



BANK OF FINLAND

Monthly Bulletin

Economic situation

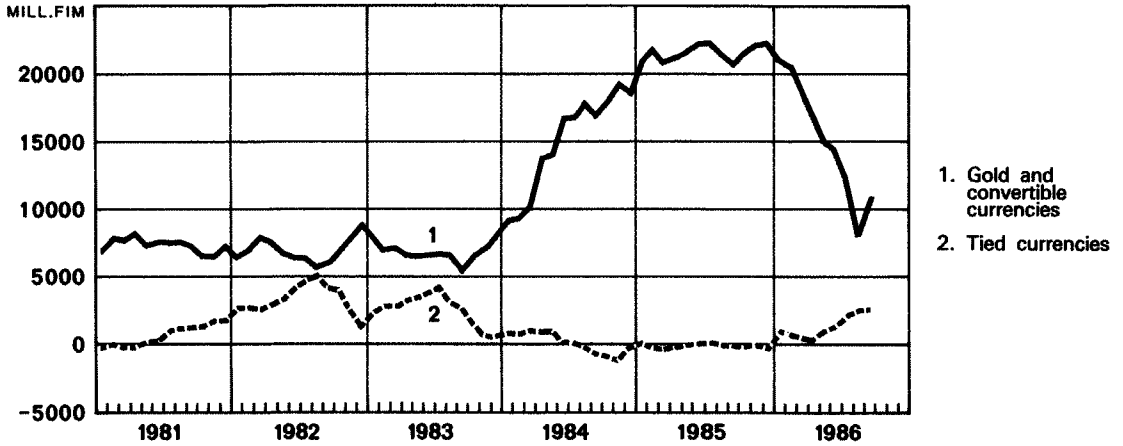
Capital movements and foreign exchange
markets in 1986

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

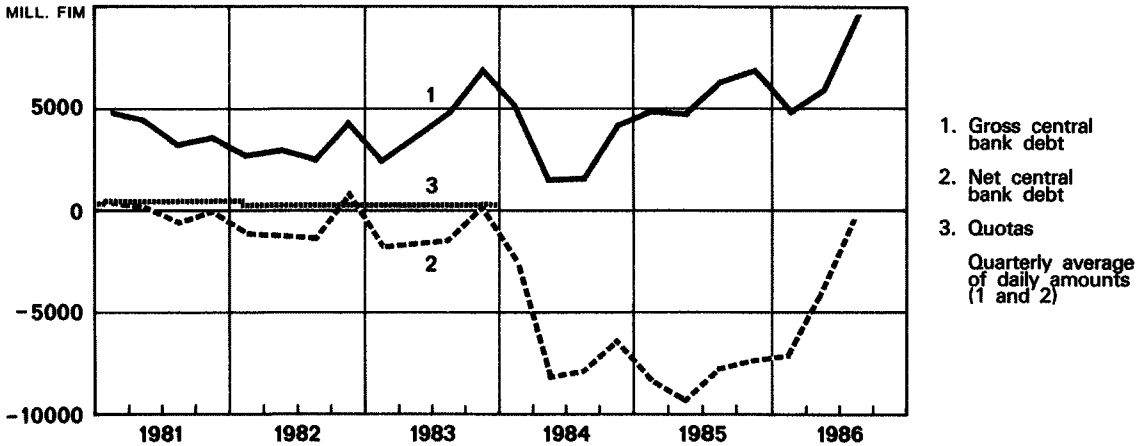
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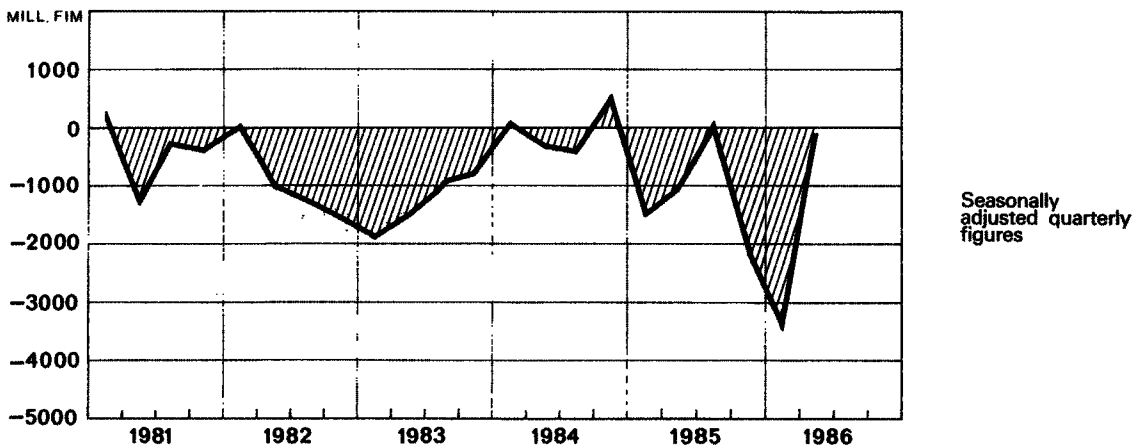
BANK OF FINLAND'S CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, 1981-86



DEPOSIT BANKS' CENTRAL BANK POSITION, 1981-86



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



ECONOMIC SITUATION

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Finland's economic performance was disappointing during the first half of 1986. The collapse of the oil price appears to be a mixed blessing for the Finnish economy. The outlook for exports to the Soviet Union has deteriorated and, as in many other industrialized countries, exports to oil-producing and other developing countries have fallen. Domestic demand has continued to grow at a modest pace, strengthened by favourable developments in the terms of trade.

Economic activity during the first six months of the year was further attenuated by several major strikes, and total output remained at about the same level as in the corresponding period last year. The effect of the strikes on output is estimated to have been of the order of 1–1½ per cent. Some recovery is expected towards the end of the year, partly as a rebound from the weaker developments earlier in the year. For the year as a whole, however, real GDP growth is likely to remain below 2 per cent. The seasonally-adjusted unemployment rate had climbed to about 7 per cent by mid-summer and the average for 1986 could be even slightly higher.

In 1985, the inflation rate was somewhat higher in Finland than in other industrialized countries, but the gap narrowed during the course of the year. In the first half of this year, the rise in consumer prices was broadly in line with other OECD countries. The two-year comprehensive income agreements concluded in the spring are estimated to raise average earnings by 7 per cent in the first year and by somewhat less in the second year.

In the manufacturing industries unit labour costs have increased in relation to both the average in competitor countries and export prices. In view of the unfavourable price and cost trends and rising unemployment, a num-

ber of policy measures have been introduced with the aim of improving the profitability and competitiveness of the manufacturing industries. The fall in the oil price was not passed through in full to consumer prices. Instead, energy taxation was reformed. The reform reduces industry's tax burden by some FIM 1 billion a year. In May, the Bank of Finland decided to lower the external value of the markka by 2 per cent through an adjustment of the currency index within the fluctuation limits. In addition, the Bank of Finland's base rate has been lowered during 1986 from 9 per cent to 7 per cent at present. Since interest rates on outstanding domestic loans are generally linked to the base rate, the cuts will reduce Finnish firms' financial costs considerably. However, the Bank of Finland was forced to raise its call money rate substantially in August in order to ward off a speculative attack against the markka.¹ Although the call money rate has subsequently been lowered, there has been some increase in interest rates on new loans to firms.

The bilateral trading arrangements with the Soviet Union have been a major factor promoting the stability of the Finnish economy in recent years. Each successive increase in the price of oil led to an almost immediate expansion of Finnish exports to the Soviet Union, reflecting the need to restore balance to the bilateral trade account. By contrast, lower oil prices and the consequent decline in exports to the Soviet Union are likely to create adjustment problems for the Finnish economy, especially since the revival in demand in western markets has so far been only modest. Exports to the Soviet Union are projected to remain at a high level this year, although clearly lower in volume than in 1985. The surplus on the

¹ See the back article in this issue of the Bulletin.

bilateral trade account is estimated to widen to about FIM 5 billion by the end of the year.

Lower oil prices have so far boosted demand in western markets somewhat less than anticipated. The delay in the recovery of international demand has hampered exports to western markets, as Finland has not been able to increase her market shares. Nevertheless, the growth impulses provided to European markets by the fall in oil prices are expected to strengthen Finnish exports towards the end of the year. Overall, the volume of exports of goods and services is forecast to decrease somewhat this year.

The growth of investment is being held in check by the weakness of demand and by the high level of interest rates on new loans. Industrial fixed capital formation is expected to show a moderate increase in 1986 as compared with the previous year, whereas in the service sectors volume outlays are likely to remain at their previous level. Construction activity was badly hit by strikes in the spring and summer and this has complicated the task of assessing underlying trends. Nevertheless, indicators

point to a marked decline in housing investment.

