



BANK OF FINLAND

Monthly Bulletin

Recent wage and price developments

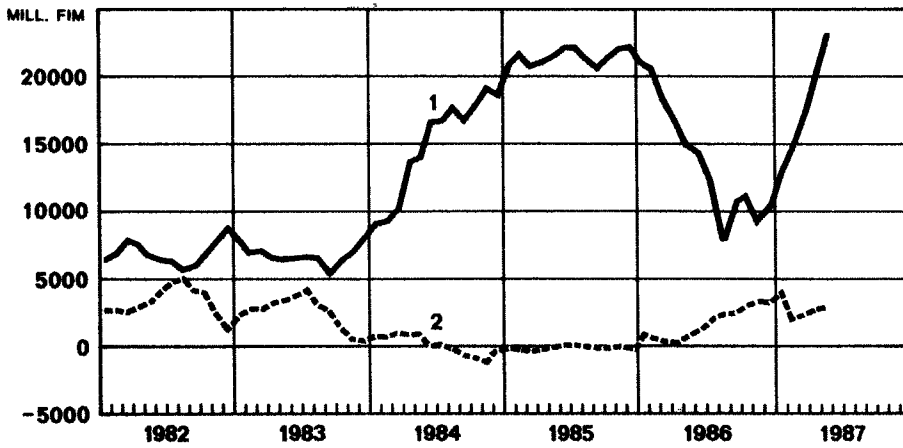
Fixed exchange rate policy in Finland

Monetary and foreign exchange policy
measures from August 1986 to June 1987

Finland's balance of payments January—
March 1987

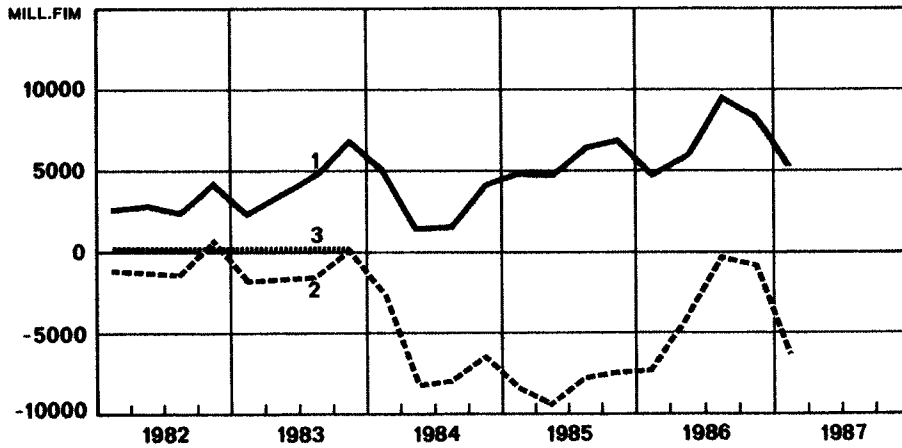
Board of Management of the Bank of
Finland

BANK OF FINLAND'S CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, 1982-87



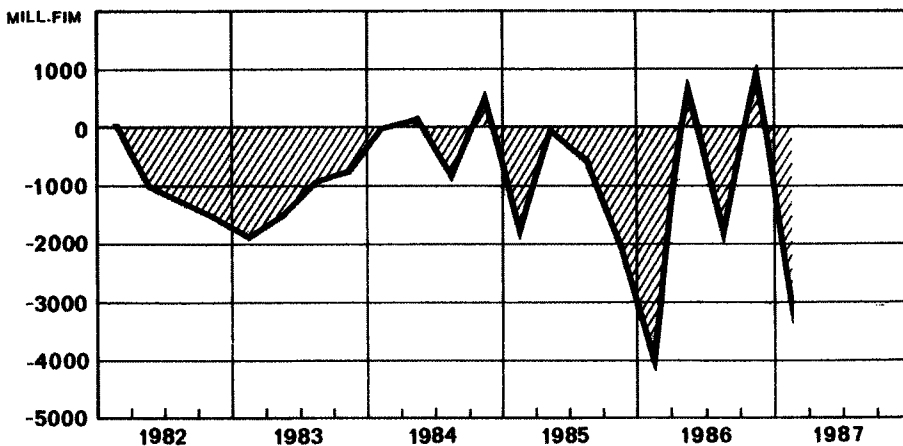
- 1. Gold and convertible currencies
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DEPOSIT BANKS' CENTRAL BANK POSITION, 1982-87



