large interest rate differential, the lowering of the call money rate has been restrained by a downturn in the reserves during the current year.

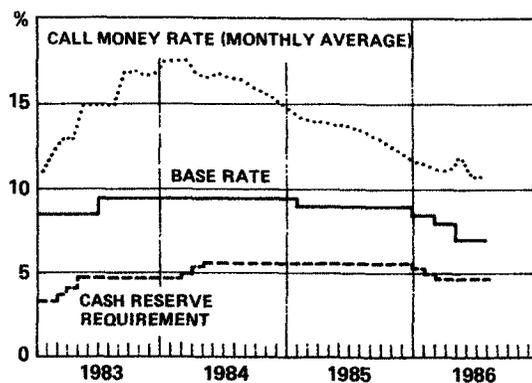
Thus, in May the call money rate was temporarily raised so as to check speculative currency outflows. At the end of July, the Board of Management was given unlimited powers to change the call money rates so as to defend currency reserves and the external value of *markka*. In early August, a heavy capital outflow led to the temporary raising of the call money lending and deposit rates to 40 and 39 per cent, respectively. With the subsequent stabilization of currency reserves, the rates have been lowered substantially and on September 9 were 14 and 13 per cent, respectively.

As from the beginning of 1986, the interest rate system applied in the call money market was revised so that the Bank of Finland now pays a lower rate of interest on call money deposits than it charges on call money advances. The deposit rate was 0.7 percentage point lower than the rate of interest on advances until August when the differential was widened to 1 per cent. Because of the lower rate on call money deposits, banks now endeavour to use interbank transactions to even out fluctuations in their liquidity positions, so that, in principle, only the net change in the liquidity position of the whole banking sector is reflected in the call money market. This measure was designed to create conditions conducive to the further development of the domestic money market.

¹ Interest rates in the call money market are set by the Bank of Finland, and volumes of finance adjust accordingly.

The base rate has also been adjusted to the falling rate of inflation. In February 1985, the base rate was lowered by 0.5 percentage point (Chart 1). In the course of the current year, the base rate has been lowered three times by a total of 2 percentage points.

CHART 1. MAIN MONETARY POLICY INSTRUMENTS



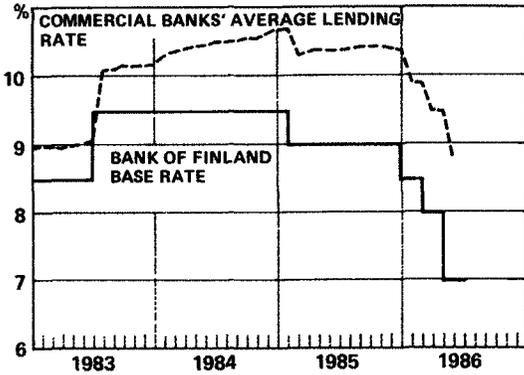
The regulation of average interest rates was relaxed and simplified at the beginning of this year. The upper limit on banks' lending rates was removed and the upper limit on a bank's average lending rate was set at 1.75 percentage points above the Bank of Finland's base rate. All banks thus faced a uniform interest rate ceiling, which for most of them implied increased leeway in setting interest rates in their lending. Subsequently, in connection with a reduction in the base rate in May, the upper limit on the average lending rate was raised to 2 percentage points above the base rate. Interest rate regulation was rescinded as from August 1. The aim in removing the upper limit on average lending rates was that rates of interest on new credits would reflect more directly changes in the call money rate. At the same time firms' opportunities to use foreign capital were improved by essentially liberalizing long-term capital movements.

The banks' cash reserve requirement was reduced from 5.6 to 5.3 per cent of the total stock of deposits at the end of December 1985 and to 5.0 per cent of the total stock of deposits at the end of January 1986. The cash reserve requirement was further lowered to 4.7 per cent in February.