The volume of private consumption expenditure has been expanding rapidly at an annual rate of about 4 per cent, with the main impetus coming from favourable developments in real wages and salaries. The pay settlements and an easing of income taxation have guaranteed fairly rapid growth of household's real disposable income. Moreover, the improvements in the terms of trade have increased households' purchasing power.

Given the changes in the structure of Finnish exports, economic growth is likely to be sluggish in the near term, at least in comparison with other OECD countries. The policy measures taken to enhance the competitiveness of Finnish export industries will help to ease the adjustment of export patterns to the changed external situation. Assuming that an international upturn gets under way in the near future, economic activity in Finland should recover gradually towards the end of 1987.

September 17, 1986

	1985		1986			
	Sept. 30	Dec. 31	Sept. 8	Sept. 15	Sept. 23	Sept. 30
Assets						
Gold and foreign currency claims	21 130	22 650	11 294	12 651	13 447	13 541
Gold	1 732	2 081	2 081	2 081	2 081	2 081
Special drawing rights	932	931	982	998	986	986
IMF reserve tranche	799	775	800	812	802	803
Convertible currencies	17 424	18 608	4 819	6 211	6 999	7 008
Tied currencies	243	255	2 612	2 549	2 579	2 663
Other foreign claims	2 830	2 645	2 566	2 566	2 566	2 566
Markka subscription to Finland's IMF quota	2 830	2 645	2 566	2 566	2 566	2 566
Claims on financial institutions	11 269	9 256	14 919	15 085	13 609	13 897
Banks' cheque accounts	185	—	—	—	—	—
Call money advances	7 396	5 219	10 726	11 006	9 506	9 761
Till-money credits	1 617	1 925	1 891	1 824	1 821	1 847
Bonds	2 027	2 065	2 162	2 155	2 141	2 141
Other claims on financial institutions	44	47	140	100	141	148
Claims on the public sector	1 297	1 023	987	1 000	1 003	1 004
Government promissory notes	280	—	—	—	—	—
Bonds	140	118	73	83	84	84
Total coinage	877	891	914	917	919	920
Other claims on the public sector	0	14	0	0	0	—
Claims on corporations	4 821	4 679	4 803	4 771	4 813	4 828
Financing of exports	1 654	1 601	1 577	1 564	1 619	1 642
Financing of domestic deliveries	3 006	2 924	2 948	2 930	2 917	2 910
Bonds	83	81	69	69	68	68
Other claims on corporations	78	73	209	208	209	208
Other assets	144	146	148	149	150	149
Total	41 491	40 399	34 717	36 222	35 588	35 985
Liabilities						
Foreign currency liabilities	545	576	61	60	24	28
Convertible accounts	33	36	57	56	21	19
Tied currencies	512	540	4	4	3	9
Other foreign liabilities	3 695	3 494	3 412	3 425	3 415	3 415
IMF markka accounts	2 830	2 645	2 567	2 567	2 567	2 567
Allocations of special drawing rights	865	849	845	858	848	848
Notes and coin in circulation	7 352	8 072	7 918	7 906	7 820	7 903
Notes	6 624	7 304	7 141	7 129	7 044	7 126
Coin	728	768	777	777	776	777
Liabilities to financial institutions	16 645	12 153	9 648	11 185	10 656	11 000
Banks' cheque accounts	3	0	0	0	0	0
Call money deposits	5 940	1 205	441	1 996	1 440	1 886
Cash reserve deposits	9 983	10 222	9 023	9 023	9 023	8 954
Capital import deposits	632	639	66	66	66	65
Other liabilities to financial institutions	87	87	118	100	127	95
Liabilities to the public sector	1 558	4 300	891	890	891	890
Cheque accounts	0	0	1	0	1	0
Government deposit account	1 500	4 300	890	890	890	890
Export deposits	58	—	—	—	—	—
Capital import deposits	—	—	—	—	—	—
Other liabilities to the public sector	0	0	0	0	0	0
Liabilities to corporations	4 255	4 267	5 003	5 000	4 998	5 026
Deposits for investment and ship purchase	3 817	3 841	4 799	4 796	4 795	4 847
Capital import deposits	434	424	202	202	202	170
Other liabilities to corporations	4	2	2	2	1	9
Other liabilities	15	14	20	15	17	19
Valuation account and reserves	1 200	1 639	1 880	1 857	1 883	1 820
SITRA's capital	400	400	400	400	400	400
Capital accounts	5 826	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	—	—	—	—	—	—
Net earnings	62	-280	—	—	—	—
Total	41 491	40 399	34 717	36 222	35 588	35 985

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										
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
Sept.	3 870	6 989	10 859	2 654	-849	12 664	1 004	890	0	-114

OFFICIAL FOREIGN EXCHANGE RESERVES

Mill. FIM

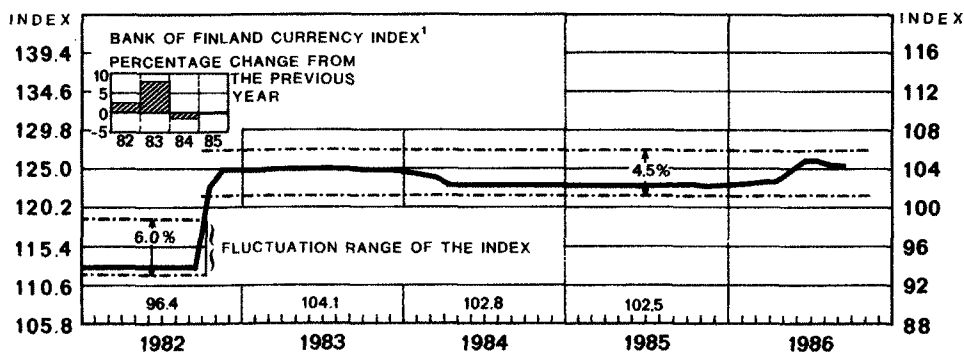
	Dec. 31, 1985	June 30, 1986	July 31, 1986	Aug. 29, 1986	Sept. 30, 1986
Gold	2 081	2 081	2 081	2 081	2 081
SDRs	931	981	981	983	986
IMF reserve tranche	775	813	812	819	803
Convertible currencies, net	18 572	10 603	8 588	4 475	6 989
Total convertible reserves, net	22 359	14 478	12 462	8 358	10 859
Tied currencies, net	-285	1 433	2 209	2 576	2 654
Total reserves, net	22 074	15 911	14 671	10 934	13 513

Domestic financial sector

Corporate sector

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	9	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											
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
Sept.	1 847	0	9 761	1 886	8 954	-2 129	2 897	4 552	4 750	-198	7 903

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

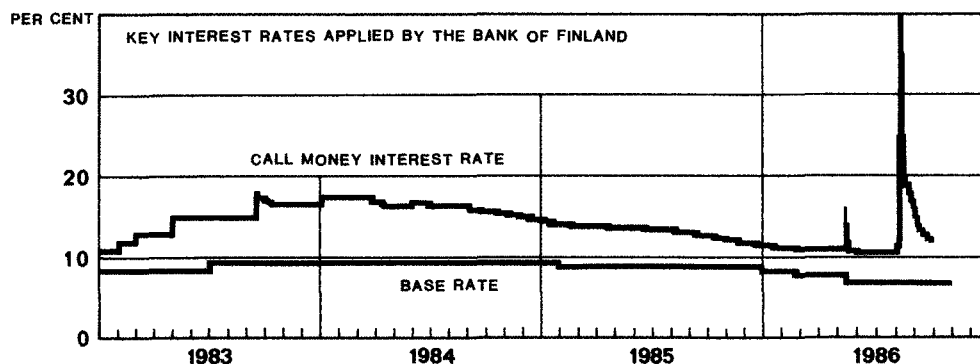


MONETARY POLICY INDICATORS

Average for period	Gross central bank debt of the deposit banks mill. FIM	Net central bank debt of the deposit banks mill. FIM	Cash reserve deposits of the deposit banks mill. FIM	Cash reserve requirement %	Call money credit extended by the Bank of Finland	Call money interest rate %	Average cost of gross central bank debt %	Base rate ¹ %	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									
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	8.79
Sept.	10 290	68	9 021	4.7	9 088	13.86	13.86	7.00	..