- 1. Gross central bank debt
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BALANCE OF PAYMENTS CURRENT ACCOUNT SURPLUS/DEFICIT, 1982-87



Seasonally adjusted quarterly figures

RECENT WAGE AND PRICE DEVELOPMENTS

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After continuing for several years, the deceleration in the rise in prices seems to have bottomed out in 1986 in common with international experience. The rise in the consumer price index already accelerated slightly towards the end of last year, the 12-month change in consumer prices reaching 3.4 per cent in December. In the first quarter of the current year, the corresponding change was 3.7 per cent. Behind this development was the fact that the downward trend in import prices, which had lasted for more than a year, came to an end in the middle of last year. As, however, the rise in foreign trade prices seems likely to remain fairly slow during the current year and the slight deceleration in the rate of domestic cost inflation to continue, no significant change is expected in consumer price developments during the latter part of the year.

The main contribution to the slowdown in consumer price inflation has come from foreign trade prices. Import and export prices began to fall during the first half of 1985, and the downward trend in import prices accelerated in the first half of 1986 with the sharp fall in oil prices. According to the import price index calculated by the Central Statistical Office of Finland, import prices of goods fell on average by 15.0 per cent in 1986. In contrast to the overall trend of import prices, import prices of consumer goods rose by slightly more than in the previous year. This was due to the appreciation of the currencies of Finland's major import countries against the Finnish markka. Although export prices started to rise at a modest pace during the second quarter of last year, export prices fell on average by 4.4 per cent for the year as a whole (Chart).

While the fall in foreign trade prices helped curb the rate of increase in consumer prices,

the deterioration in export developments in 1985 strained corporate profitability. This, in turn, emphasized the importance of slowing the rate of increase in labour and other domestic costs. Efforts were made to check the rise in nominal incomes through economic policy measures, mainly tax concessions. In fact, the rise in wages and salaries did slow down, but not to the extent that the price competitiveness of industry improved as targeted.

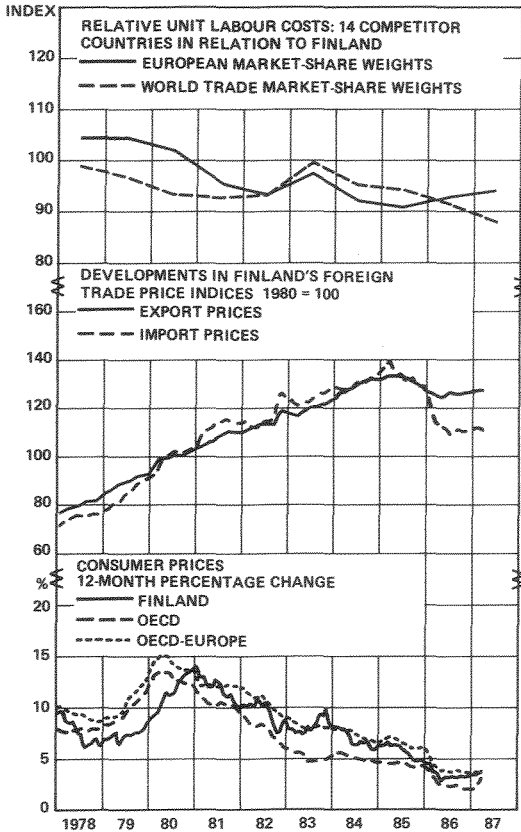
The two-year centralized incomes agreements, which cover the majority of wage and salary earners, provided for general pay increases of 2.5 per cent on average in 1986 and 1987. In contracts at union level, these increases have been exceeded somewhat. Allowing for the effects of previous agreements and wage drift, the level of earnings of all wage and salary earners rose on average by 6.9 per cent in 1986. Wages and salaries are expected to rise by slightly less in the current year, partly due to a modest decline in wage drift. Owing to the shortening of working hours and other factors not reflected in the earnings level index, the rise in hourly wage costs exceeds the rise in the level of earnings in both years (Table).