THE DOMESTIC INTEREST RATE STRUCTURE

The fact that lending rates are variable is of prime importance from the point of view of the effects of interest rate policy. Changes in the base rate are in practice immediately transmitted to the outstanding stock of existing loans, thereby affecting directly sectoral interest income and expenses and thus, for example, corporate profitability. On the other hand, with the relaxation of the regulation of average interest rates, rates of interest on new loans are now determined virtually independently of the level of the base rate. Interest rates on new credits have now settled at a level slightly below the call money rate and have followed changes in the call money rate fairly closely since the end of last year. As the call money rate has remained at a clearly higher level than the base rate, the banks' average lending rate has risen in relation to the base rate (Chart 2).

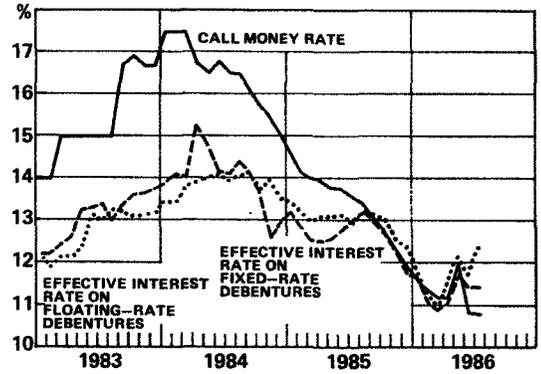
CHART 2. LENDING RATE AND BASE RATE



The issue of debentures and similar debt instruments by companies and financial institutions other than banks is not - unlike that of bonds - subject to authorization by the authorities, and hence the rates of interest borne by these instruments are, in principle, determined on the basis of supply and demand. Recently, movements in rates of interest on bonds and debentures in the secondary mar-

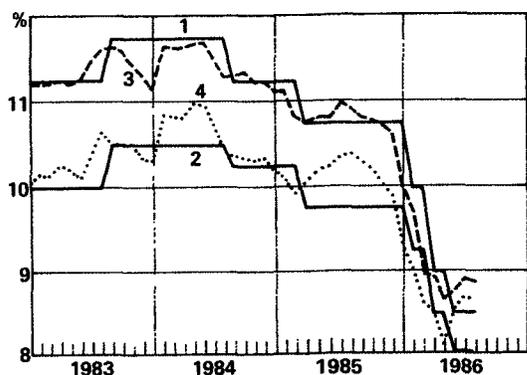
kets have also followed changes in the call money rate rather closely (Chart 3). During the past year, the rate of interest on fixed-rate debentures in the secondary market has settled at a level slightly below the rate on variable-rate loans. The interest rate differential between fixed-rate and floating-rate credits can be interpreted as reflecting anticipated changes in the base rate, if it is assumed that the markets are sufficiently well-functioning.

CHART 3. EFFECTIVE INTEREST RATES ON DEBENTURES AND THE CALL MONEY RATE



Government bonds are fixed-rate and tax-exempt. Rates of interest on new issues of government bonds have been linked to the base rate so that the rate on five-year bonds has, on average, been 1 percentage point and that on ten-year bonds about 2 percentage points above the base rate (Chart 4). In the course of the current year, rates on new issues have been reduced more rapidly than the base rate. This partly reflects the increased demand for bonds along with the decline in interest rate expectations. The interest rate differential between bonds of different maturities has also been narrowed, so that rates on new issues of 10-year bonds have been reduced by more than those on five-year bonds. In the secondary markets, rates of interest on government bonds have for the most part followed those on new issues with the same maturity although in such a way that the secondary markets have, to some extent, anticipated the changes in rates on new issues.

CHART 4. INTEREST RATES ON GOVERNMENT BONDS



1. Rate on new 10-year government bonds offered for public subscription
2. Rate on new 5-year government bonds offered for public subscription
3. Effective rate on government bonds (9-10 years)
4. Effective rate on government bonds (4-5 years)