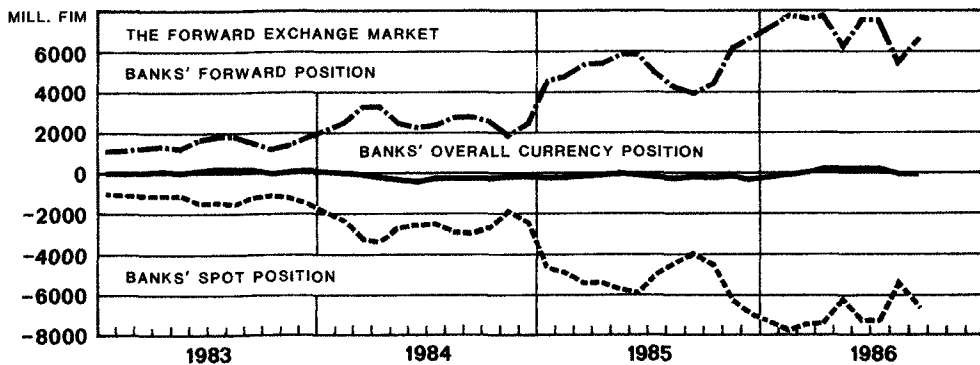
¹ End of period for monthly figures.

² End of period.



FORWARD EXCHANGE MARKETS IN FINLAND

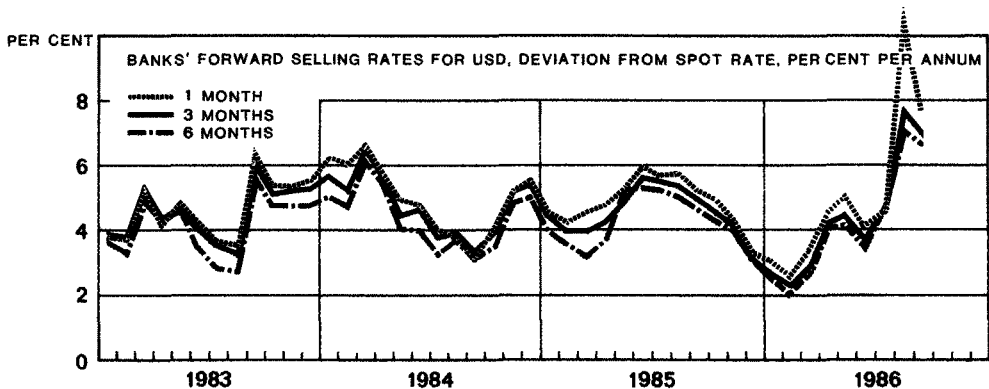
Period	Banks' forward positions in mill. FIM with						Banks' forward selling rates for USD		
	Domestic firms			Foreign banks	Bank of Finland	Overall	Deviation from spot rate, per cent per annum		
	Assets	Liabilities	Net	Net	Net		1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
1984	22 921	1 394	21 527	2 002	-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									
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
Aug.	12 351	2 393	9 958	-2 263	-1 559	6 006	12.5	7.8	7.1



FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange. FIM

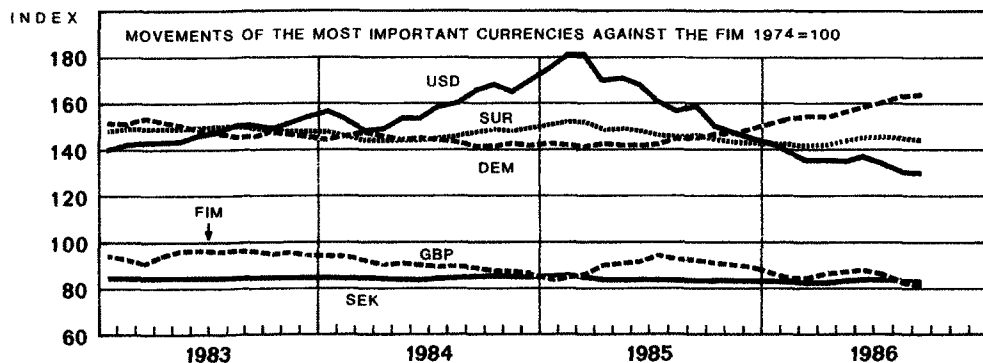
Period	New York 1 US \$ USD	Montreal 1 C \$ CAD	London 1 £ GBP	Dublin 1 Ir£ IEP	Stockholm 100 Skr SEK	Oslo 100 Nkr NOK	Copenhagen 100 Dkr DKK	Frankfurt 100 DM DEM	Amsterdam 100 Hfl NLG	Brussels 100 FB BEC BEL	
	1	2	3	4	5	6	7	8	9	10	11
1981	4.315	3.602	8.731	6.976	85.74	75.54	60.96	191.31	173.43	11.688	11.095
1982	4.820	3.913	8.423	6.854	77.03	74.84	57.93	198.76	180.66	10.584	9.859
1983	5.570	4.524	8.456	6.957	72.75	76.44	61.07	218.61	195.66	10.934	10.742
1984	6.010	4.645	8.023	6.533	72.77	73.84	58.16	211.65	187.72	10.428	10.274
1985	6.206	4.554	8.000	6.590	72.22	72.31	58.71	211.42	187.45	10.483	10.421
1985											
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
Sept.	4.918	3.552	7.256	6.632	71.27	67.17	63.77	241.14	213.60	11.646	11.525



Average selling rates for foreign exchange, FIM

Zurich 100 Sfr CHF	Paris 100 FF FRF	Rome 100 Lit ITL	Vienna 100 ÖS ATS	Lisbon 100 Esc PTE	Reykjavik 100 lkr ISK	Madrid 100 Ptas ESB	Tokyo 100 Y JPY	Moscow 1 Cl Rbl SUR	1 special drawing right SDR	Currency index ¹
12	13	14	15	16	17	18	19	20	21	22
220.34	79.92	0.385	27.17	7.17	60.35	4.72	1.967	5.986	5.071 40	113.1
237.79	73.65	0.358	28.31	6.13	40.79	4.41	1.943	6.624	5.305 63	115.9
265.70	73.53	0.369	31.11	5.14	23.25	3.91	2.351	7.491	5.943 25	125.1
256.42	69.07	0.344	30.13	4.14	19.39	3.75	2.534	7.357	6.147 39	102.8
253.60	69.40	0.327	30.12	3.67	15.20	3.66	2.610	7.419	6.278 79	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
297.72	73.79	0.351	34.31	3.39	12.38	3.68	3.182	7.255	5.943 98	104.5

¹Until 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

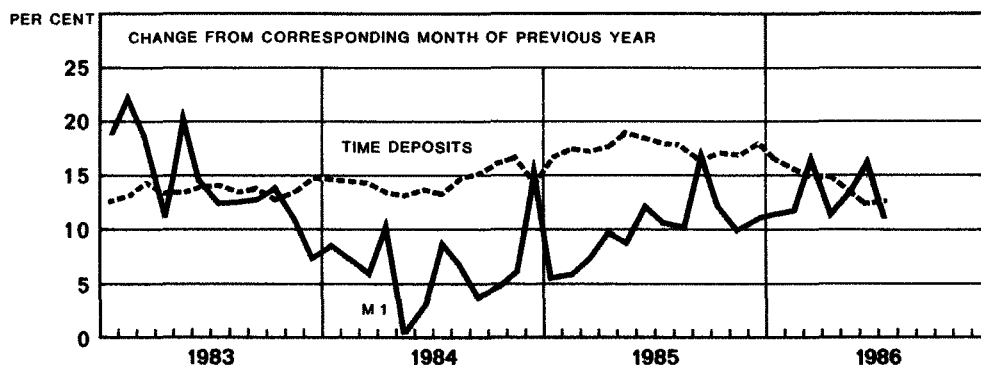
End of year and month	Demand deposits				Time deposits				Total (4 + 9)	
	Commercial banks	Savings banks & Co-op. banks	Posti-pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Posti-pankki		All deposit banks (5 to 8)
	1	2	3	4	5	6	7	8	9	10
1982	7 155	3 874	3 049	14 078	29 465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

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
June	9 843	5 854	5 769	21 467	50 249	40 498	34 639	12 784	138 170	159 636



ADVANCES TO THE PUBLIC – MONEY SUPPLY

Mill. FIM

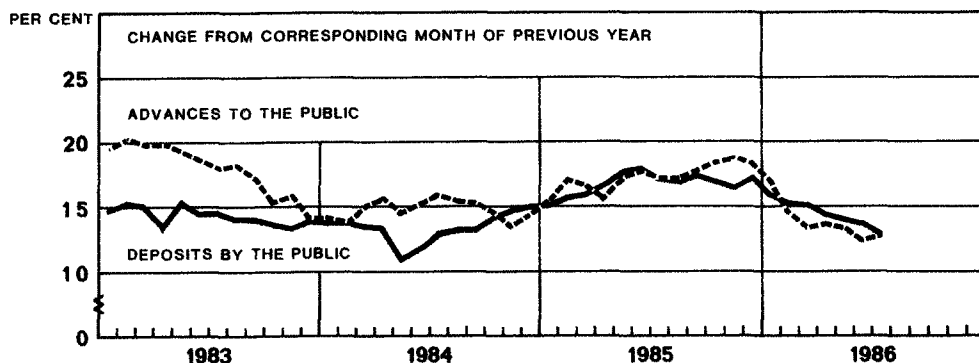
End of year and month	Advances granted by				Types of advances			Total (1 to 4) (5 to 7)	Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency		M ₁	M ₁ + Quasi-Money
	1	2	3	4	5	6	7		8	9
1982	48 620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