TABLE. EARNINGS AND UNIT LABOUR COSTS IN 1984-1987

	1984	1985*	1986* change %	1987**
Negotiated wage rates	6.7	5.6	4 ½	4 ½
Wage drift, etc.	2.7	2.8	2 ½	2
Level of earnings	9.4	8.4	7	6 ½
Real earnings	2.1	2.4	3	2 ½
Average earnings ¹	11.1	9.9	8 ½	7 ½
Unit labour costs				
whole economy	8.4	8.1	5 ½	4 ½
manufacturing	4.0	4.8	4	2 ½

¹ Total wage and salary bill divided by the number of hours worked by wage and salary earners. The figures are affected by structural changes in the economy and certain holiday-related benefits.

CHART 1. RELATIVE UNIT LABOUR COSTS AND PRICE DEVELOPMENTS



The deceleration in the rate of wage inflation in recent years and also during the current agreement period has been restricted by the efforts of employee organizations in the public sector to narrow the wage differential created in the 1970s when wages and salaries in the public sector fell out of line with those in the private sector. Associated with this, strikes by civil servants have increased in recent years.

In the open sector of the economy, i.e. manufacturing, the level of earnings rose by 6.2 per cent in 1986, or by somewhat less than in the economy as a whole. There is likely to be a similar difference in pay developments in the current year. Nevertheless, the rise in the level of earnings in manufacturing will exceed the average in Finland's competitor countries in both years. On the other hand, Finnish companies have been able to narrow this cost gap through a faster rise in labour productivity than

in competitor countries. Overall, other cost developments — including a fall in stumpage prices and the removal of taxes on energy use by industry — and exchange rate changes have resulted in some improvement in the competitiveness of Finnish industry during the past eighteen months in Western Europe, Finland's main export market area (Chart).

The 12-month rate of increase in consumer prices, which was running at 5.0 per cent in December 1985, decelerated during the first half of 1986 to around 3 per cent. The rise in prices was boosted slightly by mainly domestic factors during the latter part of 1986, so that the 12-month rate of inflation was 3.4 per cent in December 1986. In 1986, the consumer price index rose on average by 3.6 per cent. The index threshold incorporated in the incomes agreements — a 2.1 per cent rise in the consumer price index between February and December 1986 — was not exceeded, as the actual rise was exactly 2.1 per cent.

The substantial fall in foreign trade prices was reflected in a divergence in price developments between various commodity groups in 1986. The wholesale price index and the manufacturing producer price index both fell by more than 4 per cent, whereas the building cost index rose by 4.4 per cent.

As could be expected, of the various subcomponents of the consumer price index, the lowest increases were recorded by those items in which the fall in energy costs was directly reflected, such as housing and transport costs. Furthermore, price developments were more moderate in commodity groups facing foreign competition than in the closed sector of the economy. Prices of consumer goods rose on average by 3 per cent in the course of 1986, while prices of services, including housing rents, rose by more than 5 per cent. Similarly, while the rise in the prices of goods decelerated by almost 3 percentage points compared with 1985, that of prices of services slowed down by only one percentage point.

(Continued on page 39)