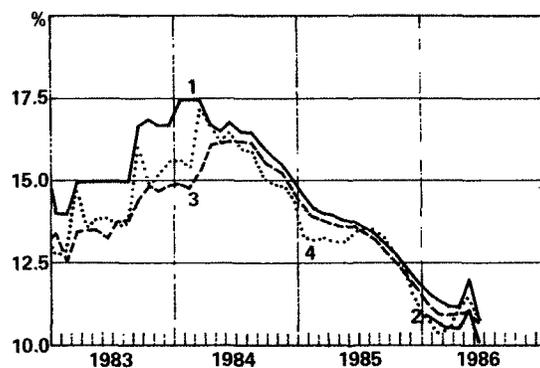
More than one-third of companies' total financing requirements are met by borrowing direct from other financial institutions, such as insurance companies. Loans granted by insurance companies consist mainly of relending from employment pension funds or of investment loans.² The rate of interest applied to loans relented from employment pension funds is decided by the Ministry for Social Affairs and Health. In recent years, the fall in receipts arising from reductions in employment pension contributions has been offset to a certain degree by raising relending rates. As a result, relending, which has traditionally been a favourable source of finance, has, with the fall in other rates of interest, become relatively more expensive than previously in spite of a 1 percentage point cut in the relending rate to 9 per cent as from the beginning of July this year. Investment loans bear variable rates of interest, although only half of any change in the base rate is transmitted to the rates of interest applied to them. Recently, the rate on investment loans has been about 11 per cent.

Unregulated short-term money market rates have followed the call money rate very closely

² The Finnish employment pension scheme is partly based on a funding system. The management of pension funds is carried out by private pension insurance institutions.

(Chart 5). Following the differentiation of borrowing and lending rates in the call money market, interest rates on new certificates of deposit issued by banks have settled at a level between the call money rates. The interbank short-term money rate has been close to the call money lending rate. More accurate data on the interest rate structure of investments of different maturities is not available. In the forward market, the yield-curve, as indicated by the covered Euro-markka rate, has been downward-sloping.

CHART 5. SHORT-TERM INTEREST RATES



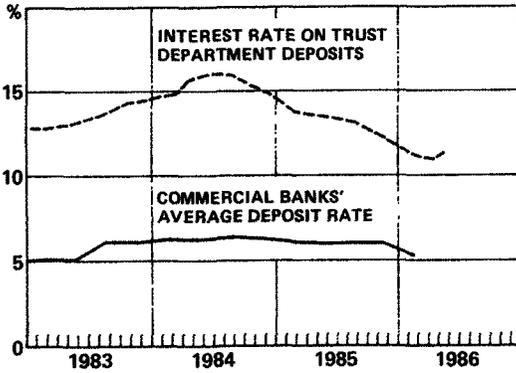
1. Call money lending rate
2. Call money deposit rate
3. Unregulated market rate
4. 3-month covered eurorate

All in all, interest rates on new credits as well as short and long money rates have been at broadly the same level. The term structure of unregulated market rates does not seem to have been determined on the basis of expected risk.

In banks' deposit-taking, the trend towards greater market-orientation has been reflected only in the rate of interest on unregulated deposits, which has closely followed the call money rate (Chart 6). The interest rate structure of regulated deposits has not undergone any significant change in recent years. Deposit rates have changed in line with the base rate, the only exception to this being in connection with the reduction in the base rate in May this year, when the Bank of Finland required that interest rates on long-term deposits be reduced

by slightly less than other rates. Competition in deposit terms has been precluded by legislation on the tax exemption of deposits, under which interest paid on deposits in accounts used by at least two categories of banking institution is defined as tax exempt. The present law will be in force until the end of 1988.