1985*

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
June	84 856	39 447	37 967	18 532	149 623	7 634	23 545	180 802	28 879	173 879



STATE FINANCES

Mill. FIM

Revenue	Jan.-March		Expenditure	Jan.-March	
	1985	1986		1985	1986
Income and wealth tax (net)	4 985	6 305	Wages, salaries, pensions etc.	3 332	3 575
Gross receipts	14 851	14 641	Repair and maintenance	313	350
Refunds & local authorities	-9 865	-8 336	Other consumption expenditure	2 095	2 480
Other taxes on income and wealth	153	92	Total consumption expenditure	5 739	6 406
Employers' child allowance payments	169	3	State aid to local authorities	4 060	5 324
Sales tax	5 259	6 041	State aid to industries	2 707	2 638
of which: agric. price subsidies			Child allowances	613	8
Customs duties and import charges and levies	370	334	Share in national pensions and sickness insurance schemes	589	443
Excise duties	2 271	2 306	Deficit of State enterprises	308	323
Excise duty on alcoholic bevs.	759	796	Other transfer expenditure	2 805	3 899
Excise duty on tobacco	389	397	Total transfer expenditure	11 082	12 635
Excise duty on liquid fuel	770	735	Machinery and equipment	486	517
Other excise duties	352	377	Construction of buildings	212	214
Tax on autom. and motor-cycles	655	564	Land and waterway construction	436	470
Stamp duties	617	781	Total real investment	1 134	1 201
Special diesel etc. vehicles tax	92	87	Interest on State debt	1 527	1 083
Other taxes and similar revenue	401	343	Other expenditure	3	4
Total taxes	14 973	16 855	Total other expenditure	1 530	1 087
Miscellaneous revenue	1 356	1 469	Increase in inventories	-82	74
Interest, dividends etc.	241	206	Lending	783	591
Surplus of state enterprises	651	589	Other financial investment	313	169
Redemptions of loans granted	203	155	Total expenditure	20 499	22 163
Total revenue	17 424	19 274	Redemption of foreign loans	338	1 300
Foreign borrowing	747	1 182	Redemption of domestic loans	1 614	1 290
Domestic borrowing	2 259	2 862	Total redemptions	1 952	2 590
Total borrowing	3 006	4 044			
Deficit (+) or surplus (-)	2 021	1 435			
Total	22 451	24 753	Total	22 451	24 753

State debt	1984	1985	1986			
	Dec.	Dec.	May	June	July	Aug.
Foreign debt	24 946	25 677	26 159	26 737	26 896	26 012
Long-term debt	19 057	20 872	22 465	22 444	22 648	22 974
Short-term credit	266	432	667	600	600	600
Domestic debt	19 323	21 304	23 132	23 044	23 248	23 574
Total State debt	44 269	46 981	49 291	49 781	50 144	49 586
Total debt mill. \$	6 855	8 562	9 655	9 582	9 883	10 037

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			
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	6 309	6 977	-668
April	6 453	6 812	-359
May	6 311	5 163	+1 148
June	5 564	3 936	+1 628
July	7 003	6 690	+313

Jan.-July			
1985	49 718	46 890	+2 828
1986*	45 357	43 353	+2 004

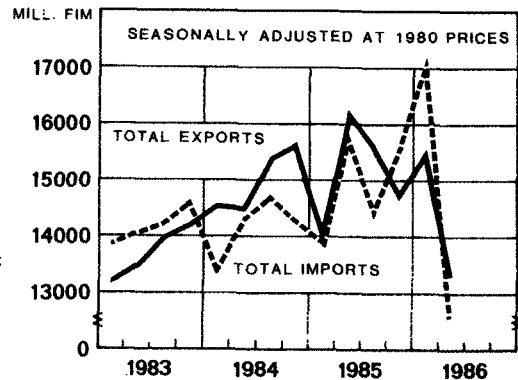
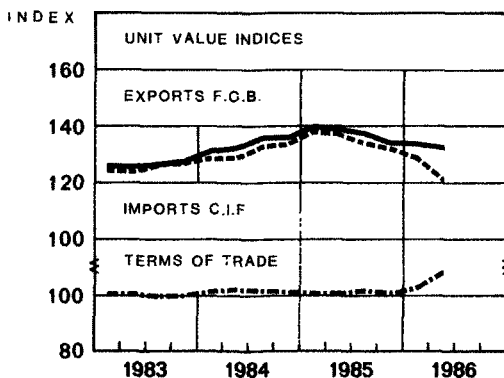
Indices of exports and imports
1980 = 100

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

1984					
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

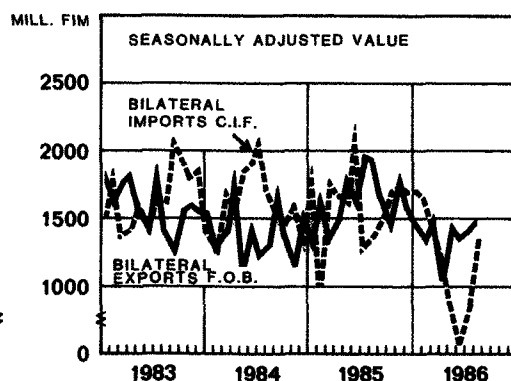
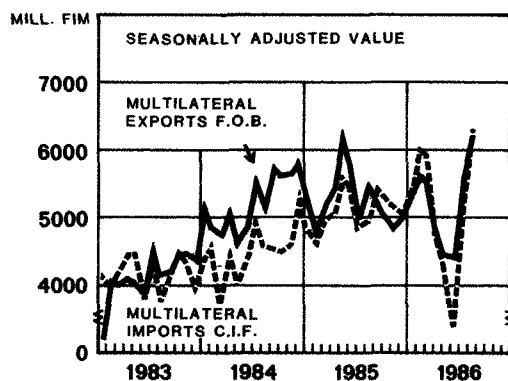
Nov.	155	588	1 885	2 175	1 924	3 895	557	1 074	1 105	9
Dec.	128	538	1 797	2 114	1 979	4 539	441	1 027	996	8

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	1 801	1 704	1 969	4 040	218	1 192	1 503	24
April	148	583	2 051	2 103	1 568	3 882	389	1 101	1 418	22
May	128	494	1 809	2 338	1 542	3 142	230	784	991	17
June	142	506	2 015	1 412	1 490	2 341	166	687	740	2
July	263	637	2 309	2 068	1 725	3 775	425	1 245	1 240	6

Jan.-July

1985	1 911	3 964	14 838	14 308	14 695	29 640	2 812	6 633	7 410	395
1986*	1 625	3 711	13 668	13 766	12 587	25 772	2 219	6 936	8 341	86