	1986		1987			
	May 30	Dec. 31	May 8	May 15	May 22	May 29
Assets						
Gold and foreign currency claims	16 173	14 088	23 363	23 803	24 458	26 377
Gold	2 081	2 081	2 081	2 081	2 081	2 081
Special drawing rights	989	983	957	963	965	967
IMF reserve tranche	838	794	766	769	765	767
Convertible currencies	11 160	6 795	16 661	17 189	17 735	19 516
Tied currencies	1 105	3 435	2 898	2 801	2 911	3 045
Other foreign claims	2 600	2 585	4 555	4 553	4 552	4 560
Markka subscription to Finland's IMF quota	2 600	2 585	2 585	2 585	2 585	2 585
Term credit	—	—	1 970	1 968	1 967	1 975
Claims on financial institutions	10 158	14 074	7 449	7 034	6 449	6 416
Banks' cheque accounts	—	—	—	—	—	—
Call money credits	6 070	6 818	710	598	54	0
Term assets	—	2 381	2 086	1 835	1 690	1 690
Till-money credits	1 842	2 305	2 069	2 040	2 128	2 139
Bonds	2 150	2 111	2 169	2 154	2 162	2 171
Other claims on financial institutions	96	459	415	406	414	415
Claims on the public sector	984	1 002	959	959	959	959
Bonds	75	59	9	9	9	9
Total coinage	906	935	946	947	947	947
Other claims on the public sector	3	8	4	3	2	2
Claims on corporations	4 940	4 844	4 164	4 141	4 103	4 068
Financing of exports	1 632	1 749	1 161	1 140	1 110	1 079
Financing of domestic deliveries	3 012	2 833	2 742	2 741	2 733	2 728
Bonds	74	65	59	59	59	59
Other claims on corporations	222	197	202	201	201	201
Other assets	148	149	148	146	146	140
Total	35 003	36 742	40 639	40 636	40 667	42 519
Liabilities						
Foreign currency liabilities	151	31	72	95	94	83
Convertible currencies	35	17	53	77	76	74
Tied currencies	116	14	19	19	18	9
Other foreign liabilities	3 466	3 423	3 394	3 398	3 394	3 395
IMF markka accounts	2 600	2 585	2 585	2 585	2 585	2 585
Allocations of special drawing rights	866	838	809	813	809	810
Notes and coin in circulation	8 046	8 667	8 673	8 648	8 720	8 865
Notes	7 280	7 856	7 859	7 835	7 908	8 051
Coin	766	811	813	812	812	814
Liabilities to financial institutions	10 174	9 729	16 805	16 794	16 932	18 546
Banks' cheque accounts	0	0	—	—	—	—
Call money deposits	477	131	92	53	175	872
Term liabilities	—	—	6 688	6 717	6 721	7 402
Cash reserve deposits	8 862	9 270	9 734	9 734	9 734	9 975
Capital import deposits	676	254	230	230	230	235
Other liabilities to financial institutions	159	74	60	59	72	61
Liabilities to the public sector	1 101	2 001	0	1	1	1
Cheque accounts	1	1	0	1	1	1
Government deposit account	1 100	2 000	—	—	—	—
Capital import deposits	—	—	—	—	—	—
Other liabilities to the public sector	0	0	0	0	0	0
Liabilities to corporations	4 363	5 019	4 633	4 636	4 493	4 482
Deposits for investment and ship purchase	3 938	4 671	4 287	4 285	4 285	4 263
Capital import deposits	424	336	342	342	200	212
Other liabilities to corporations	1	12	4	8	8	7
Other liabilities	17	23	28	25	24	26
Valuation account and reserves	1 801	1 920	1 105	1 111	1 079	1 192
SITRA's capital	400	400	400	400	400	400
Capital accounts	5 484	5 529	5 529	5 529	5 529	5 529
Primary capital	5 000	5 000	5 000	5 000	5 000	5 000
Reserve fund	484	485	529	529	529	529
Undisposed profits	—	—	—	—	—	—
Net earnings	—	44	—	—	—	—
Total	35 003	36 742	40 639	40 636	40 667	42 519