CHART 6. INTEREST RATES ON DEPOSITS

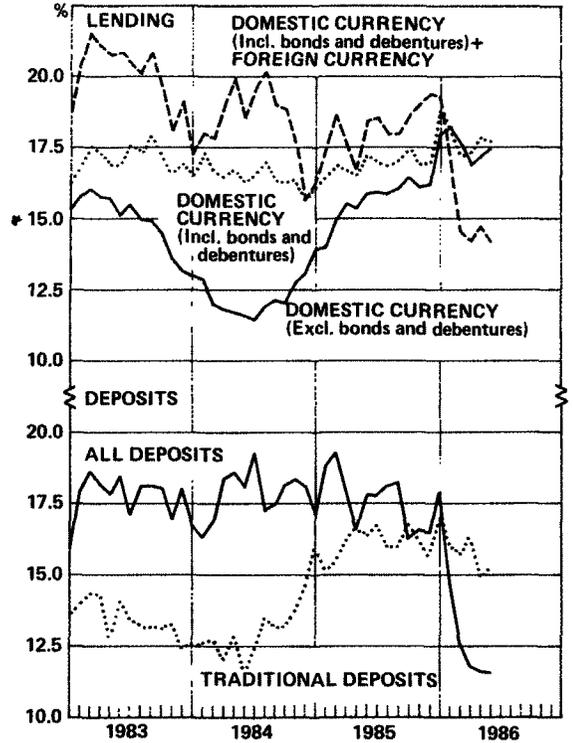


MONETARY AGGREGATES

If the real rate of interest is used as an indicator, present monetary conditions can be characterized as fairly stringent. Developments in monetary aggregates give a different picture of the state of the financial markets, because in recent years the expansion of liquid funds in the economy has been distinctly faster than the growth of nominal GDP. The growth in the broad measure of money has been partly boosted by business acquisitions, in which certificates of deposit, included in the broad definition of money, have been used as means of payment. These acquisitions have been financed by bank lending to the corporate sector. The increase in the real interest rate on long-term deposits has also contributed to increasing interest in these deposits by the public. In the course of the current year, the growth of regulated deposits has decelerated somewhat (Chart 7). The growth of unregulated deposits has also been sluggish, whereas the off-balance-sheet items intermediated through banks' trust departments have expanded rapidly reflecting the fact that they are not

subject to stamp duty nor included in the cash reserve base.

CHART 7. BANKS' LENDING AND DEPOSITS. 12-MONTH PERCENTAGE CHANGE



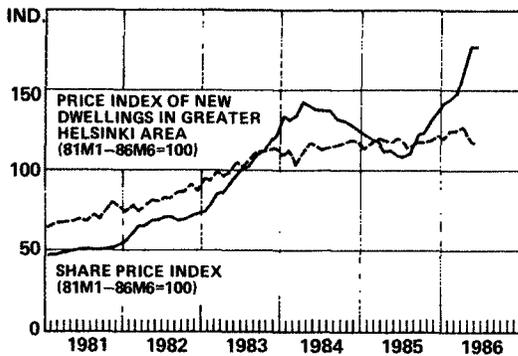
The share of markka-denominated credits in banks' total lending has continued to increase during the current year despite a widening in the differential between domestic and foreign interest rates. Even though the growth of markka-denominated credits has fallen off slightly in recent months, credit expansion still seems to be continuing at a faster rate than real growth. This suggests that arbitrage has not fully disappeared from financial markets. With the decline in credit rationing, the tax deductibility of interest costs on loans may have increased opportunities for private persons to carry out profitable round-tripping operations by investing in tax-free long-term deposits.

CAPITAL MARKETS

Securities trade has continued at a brisk pace during the current year. Unlike last year, when

turnover was based on trade in bonds and debentures, activity during the first half of the year was sustained by an expansion in the trade in shares. Trade in shares and subscription rights quadrupled as compared with the corresponding period of last year. Brisk demand has been reflected in share prices, which have been on the rise since the middle of last year (Chart 8). The rise in share prices has been sharpest in the insurance sector but has also been marked in the industry and trade, transport and communications sectors.

CHART 8. SHARE AND DWELLING PRICES



Demand for real investment outlets, particularly dwellings, has been sluggish for a number of years. Market prices of dwellings have remained at the same level in nominal terms for more than two years. The demand for dwellings has been partly reduced by demographic factors, while households' willingness to invest in real assets has also been weakened by the rise in real interest rates.

CONCLUDING REMARKS

The rise in interest rates has improved the availability of finance and, coupled with on-going change in the financial system, has increased the efficiency of the functioning of markets. Hence, yield requirements placed on investments have become more uniform and have also increased in line with the rise in real interest rates. At the same time, the economic environment of firms has changed significantly as a result of the fall in world commodity prices and the dollar. The declining oil price has weakened the outlook for bilateral exports to the Soviet Union and international competition in the forest industries has intensified. For export industries these changes require adjustments in their production and marketing structures. Despite the delayed adjustment to the international inflation rate, the basic balance of the economy is, however, considered to be reasonably sound. Various economic policy measures, in particular the energy tax reform, and favourable developments in some domestic cost factors, e.g. stumpage prices, have served to maintain overall competitiveness in Finnish industries.