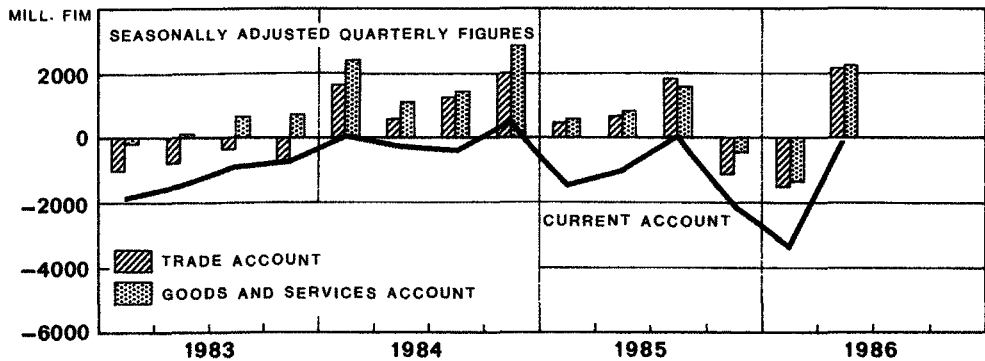
FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January-July				January-July			
	1985		1986*		1985		1986*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
OECD countries in Europe	55.8	27 766	61.2	27 756	56.1	26 293	62.0	26 893
Austria	0.6	323	0.9	403	1.1	517	1.3	552
Belgium and Luxembourg	1.4	708	1.8	796	2.0	943	2.4	1 043
Denmark	3.8	1 898	4.0	1 831	2.4	1 146	2.8	1 235
France	4.2	2 066	4.5	2 062	3.4	1 594	4.2	1 810
Federal Republic of Germany	9.1	4 513	9.8	4 464	14.7	6 894	17.0	7 380
Italy	2.0	987	2.1	955	3.3	1 550	4.3	1 859
Netherlands	3.2	1 612	3.6	1 639	2.9	1 380	3.0	1 284
Norway	4.1	2 045	4.5	2 034	2.7	1 258	2.4	1 026
Portugal	0.3	153	0.3	118	0.8	350	0.8	359
Spain	0.8	402	1.1	488	1.0	462	1.1	480
Sweden	12.6	6 266	14.5	6 578	11.6	5 458	13.4	5 829
Switzerland	1.5	746	1.6	747	1.6	750	2.0	854
United Kingdom	10.7	5 329	10.8	4 920	7.7	3 628	6.6	2 841
Other	1.4	718	1.6	721	0.8	363	0.8	341
OECD countries outside Europe	10.5	5 197	9.4	4 282	11.5	5 370	12.2	5 289
Canada	1.2	601	1.1	517	0.7	305	0.4	183
Japan	1.6	790	1.6	739	5.2	2 420	6.5	2 801
United States	6.5	3 223	5.5	2 495	5.4	2 520	4.9	2 133
Other	1.2	583	1.2	531	0.3	125	0.4	173
CMEA countries	23.5	11 688	21.1	9 574	23.8	11 165	18.1	7 831
Czechoslovakia	0.4	179	0.4	166	0.4	211	0.5	206
German Democratic Republic	0.5	263	0.4	164	0.5	220	0.6	241
Poland	0.5	247	0.3	129	1.4	663	1.4	607
Soviet Union	21.5	10 676	19.3	8 754	20.9	9 786	15.0	6 516
Other	0.6	323	0.8	361	0.6	284	0.6	261
Latin America	1.7	846	1.6	710	2.7	1 286	2.5	1 104
Argentina	0.1	38	0.1	41	0.1	70	0.1	62
Brazil	0.2	77	0.2	94	0.9	419	0.8	330
Colombia	0.2	83	0.1	46	0.6	299	0.7	292
Other	1.3	648	1.2	529	1.1	498	1.0	420
Other	8.5	4 221	6.7	3 035	5.9	2 776	5.2	2 236
GRAND TOTAL	100.0	49 718	100.0	45 357	100.0	46 890	100.0	43 353
of which								
EFTA countries	19.0	9 463	21.7	9 836	17.2	8 054	19.2	8 321
EEC countries	36.5	18 167	39.1	17 740	38.8	18 215	42.8	18 542
OECD countries	66.3	32 963	70.6	32 039	67.5	31 663	74.2	32 182

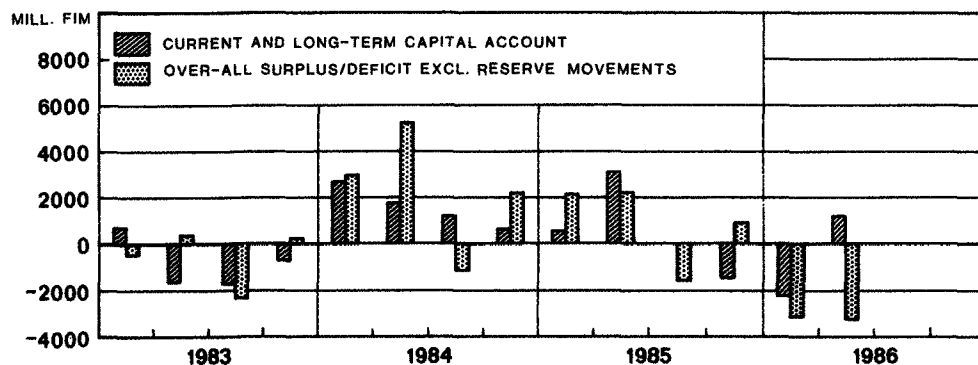
BALANCE OF PAYMENTS

Period	Exports f.o.b.	Imports c.i.f.	Trade account (1-2)	Transport. net	Travel, net	Other services, net	Goods and services account (3 to 6)	Invest- ment income, net	Un- required transfers, net	Other, net	Current account (7 to 10)
	1	2	3	4	5	6	7	8	9	10	11
1982	62 867	65 147	-2 280	+2 856	-277	+1 732	+2 031	-5 447	-643	+161	-3 898
1983	69 368	72 139	-2 771	+3 200	-748	-1 610	+1 291	-5 817	-797	-96	-5 227
1984	80 608	75 127	+5 480	+4 008	-1 211	-306	+7 971	-6 786	-1 050	-238	-103
1985*	83 769	81 870	+1 899	+3 677	-1 766	-859	+2 951	-6 259	-1 003	-390	-4 700
1983											
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



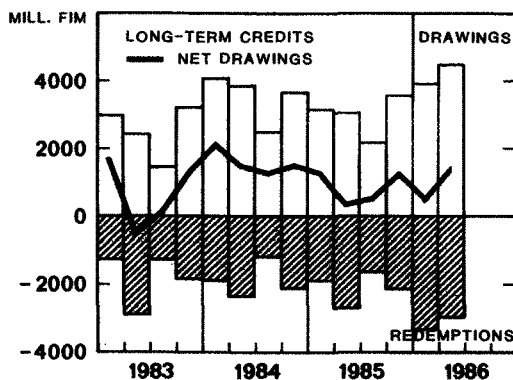
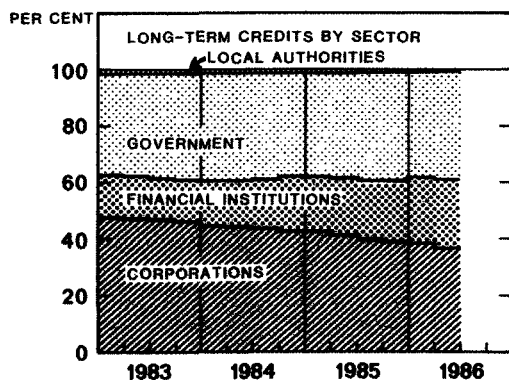
Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net	Long-term capital account (12 to 15)	Current and long-term capital account (11 + 16)	Prepayments and liabilities related to imports	Prepayments and receivables related 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 -

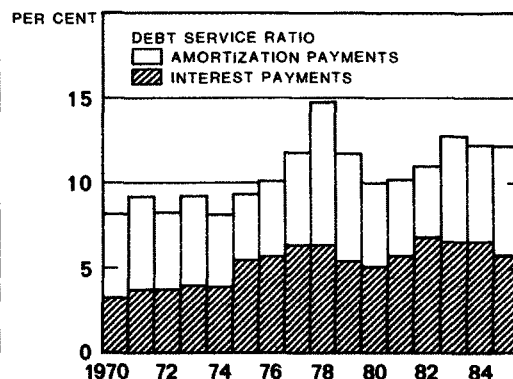
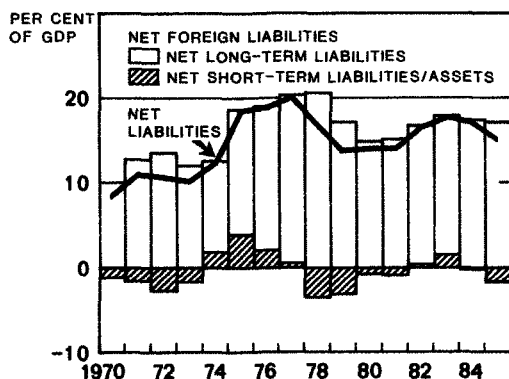


FINLAND'S FOREIGN ASSETS AND LIABILITIES

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
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
Aug.	1 246	130.9	137.9	109.6	118.3	144.3	148.7	151.5	156.2	149.0

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
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
Aug.	140.2	144.8	147.4	131.4	136.3	135.3	164.4	130.2	141.2	150.2

WAGES

Index of wage and salary earnings 1980 = 100

Period	By industries				By institutional sectors			All salarv 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