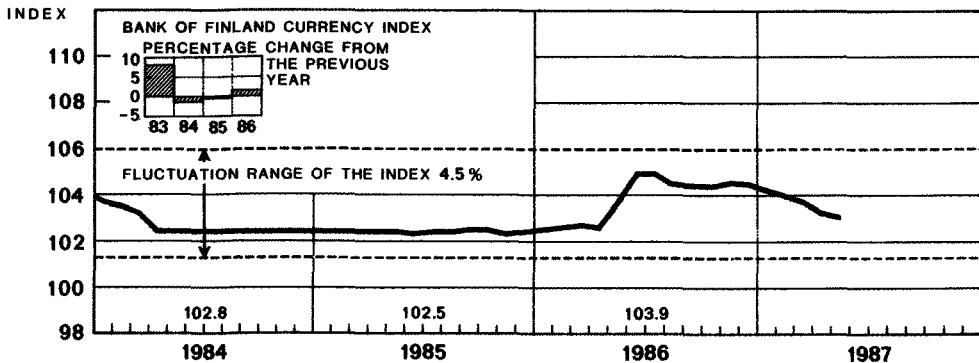
End of year or month	Foreign sector						Public sector			
	Gold. SDRs, IMF reserve tranche	Convertible currencies, net	Total convertible reserves (1+2)	Tied currencies, net	Other claims, net	Net claims (3 to 5)	Claims	Government deposit account	Other liabilities	Net liabilities (8-7+9)
	1	2	3	4	5	6	7	8	9	10
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
1986	3 858	6 778	10 636	3 421	-838	13 219	1 002	2 000	1	999
1986										
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
Oct.	3 865	7 490	11 355	3 225	-846	13 734	1 002	1 000	1	-1
Nov.	3 869	5 713	9 582	3 497	-844	12 235	1 008	800	1	-207
Dec.	3 858	6 778	10 636	3 421	-838	13 219	1 002	2 000	1	999
1987										
Jan.	3 818	9 344	13 162	4 127	-820	16 469	1 001	-	1	-1 000
Feb.	3 821	11 215	15 036	2 196	1 182	18 414	957	-	1	-956
March	3 813	13 468	17 281	2 537	1 168	20 986	959	-	1	-958
April	3 811	16 440	20 251	2 908	1 160	24 319	960	-	0	-960
May	3 815	19 442	23 257	3 036	1 165	27 458	959	-	1	-958

OFFICIAL FOREIGN EXCHANGE RESERVES

Mill. FIM

	Dec. 31, 1986	Feb. 27, 1987	March 31, 1987	April 30, 1987	May 29, 1987
Gold	2 081	2 081	2 081	2 081	2 081
SDRs	983	967	962	961	967
IMF reserve tranche	794	773	770	769	767
Convertible currencies, net	6 778	11 215	13 468	16 440	19 442
Total convertible reserves, net	10 636	15 036	17 281	20 251	23 257
Tied currencies, net	3 421	2 196	2 537	2 908	3 036
Total reserves, net	14 057	17 232	19 818	23 159	26 293

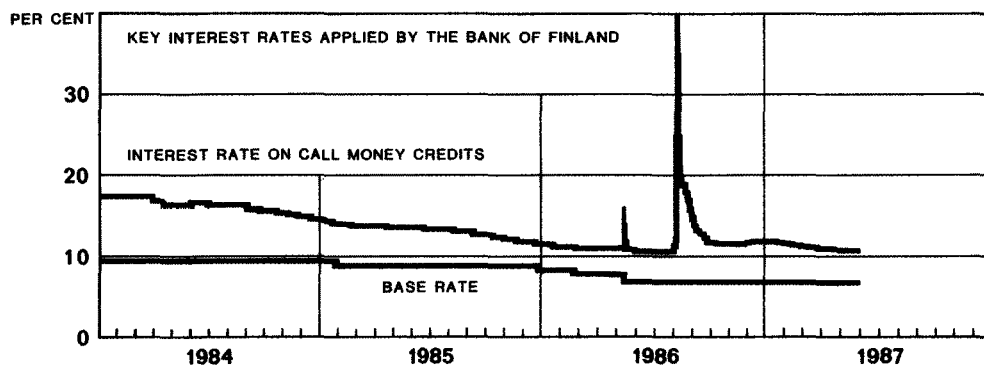
End of year or month	Domestic financial sector						Corporate sector				
	Till-money credits	Term liabilities of deposit banks	Term assets of deposit banks	Net demand for call money by deposit banks	Cash reserve deposits of deposit banks	Other liabilities, net	Net claims (1+2-3+4-5-6)	Permanent special financing schemes	Liabilities, net	Net claims (8-9)	Notes and coin in circulation
	1	2	3	4	5	6	7	8	9	10	11
1983	942	.	.	5 175	5 039	-1 998	3 076	4 529	1 282	3 247	6 574
1984	1 563	.	.	2 802	8 696	-1 618	-2 713	4 646	2 614	2 032	7 442
1985	1 925	.	.	4 014	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1986	2 305	2 381	.	6 687	9 270	-2 242	4 345	4 582	4 757	-175	8 667
1986											
May	1 842	.	.	5 593	8 862	-1 411	-16	4 644	4 067	577	8 046
June	1 875	.	.	5 841	8 891	-2 022	847	4 552	4 585	-33	8 156
July	1 844	.	.	7 324	9 030	-2 070	2 208	4 552	4 669	-117	8 086
Aug.	1 650	.	.	11 273	9 023	-2 119	6 019	4 550	4 718	-168	7 969
Sept.	1 847	.	.	7 875	8 954	-2 129	2 897	4 552	4 750	-198	7 903
Oct.	1 755	.	.	7 040	9 052	-2 557	2 300	4 650	4 863	-213	7 973
Nov.	1 709	.	.	8 250	9 180	-2 542	3 321	4 659	4 786	-127	8 024
Dec.	2 305	2 381	.	6 687	9 270	-2 242	4 345	4 582	4 757	-175	8 667
1987											
Jan.	2 231	4 266	.	-370	9 353	-2 268	-958	4 360	4 685	-325	8 851
Feb.	2 012	4 736	1 600	-1 313	9 356	-2 227	-3 294	4 259	4 609	-350	8 453
March	2 177	3 572	4 000	-369	9 597	-2 243	-5 974	4 073	4 516	-443	8 325
April	2 114	2 111	6 703	878	9 734	-2 287	-9 047	3 927	4 427	-500	8 704
May	2 139	1 690	7 402	-872	9 975	-2 290	-12 130	3 807	4 222	-415	8 865