The monetary policy measures taken in August must be seen in the light of the authorities' commitment to maintaining a fixed exchange rate. Such a commitment reflects the view that price stability is of primary importance for the longer-term development of the economy.

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

1985

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 Per cent	Rate on call money deposits Per cent
May 13	13.0	12.5
May 14	16.0	15.3
May 16	14.0	13.3
May 20 (II)	13.0	12.3
May 20 (III)	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
August 1 (i)	11.2	10.2
" 1 (ii)	11.6	10.6
" 4	12.4	11.4
" 5 (i)	13.2	12.2
" 5 (ii)	15.2	14.2
" 5 (iii)	25.0	24.0
" 7	40.0	39.0
" 14	35.0	34.0
" 15 (i)	30.0	29.0
" 15 (ii)	25.0	24.0
" 18	20.0	19.0
" 20	19.0	18.0
" 26	18.0	17.0
" 29	17.0	16.0

September—December 1986 at a rate which is 3 percentage points below the Bank of Finland call money lending rate, however, not less than 1/4 percentage point below the Bank of Finland base rate.

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

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

September

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

Effective as from	Rate on call money advances	Rate on call money deposits
	Per cent	Per cent
September 2	16.0	15.0
September 5	15.0	14.0
September 9	14.0	13.0

Cash reserve requirement. As an exception to the cash reserve agreement concluded with the banks, the Bank of Finland decides to pay interest on cash reserve deposits for the period

ITEMS

Cash reserve requirement. The Bank of Finland and the Parliamentary Bank Supervisors have decided to temporarily increase the rate of interest paid on cash reserves deposited by banks at the Bank of Finland. At the same time, the Bank of Finland has informed the banks that they are not allowed to raise interest rates on the outstanding stock of bank loans. The background to these decisions is as follows.

In August, the Bank of Finland raised the call money rate in order to counter speculative pressures on the markka. The foreign exchange markets have since then calmed down, but the call money rate is still at a higher level than in July. The unexpected increase in banks' funding costs can gradually be recovered by higher interest rates on new loans extended by banks. There has been a common understanding that interest rates on existing loans can be changed only in connection with changes in the Bank of Finland's base rate. Furthermore, the current pressure on interest rates is assumed to be temporary. The present economic situation and the short-term prospects are basically satisfactory and consistent with the present external value of the markka.

Supplementary budget. The first supplementary budget for 1986 was approved by Parliament in June. It provides for a net increase in central government outlays of more than FIM 1.1 billion on the ordinary budget for the current year. This brings total budgeted state expenditure for 1986 to nearly FIM 103 billion, equivalent to about 28.8 per cent of forecast GDP.

So as to facilitate the conclusion of the incomes agreements last spring¹, the Government decided on a number of measures designed to cautiously stimulate output without generating inflationary pressures. In the

supplementary budget, this entailed giving the Government powers to bring forward to the current year up to FIM 0.6 billion of central government acquisitions originally planned for 1987 or later. The extra outlays are intended mainly for supporting employment. In addition, the competitiveness of the economy was enhanced and the willingness to invest encouraged, among other things, by the reform of energy taxation and the allocation of more resources promoting exports.

Although the incomes agreements were not as moderate as expected, average inflation in 1986 will be slower than forecast in the ordinary budget owing to the sharp fall in oil prices. In order to keep the volume of budgeted outlays unchanged, efforts are being made to curb spending on public administration in general. Specific reductions provided for in the supplementary budget as a result of the slower rate of inflation amount to FIM 350 million.

The largest single item of expenditure in the supplementary budget, FIM 450 million, is for the advance repayment of foreign loans. The loans in question are to be refinanced on more favourable terms, and Parliament has accordingly increased the central government's powers to borrow by FIM 390 million. The aim is to keep state borrowing at the planned level.