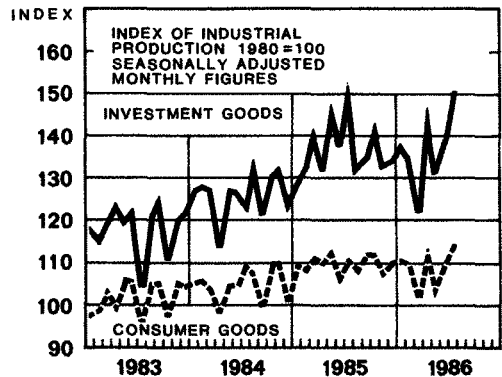
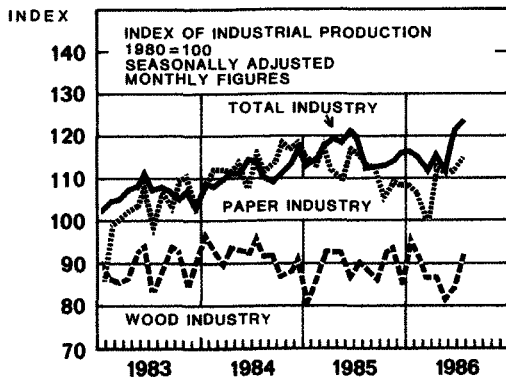
Period	Total	Investment goods	Consumer goods	Other producer goods	Special indices of manufacturing						Total adjusted for seasonal variations
					Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
	1	2	3	4	5	6	7	8	9	10	11
1983	107.1	119.0	102.6	107.1	108.9	89.9	103.5	106.2	115.0	114.5	107.1
1984*	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*

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	117.8	151.5	104.1	118.1	105.1	97.4	101.5	113.9	102.9	141.1	121.2
July	86.0	67.6	76.3	93.5	103.5	41.9	126.2	83.7	73.5	70.1	124.0



LABOUR – TIMBER FELLINGS – INTERNAL TRADE

Period	Population of working age, 1 000 persons	Total labour force, 1 000 persons	Employed, 1 000 persons	Un-employed, 1 000 persons	Unemployment, % of total labour force	Commercial timber fellings, 1 000 solid cu. m	Retail sales volume index 1980 = 100	Wholesale volume index 1980 = 100
	1	2	3	4	5	6	7	8
1984*	3 700	2 572	2 414	159	6.2	41 288	109	109
1985*	3 710	2 600	2 437	163	6.3	43 349	114	110
1985*								
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	119	111
July	3 717	2 790	2 600	190	6.8	1 124

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, † 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 1956, IFC 1956, IDA 1960, EFTA 1961, ADB 1966, OECD 1969, IDB 1977 and AfDB 1982.

LAND

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

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

POPULATION

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

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

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

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

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

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

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

TRADE AND TRANSPORT

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

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

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

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

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

MERCHANT FLEET (Sept. 30, 1986): Passenger vessels 164 (294 305 gross reg. tons), tankers 33 (604 653 gross reg. tons), dry cargo vessels 125 (479 391 gross reg. tons), other vessels 105 (21 440 gross reg. tons), total 427 (1 399 789 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 0.21 159 grams of fine gold per markka (equivalent, at the time, to 4.20 markkaa per U.S. dollar). Since Nov. 1, 1977 the external value of the markka has been officially expressed in terms of a currency index. This index is tradeweighted and as from Jan. 1, 1984 indicates the average change in the convertible currencies which are important in Finnish foreign trade. The present currency weights are SEK 20.2, DEM 19.3, GBP 14.6, USD 9.4, other currencies 36.5. 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, 1985). There are two big and eight small commercial banks with in all 967 offices, 254 savings banks, 370 co-operative banks, six mortgage banks, Postpankki 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 4 1/2% and 9 1/2%. Other credit institutions: time deposits 2 1/2%; 6 month deposits 4%; 12 month deposits 5 1/2%; 24 month deposits 7%.

CAPITAL MOVEMENTS AND FOREIGN EXCHANGE MARKETS IN 1986

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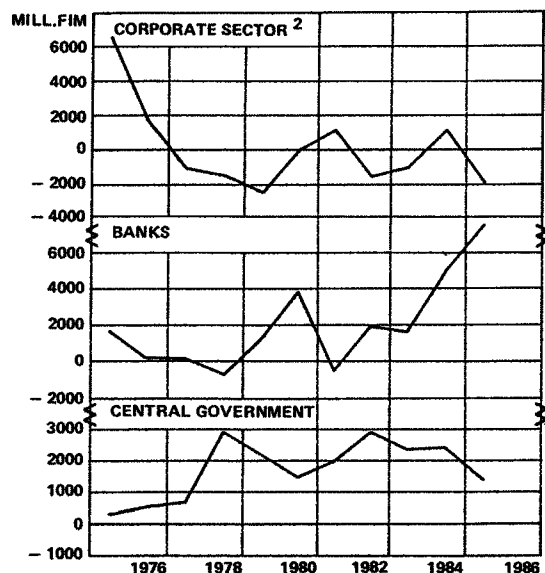
Capital movements have increased in both volume and sensitivity in Finland during the 1980s. Changes in domestic and international interest rates and in exchange rate expectations have been reflected in large and often volatile capital movements, giving rise to stronger pressures than before in financial markets in Finland. In the following, the aims of central bank policy and its effects on capital movements are examined in the light of recent events.

BACKGROUND

There are several reasons why capital movements have become more volatile. Susceptibility to devaluation expectations and the capital movements associated with them has survived into the 1980s as a legacy of the exchange rate policy pursued in Finland in the preceding decades. Increased yield awareness among firms and new techniques of foreign exchange management have accentuated the effects of differentials between foreign and domestic interest rates on capital flows. In addition, the development of domestic money markets has offered companies an increasingly profitable outlet for their liquid funds. The exploitation of interest rate differentials was made considerably easier in 1980 when the Bank of Finland withdrew from the forward market and issued new guidelines concerning forward operations. Since then, the banks have been able to cover their forward contracts with firms by recourse to Euromarket funds, and forward rates have reflected interest rate differentials vis-à-vis international capital markets. As a result of the reform, the forward market has developed rapidly, and today constitutes a flexible channel for short-term capital flows.

Another major factor contributing to quantitative growth and structural change in capital movements in the 1980s has been the internationalization of Finnish business, as evidenced in a reversal in the direction of firms' net currency flows in the early 1980s as compared with the second half of the 1970s (Chart 1). The outflow of capital, mainly in the form of acquisitions, has become greater than the inflow of capital. In addition, the regulation of firms' capital transactions has been gradually relaxed during the past two years. The credit quotas applied to the financing of imports have been abolished, opportunities to finance long-term export receivables by borrowing abroad have been enhanced and foreign credits of at least five years duration raised by

CHART 1. NET CAPITAL IMPORTS OF THE CENTRAL GOVERNMENT, CORPORATE SECTOR AND AUTHORIZED BANKS, ANNUAL CHANGE¹



1. The figures do not include bonds and debentures sold abroad through the Helsinki Stock Exchange
2. The capital imports of the corporate sector include foreign credits intermediated by special credit institutions.

manufacturing and shipping companies have been freed from quantitative control. These measures have been taken with a view to increasing efficiency in the financial markets and enlarging the range of available sources of finance.

Similarly, the expansion in the international operations of the authorized banks has increased net capital flows (Chart 1). Foreign assets and liabilities have been among the fastest growing items in banks' balance sheets in the 1980s. Moreover, with the admission of foreign-owned banks to Finland, competition in banking has intensified, especially in the provision of international financial services.

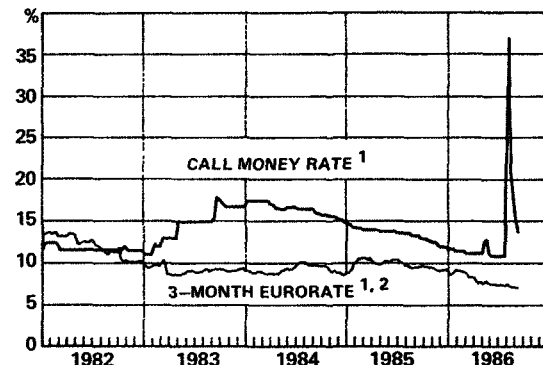
The central government's role as a net importer of capital has diminished, since it has, to an increasing extent, met its borrowing requirements by placing debt domestically (Chart 1). There has been a small deficit in the current account during the 1980s, but it has had only a minor impact on the foreign exchange reserves in comparison to the effects of capital movements resulting from changes in the financial markets.

One sign that markets have adapted to the new circumstances was the increase in sales of Finnish markka-denominated securities to non-residents in 1984–85. Such transactions had long been permitted, but it was not until 1984 that the capital inflow attributable to them assumed significant proportions. This inflow continued in 1985 at an accelerating pace and by mid-year amounted to FIM 4.3 billion. At this point, the Bank of Finland imposed a temporary ban on the sale abroad of markka-denominated bonds and debentures on account of difficulties in sterilizing liquidity and the underdeveloped state and thinness of the domestic capital market.