MONETARY POLICY INDICATORS

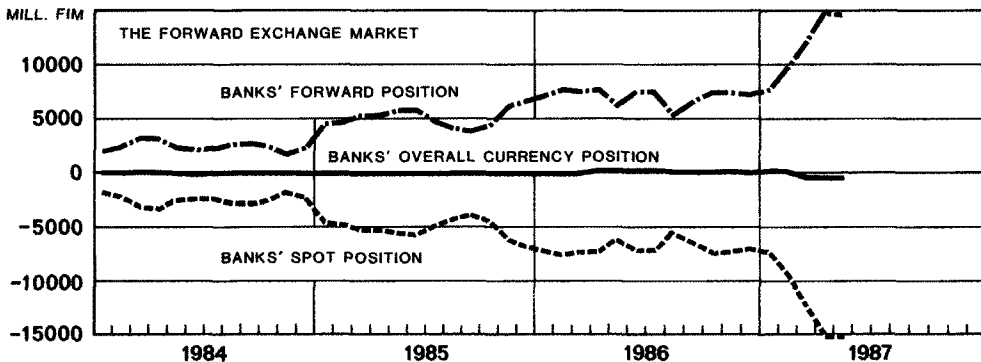
Average for period	Gross central bank debt of the deposit banks mill. FIM	Net central bank debt of the deposit banks mill. FIM	Cash reserve deposits of the deposit banks mill. FIM	Cash reserve requirement %	Call money credit extended by the Bank of Finland	Interest rate on call money credits %	3-month Helibor rate %	Base rate ¹ %	Average lending rate of the commercial banks ¹ %
	1	2	3	4	5	6	7	8	9
1982	3 201	-783	2 778	3.1	1 571	11.64	.	8.81	9.33
1983	4 539	-1 213	4 345	4.3	2 724	15.37	.	9.00	9.56
1984	3 176	-6 365	6 325	5.4	-39	16.53	.	9.50	10.49
1985	5 812	-8 293	9 578	5.6	1 285	13.37	.	9.04	10.41
1986	7 237	-3 208	9 189	4.8	5 861	13.43	.	7.42	9.08
1986									
March	5 146	-5 927	9 457	4.7	3 530	11.21	.	8.00	9.49
April	5 034	-5 565	8 939	4.7	3 374	11.20	.	8.00	9.49
May	6 645	-3 566	8 847	4.7	5 281	12.02	.	7.00	8.78
June	6 393	-3 409	8 863	4.7	5 454	10.83	.	7.00	8.82
July	7 556	-2 677	8 895	4.7	6 218	10.80	.	7.00	8.76
Aug.	11 014	1 239	9 030	4.7	10 269	24.17	.	7.00	8.79
Sept.	10 290	68	9 021	4.7	9 088	13.86	.	7.00	8.77
Oct.	7 846	-1 524	8 960	4.7	7 436	11.93	.	7.00	8.75
Nov.	7 616	-1 784	9 047	4.7	7 263	11.80	.	7.00	8.74
Dec.	9 785	580	9 183	4.7	8 321	11.97	.	7.00	8.81
1987									
Jan.	7 106	-2 248	9 275	4.7	3 594	11.99	.	7.00	8.81
Feb.	5 035	-6 671	9 353	4.7	-1 595	11.76	.	7.00	8.80
March	3 732	-9 717	9 362	4.7	-281	11.44	.	7.00	8.84
April	3 137	-13 160	9 602	4.7	-773	11.14	.	7.00	8.86
May	2 269	-14 575	9 758	4.7	42	11.00	9.89	7.00	..