The rest of the additional expenditure totals slightly more than FIM 660 million. Two of the largest items, each amounting to FIM 100 million, are for purchases by the Border Guard Service and the defence forces. A sum of equivalent size has been transferred to the Export Guarantee Board. The savings obtained in road construction, about FIM 70 million, because of the fall in oil prices are to be used for additional road works.

The net increase in central government revenue in the supplementary budget amounts to just over FIM 1.1 billion. The largest individual item is a rise of FIM 450 million in income and

¹ See the front article in the June-July 1986 issue of the Bulletin.

wealth tax receipts due to the increase in the estimated wage and salary bill. The energy taxation reform² introduced at the beginning of August 1986 is estimated to increase sales tax revenue by FIM 760 million. Since, however, excise duties on fuels and electricity are together estimated to decrease by about the same amount, the overall impact to the reform on central government revenue will be neutral. The reform will nevertheless enhance the operating conditions of the corporate sector.

Finland's balance of payments January-June 1986. According to the Bank of Finland's preliminary figures, the current account showed a deficit of FIM 3 200 million in January-June of this year. The net inflow of long-term capital amounted to FIM 2 124 million. The net outflow of short-term capital totalled FIM 5 322 million, most of which was attributable to short-term capital imports by the authorized banks. Thus, with a net outflow of capital in addition to the deficit on the current account, the Bank of Finland's foreign exchange reserves declined by FIM 6 398 million and totalled FIM 15 911 million at the end of June. In the first half of 1985, the current account had shown a deficit of FIM 1 896 million.

Current account. The trade account (including adjustment items) registered a surplus of FIM 1 350 million in January-June, as compared with a surplus of FIM 2 149 million in the corresponding period last year. Commodity exports were down 10 per cent in value and 6 per cent in volume on January-June 1985. Export volumes during the first half of the year fell in nearly all sectors of industry. The value of commodity imports declined by 9 per cent as compared with the corresponding period last year, whereas the volume of commodity imports remained virtually unchanged. Import volumes of raw materials and intermediate goods decreased by 6 per cent. By contrast, the volume of imports of consumer goods

increased by 7 per cent and that of fuels and lubricants by 18 per cent.

The surplus on the services account amounted to FIM 148 million, which was almost the same as in January-June of last year. At FIM 1 476 million, the surplus on the transport account was FIM 400 million smaller than in the corresponding period last year because of a decline in transport receipts. Travel receipts were down by 4 per cent while travel expenditure was up by 4 per cent, giving rise to a deficit of FIM 1 150 million on the travel account. In the first half of the previous year, it had shown a deficit of FIM 998 million. The "other services account" recorded a deficit of FIM 178 million.

Interest payments on foreign loans amounted to FIM 7 220 million. With interest income on foreign assets reaching FIM 3 690 million, the investment income account showed a deficit of FIM 3 530 million. This was FIM 43 million more than in January-June 1985. The *unrequited transfers account* registered a deficit of FIM 940 million.

Capital account. Drawings of long-term loans amounted to FIM 8 434 million in January-June, FIM 2.2 billion more than in the corresponding period last year. The central government accounted for FIM 2 617 million of the drawings. Repayments of long-term loans totalled FIM 6 367 million. Drawings of long-term export credits granted to foreign customers reached FIM 643 million and repayments of outstanding export credits FIM 798 million. Finnish net direct investment abroad amounted to FIM 918 million and net foreign direct investment in Finland to FIM 113 million. Portfolio investments in Finland totalled FIM 804 million in net terms. The total net inflow of long-term capital reached FIM 2 124 million, which was FIM 3.3 billion less than in the first half of last year.

Short-term capital outflows (including errors and omissions) totalled FIM 5 322 million in January-June. Short-term liabilities related to imports fell by an estimated FIM 1 801 million, while net prepayments and receivables related

² See the front article in the August 1986 issue of the Bulletin.