CAPITAL INFLOWS

The changes in the financial and foreign exchange markets have been particularly clearly

CHART 2. INTEREST RATE DIFFERENTIALS



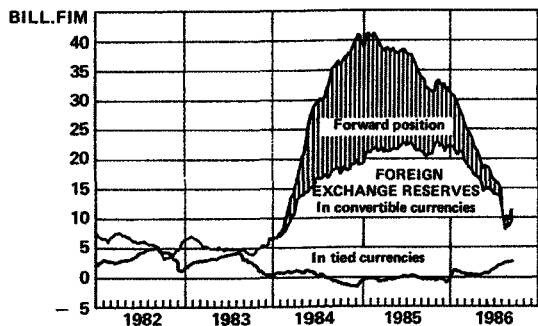
1. Weekly averages.
2. Eurocurrency interest rates of 8 currencies weighted according to their relative shares in the Finnish currency basket.

discernible since 1984. Tight monetary policy and favourable economic prospects increased confidence in the markka and this, coupled with a wide differential between interest rates at home and abroad, induced heavy capital inflows in 1984 (Chart 2). As a result, the convertible foreign exchange reserves grew rapidly. The reserves, including the Bank of Finland's forward position, reached their highest point, about FIM 40 billion, at the end of 1984 (Chart 3). Most of this sharp increase in reserves was due to a shift in the short-term foreign exchange position of the corporate sector. The financing of companies' export receivables grew by about FIM 2.5 billion in 1984 while the outstanding amount of forward contracts in foreign currencies grew in net terms by some FIM 15.2 billion. During the same period, net markka-denominated forward claims of foreign banks grew by about FIM 3.7 billion. Through intervention in the forward market, the Bank of Finland covered about 88 per cent of the contracts for forward sales which banks had entered into with firms during the course of the year. At its highest point, the Bank of Finland's intervention in the forward market amounted to some FIM 20 billion.

CAPITAL OUTFLOWS

As the differential between interest rates on domestic and foreign finance narrowed, ex-

CHART 3. BANK OF FINLAND'S FOREIGN EXCHANGE RESERVES AND FORWARD POSITION



porters' incentives to take out forward contracts and to import short-term capital clearly diminished. In the course of 1985, banks' purchases of forward exchange from companies and abroad fell by a total of FIM 7.5 billion and net short-term foreign liabilities of the corporate sector declined by FIM 5.1 billion. The convertible foreign exchange reserves nevertheless remained almost unchanged, since the Bank of Finland's forward position was reduced by about FIM 11 billion during the same period.

Towards the end of 1985, economic prospects started to deteriorate and from August onwards monetary policy was eased by lowering interest rates at more frequent intervals than previously. In early 1986, the economic outlook weakened further; a cutback in the trade with the Soviet Union was expected owing to the fall in the price of oil and domestic costs continued to rise at a slightly faster pace than in other countries. The first symptoms of burgeoning uncertainty in the foreign exchange markets could already be observed in the winter in a gradual rise in the Euromarkka rate and a shortening in the maturities of forward contracts which companies sold to banks.

DEVALUATION SPECULATION

The Norwegian krone was devalued on May 11, 1986 because of difficulties encountered following the sharp fall in the price of oil. Since

large changes in the exchange rates of the Nordic currencies have often been connected with each other, the perception in international foreign exchange markets was that Finland would soon follow suit. Evidently, there has not been an understanding everywhere of the system applied in Finland and in other Nordic countries whereby the value of the domestic currency is pegged to a basket of several foreign currencies. Thus a change in the exchange rate of one currency is offset by exchange rate changes in the other currencies.

The increased use of the markka as a payment currency, foreigners' markka-denominated portfolio investments in Finland and the expansion of Finnish companies' economic activities abroad have in different ways fostered interest in Finland and the markka. At the same time, profit considerations have motivated a greater interest in foreign exchange dealing as such among foreign banks. Rumours of an impending devaluation of the markka prompted some foreign economic agents to hedge their markka claims. This induced a currency outflow and speculative pressures against the markka also began to emerge in Finland around the middle of the second week of May. Importers increased their forward exchange purchases and expedited the payment of their foreign liabilities. By contrast, there was a sharp decline in forward contracts taken out by exporters to cover their foreign exchange receivables. Although the Bank of Finland raised the call money rate twice during the week by a total of 4.8 percentage points, the foreign exchange markets did not calm down. The volume of foreign exchange deals grew rapidly as some economic agents sought to exploit the changed yield structure following a rise in the Euromarkka rate. The foreign exchange transactions of foreign banks focussed on the forward market and their forward position against the markka grew to almost FIM 2 billion, compared with a net markka claim of more than FIM 2 billion in the forward market a year earlier (Chart 4).

As a consequence of spot transactions by the Bank of Finland, the convertible foreign ex-

TABLE 1. THE BANKS' SPOT AND FORWARD TRANSACTIONS IN MAY 1986, BY SECTOR, NET, BILL. FIM.
 A plus sign denotes an increase in foreign exchange reserves and a minus sign a decrease in foreign exchange reserves¹.

	May 5 to 10, 1986	May 12 to 15, 1986	May 16 to 23, 1986
The public	+0.3	-0.7	+0.8
Foreign banks	+0.1	-2.9	+1.8
Bank of Finland	-0.2	-4.0	+3.0

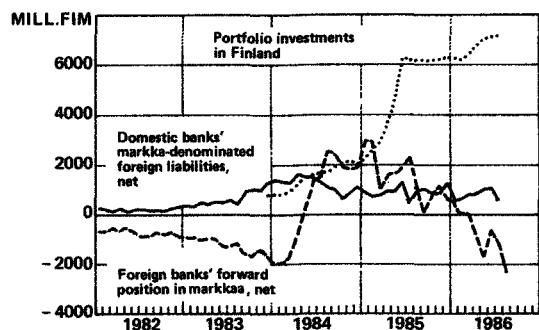
¹ The banks' foreign exchange transactions with different sectors also include items other than those shown in the table.

change reserves fell by a total of FIM 4.0 billion to FIM 12.8 billion between May 12 and May 15. The banks' net foreign exchange transactions with the public totalled FIM 0.7 billion and those with foreign banks FIM 2.9 billion (Table 1). As an example of the magnitude of foreign exchange transactions, it may be mentioned that gross forward sales between domestic and foreign banks amounted to about FIM 950 million a day during this period, as against FIM 70 million a day during the preceding week. It is not known exactly on whose account

designed to increase competitiveness, the foreign exchange markets settled and the Euromarkka rate fell (Chart 5). The change in the intervention point was interpreted as a devaluation, even though adjustments within the fluctuation range of the currency index are, in fact, quite common e.g. in the EMS countries and other Nordic countries. The next day it was possible to lower the call money rate by 2 percentage points, since the convertible foreign exchange increased by more than FIM 800 million as a result of spot transactions. Most of the increase was due to transactions by foreign economic agents. In addition, Finnish firms began to take out forward contracts to cover their export receivables. In the course of the following week, the inflow of foreign exchange amounted to FIM 2.1 billion, and the interest rate differential between the markka and other currencies returned to its level prior to the speculation.

In June, conditions in the foreign exchange market seemed relatively calm since the de-

CHART 4. FOREIGNERS' HOLDINGS OF MARKKA ASSETS



foreign banks operate; apparently, the banks act partly on their own behalf, but it would seem their corporate customers, among them Finnish subsidiaries abroad, have also been behind some of the foreign exchange operations.

Once the effects of the widening interest rate differential in favour of the markka had started to be felt and the Bank of Finland had raised the intervention point of the currency index on May 15 as part of an economic policy package

CHART 5. MOVEMENTS IN THE EXTERNAL VALUE OF THE MARKKA

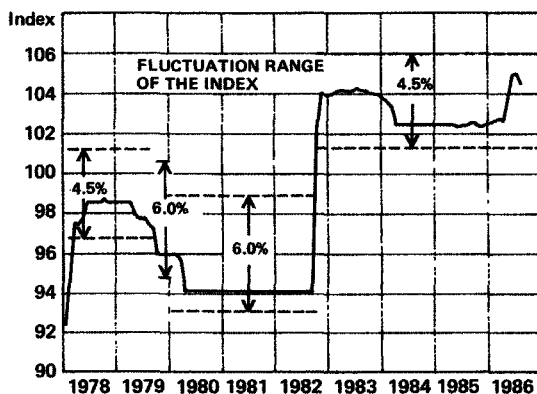


TABLE 2. THE BANKS' SPOT AND FORWARD TRANSACTIONS IN JULY AND AUGUST 1986, BY SECTOR, NET, BILL. FIM.

A plus sign denotes an increase in foreign exchange reserves and a minus sign a decrease in foreign exchange reserves¹.

	July 15 to 31, 1986	August 1 to 13, 1986	August 14 to 29, 1986
The public	-0.7	-1.4	+1.4
Foreign banks	-0.4	-2.1	-0.5
Bank of Finland	-2.4	-4.3	+1.2

¹ See footnote in Table 1.

cline in the convertible reserves slowed appreciably. In July, however, the pace of decline reaccelerated, the reserves falling by FIM 2.4 billion during the second half of the month (Table 2). At the end of the month, the reserves stood at only just over half the level at the beginning of the year. Lingering uncertainty was also reflected in the fact that companies' deposits at unregulated market rates became increasingly liquid. In addition, the Euromarkka rate rose, suggesting increasing doubts about the stability of the markka.