¹ End of period for monthly figures.



FORWARD EXCHANGE MARKETS IN FINLAND

Period	Banks' forward positions in mill. FIM with						Banks' forward selling rates for USD		
	Domestic firms			Foreign banks Net	Bank of Finland Net	Overall Net	Deviation from spot rate, per cent per annum		
	Assets	Liabilities	Net				1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
1985	16 982	1 733	15 249	708	-9 005	6 876	3.3	3.2	3.1
1986	11 446	1 319	10 127	-2 461	-92	7 591	6.6	6.7	6.7
1985									
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
Sept.	13 762	2 179	11 583	-1 981	-1 291	8 116	7.8	7.1	6.7
Oct.	13 147	2 047	11 100	-1 464	-996	8 388	6.6	6.5	6.3
Nov.	12 049	1 843	10 205	-2 224	-423	7 590	6.2	6.3	6.2
Dec.	11 446	1 319	10 127	-2 461	-92	7 591	6.6	6.7	6.7
1987									
Jan.	13 285	1 515	11 770	-2 248	-5	9 541	6.3	6.0	6.1
Feb.	14 389	1 385	13 003	-1 204	26	11 789	4.4	4.5	4.5
March	15 908	1 263	14 645	-490	18	14 262	4.0	3.9	3.8
April	17 739	1 145	16 594	-1 384	18	15 203	3.2	2.9	2.8



FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange. FIM

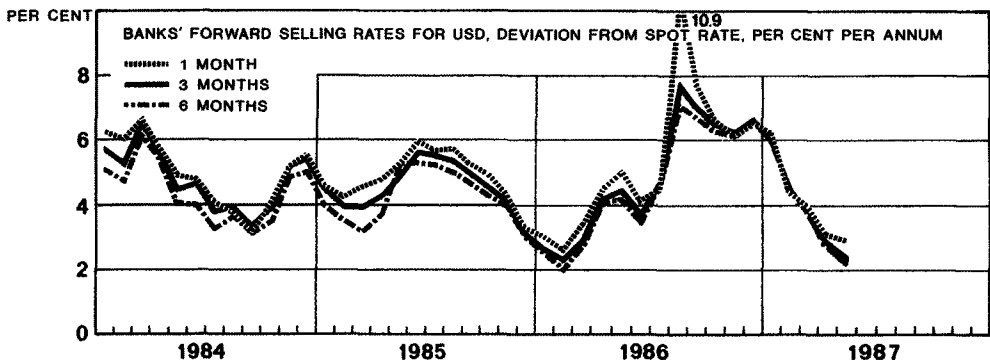
Period	New York 1 US \$ USD	Montreal 1 C \$ CAD	London 1 £ GBP	Dublin 1 Ir£ IEP	Stockholm 1 Skr SEK	Oslo 1 Nkr NOK	Copenhagen 1 Dkr DKK	Frankfurt 1 DM DEM	Amsterdam 1 Hfl NLG	Brussels 1 FB BEC	Brussels 1 FB BEL	Zurich 1 Sfr CHF
	1	2	3	4	5	6	7	8	9	10	11	12
1982	4.820	3.913	8.423	6.854	0.7703	0.7484	0.5793	1.9876	1.8066	0.10584	0.09859	2.3779
1983	5.570	4.524	8.456	6.957	0.7275	0.7644	0.6107	2.1861	1.9566	0.10934	0.10742	2.6570
1984	6.010	4.645	8.023	6.533	0.7277	0.7384	0.5816	2.1165	1.8772	0.10428	0.10274	2.5642
1985	6.206	4.554	8.000	6.590	0.7222	0.7231	0.5871	2.1142	1.8745	0.10483	0.10421	2.5360
1986	5.078	3.659	7.459	6.816	0.7138	0.6882	0.6290	2.3454	2.0789	0.11399	0.11299	2.8349