**MAJOR BALANCE OF PAYMENTS ITEMS
JANUARY — JUNE 1986, MILLION FIM¹**

	Receipts	Expenditure	Net
Trade (exports f.o.b., imports c.i.f.)	38 358	36 673	1 685
Adjustment items	-87	248	-335
Trade account	38 271	36 921	1 350
Transport (c.i.f.)	2 800	1 324	1 476
Travel	1 309	2 459	-1 150
Other services	2 349	2 527	-178
Services account	6 457	6 310	148
GOODS AND SERVICES ACCOUNT	44 728	43 231	1 498
Investment income, net	3 690	7 220	-3 530
Unrequited transfers	194	1 134	-940
Other	1 633	1 861	-227
A. CURRENT ACCOUNT	50 246	53 446	-3 200
	Change in assets	Change in liabilities	Net
Long-term financial loans and suppliers' credits: ²			
drawings	-643	8 434	7 791
redemptions	798	-6 367	-5 569
Direct investment	-918	113	-805
Other long-term capital	-49	756	707
B. LONG-TERM CAPITAL ACCOUNT	-812	2 936	2 124
BASIC BALANCE (A + B)			-1 076
Prepayments and liabilities related to imports			-1 801
Prepayments and receivables related to exports	3 537	-929	2 608
Short-term capital of authorized banks			-6 875
Other short-term capital			-119
Errors and omissions			865
C. SHORT-TERM CAPITAL ACCOUNT			-5 322
D. ALLOCATIONS OF SDRs			-
OVERALL BALANCE (A + B + C + D)			-6 398
Change in the foreign exchange reserves of the Bank of Finland			6 398
Assets: increase - , decrease +			
Liabilities: increase + , decrease -			

¹ Preliminary figures.

² Assets include export credits only.

to exports increased by FIM 2 607 million in net terms. The net short-term liability of the authorized banks went down by FIM 6 875 million.

The foreign exchange reserves of the Bank of Finland declined by FIM 6 398 million in January-June. The convertible foreign ex-

change reserves fell by FIM 8 106 million, whereas a rise in tied currency claims increased the total reserves by FIM 1 708 million. At the end of June, the convertible foreign exchange reserves of the Bank of Finland totalled FIM 14 478 million and the tied foreign exchange reserves FIM 1 433 million.

At the end of June, Finland's net foreign debt amounted to FIM 55 318 million, of which the central government accounted for FIM 24 816 million. The net long-term debt stood at FIM 60 343 million and net short-term claims at FIM 5 025 million.

Death of President Urho Kekkonen. Dr. Urho Kekkonen, former President of the Republic of Finland, died in Helsinki on August 31 at the age of 85. Dr. Kekkonen was first elected President of the Republic in 1956 and remained in office for more than 25 years until the autumn of 1981.

Urho Kekkonen was a member of parliament for the Agrarian Party (now the Centre Party) from 1936 to 1956. He was First Deputy Speaker of Parliament from 1946 to 1947 and Speaker from 1948 to 1950. He served as a minister in ten Governments, including five times as Prime Minister. Urho Kekkonen was a Member of the Board of Management of the Bank of Finland from 1946 to 1956, although he spent the major part of this period on leave of absence from the Bank of Finland as a member of the Government.

(Continued from page 2)

PROSPECTS

Finland's foreign trade has undergone rapid changes during the past 18 months both in terms of developments in prices and volumes as well as in the commodity and regional composition of trade. Exports to European markets are now recovering, supported by the depreciation of the markka against major European currencies, even if overall price competitiveness has weakened somewhat. In 1987, the growth of exports to western markets is expected to accelerate. With imports from this region forecast to remain rather weak, the surplus on the trade account with western countries is projected to widen. By contrast, cheaper oil will give rise to a big surplus in Finland's bilateral trade and exports to CMEA countries are expected to decline further. Since, however, adjustment to far-reaching change in the structure of both markets and products takes time, the overall growth of exports is likely to remain modest in the near term.