On July 31, the Parliamentary Bank Supervisors granted the Board of Management of the Bank of Finland unlimited powers to alter the call money rate in so far as was necessary for maintaining the exchange rate and securing the foreign exchange reserves. In the same context, the Bank of Finland's call money rate was linked to changes in the foreign exchange reserves. The Bank also announced that it would continue to pursue its fixed exchange rate policy, arguing that Finland's economic outlook, competitiveness and external balance did not call for a change in the exchange rate, and that, owing to indexation of pay and stumpage prices, a devaluation would only result in a reacceleration of inflation.

During the next two days, the foreign exchange reserves continued to fall slightly and consequently the call money rate was raised by a total of 1.6 percentage points. In the financial markets, the raising of the call money rate was interpreted as an increase in exchange rate uncertainty, and foreign investors started to exchange their markka holdings for other currencies. A few days later, Finnish companies followed their example. To stem the

currency outflow the Bank of Finland found it necessary to raise the call money rate to 40 per cent for a week. The high call money rate, coupled with a gradual strengthening in the markka's exchange rate, which was thus expensive to speculators, restored calm to the foreign exchange markets. However, these developments did not suffice to check the currency outflow immediately, and the convertible foreign exchange reserves reached their lowest point, FIM 7.7 billion, on August 13.

During the first half of August, the currency outflow arising from the transactions of Finnish companies and private persons amounted to about FIM 1.4 billion while currency outflows channelled through foreign banks totalled some FIM 2.1 billion. In the same period, the convertible foreign exchange reserves declined by about FIM 4.3 billion on account of the foreign exchange transactions of the authorized banks (Chart 2). The behaviour of Finnish banks was, on average, neutral.

After the net outflow of capital had turned into a marginal net inflow during the third week of August, it was possible to gradually lower the call money rate. However, the net currency inflow during the last two weeks of August amounted to only FIM 1.2 billion (Table 2). Most of this was attributable to a resumption in forward sales of export receivables by Finnish companies. The increase in the foreign exchange reserves was not nearly as rapid as in May, because foreign banks increased their positions against the markka and Finnish companies were cautious in their foreign exchange operations. Furthermore, the central government's repayments of long-term loans exceeded its drawings by FIM 0.8 billion.

In the first two weeks of September, companies' forward sales picked up, giving rise to a capital inflow totalling some FIM 1.4 billion, while foreign banks kept their markka positions practically unchanged. Long-term capital

imports by the central government amounted to about FIM 1.6 billion during the first half of September, and the convertible foreign exchange reserves increased to about FIM 10.8 billion.

September 17, 1986

*

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

1985

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 (i)	13.0	12.3
May 20 (ii)	12.0	11.3
May 22	11.0	10.3

Amendments to Foreign Exchange Regulations. The authorized banks are granted permission to use foreign credit to finance their customers' long-term export receivables as from May 13, 1986. Similarly, exporters are, on application, granted permission to raise foreign finance in their own names in order to finance their long-term export receivables.

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

June

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

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

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

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

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

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

August

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

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

Effective as from	Rate on call money advances		Rate on call money deposits	
		Per cent		Per cent
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	

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 Per cent	Rate on call money deposits Per cent
September 2	16.0	15.0
September 5	15.0	14.0
September 9	14.0	13.0
September 12	13.5	12.5
September 18	13.0	12.0
September 26	12.5	11.5

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 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.

October

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
October	12.0	11.0
October 16	11.8	10.8

BANK OF FINLAND

Board of Management

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Chairman

Pentti Uusivirta

Ele Alenius

Hari Holkeri

Seppo Lindblom
*Absent as Minister
of Trade and Industry*

Esko Ollila
*Absent as Minister
of Finance*

Markku Puntila
Acting Member of the Board

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Eino Helenius

Pentti Koivikko

Sirkka Hämäläinen

Matti Vanhala

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*Secretary to the Board
of Management*

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Economics

Antti Heinonen
Information

Ralf Pauli
Monetary Policy

Kari Holopainen
Bilateral Trade

Esa Ojanen
Exchange Control

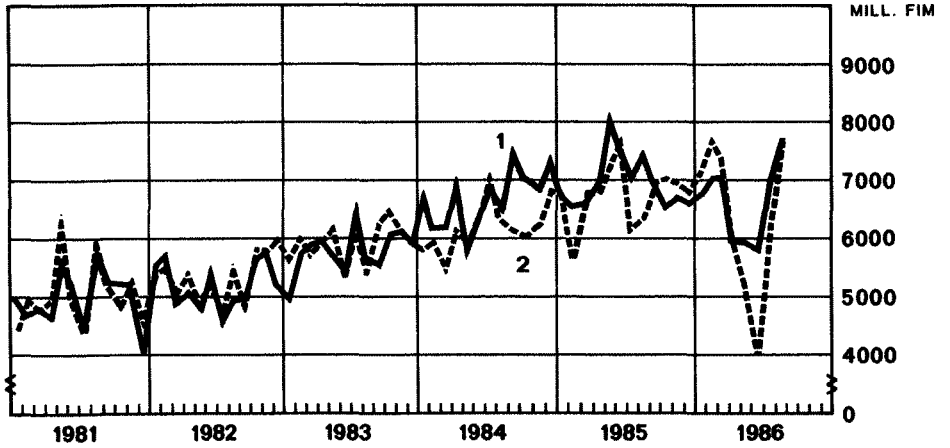
Johnny Åkerholm
Exchange Policy

Kari Pekonen
Foreign Exchange

Markus Fogelholm
Foreign Financing

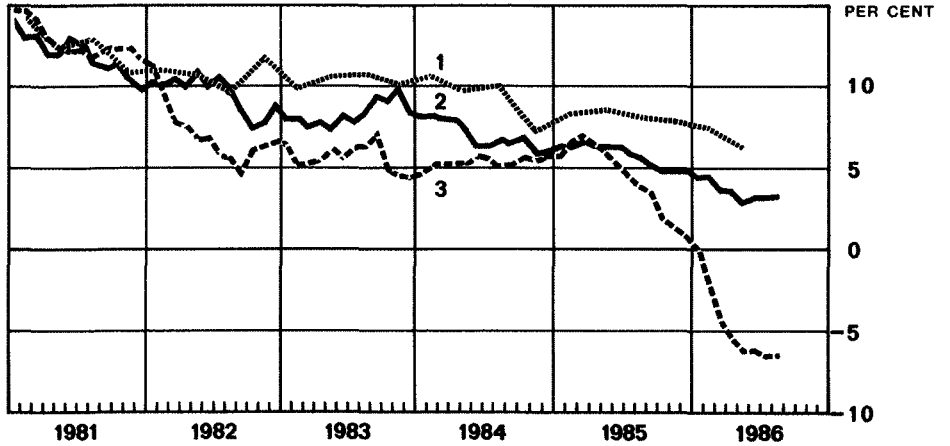
FOREIGN TRADE, 1981-86

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



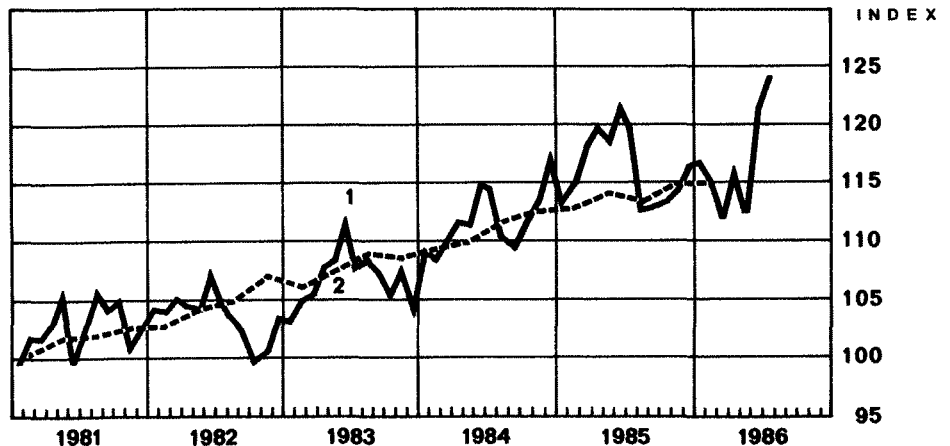
PRICES AND WAGES, 1981-86

- 1. Index of wage and salary earnings 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



Bank of Finland Monthly Bulletin
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