August 29, 1986

BANK OF FINLAND

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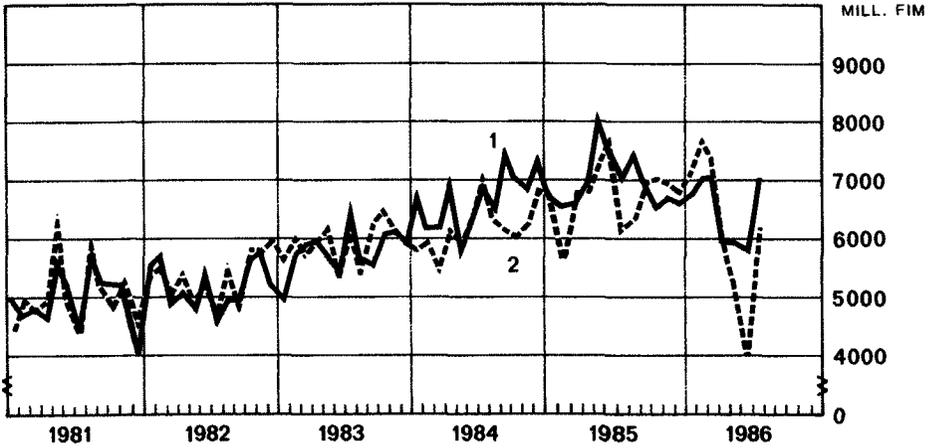
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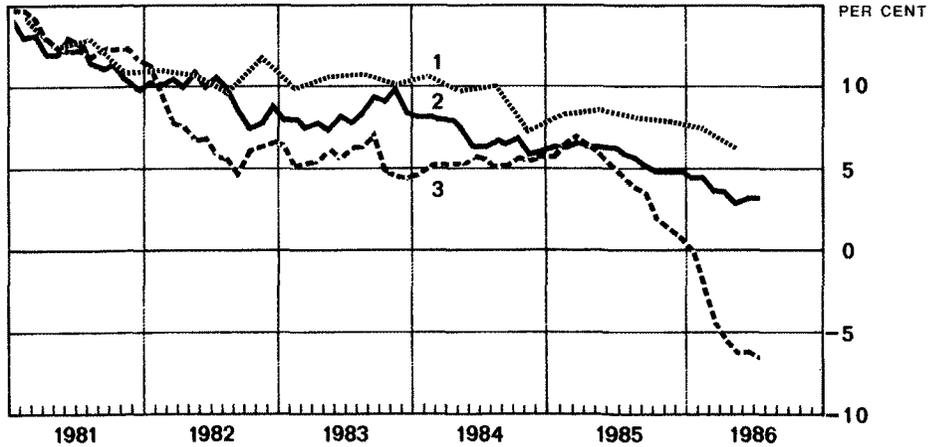
FOREIGN TRADE, 1981-86

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



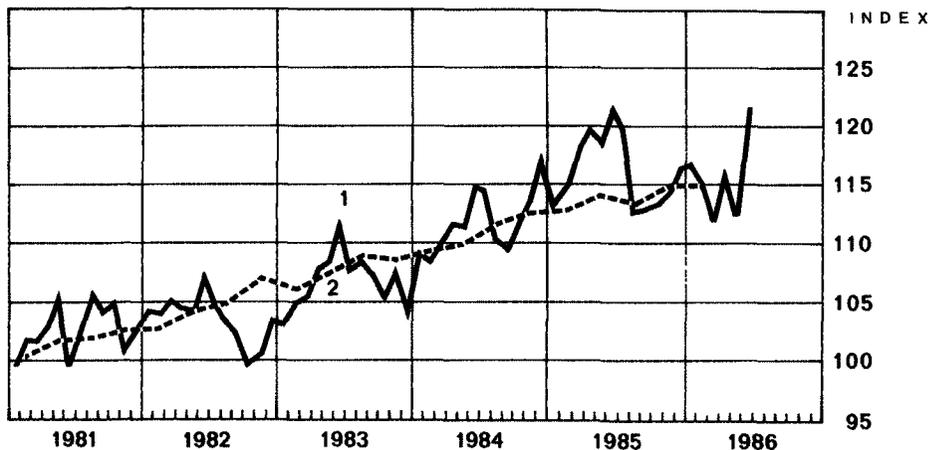
PRICES AND WAGES, 1981-86

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



PRODUCTION, 1981-86

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



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