1986

April	5.128	3.700	7.682	6.853	0.7092	0.7180	0.6117	2.2564	2.0020	0.11066	0.10970	2.6968
May	5.105	3.717	7.774	6.985	0.7157	0.6898	0.6201	2.2935	2.0369	0.11237	0.11168	2.7583
June	5.195	3.745	7.840	7.055	0.7217	0.6834	0.6277	2.3254	2.0654	0.11389	0.11307	2.8220
July	5.074	3.681	7.671	7.067	0.7193	0.6803	0.6306	2.3578	2.0925	0.11460	0.11372	2.9080
Aug.	4.940	3.564	7.356	6.665	0.7141	0.6731	0.6372	2.3966	2.1256	0.11580	0.11465	2.9748
Sept.	4.918	3.552	7.256	6.632	0.7127	0.6717	0.6377	2.4114	2.1360	0.11646	0.11525	2.9772
Oct.	4.896	3.532	7.005	6.669	0.7126	0.6674	0.6489	2.4446	2.1631	0.11780	0.11692	2.9852
Nov.	4.959	3.583	7.072	6.685	0.7133	0.6599	0.6495	2.4500	2.1685	0.11795	0.11725	2.9435
Dec.	4.907	3.562	7.055	6.712	0.7111	0.6529	0.6523	2.4649	2.1809	0.11853	0.11760	2.9443

1987

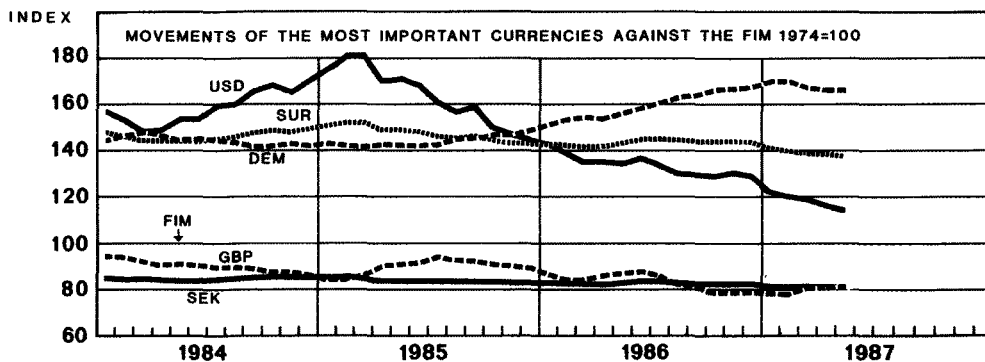
Jan.	4.641	3.413	6.998	6.689	0.7031	0.6485	0.6590	2.4988	2.2148	0.12042	0.11854	2.9774
Feb.	4.560	3.422	6.971	6.660	0.7021	0.6520	0.6619	2.4991	2.2140	0.12073	0.11934	2.9603
March	4.509	3.421	7.185	6.579	0.7040	0.6521	0.6537	2.4603	2.1785	0.11884	0.11821	2.9353
April	4.422	3.360	7.216	6.535	0.7014	0.6542	0.6480	2.4429	2.1652	0.11797	0.11747	2.9599
May	4.358	3.253	7.280	6.534	0.6979	0.6561	0.6486	2.4398	2.1648	0.11770	0.11709	2.9689



Average selling rates for foreign exchange, FIM

Parr 1 FF FRF	Rome 1 Lit ITL	Vienna 1 OS ATS	Lisbon 1 Esc PTE	Reykjavik 1 lkr ISK	Madrid 1 Ptas ESB	Tokyo 1 Y JPY	Moscow 1 Cl Rbl SUR	Melbourne 1 A \$ AUD	1 European currency unit XEU	1 special drawing right SDR	Currency index ¹
13	14	15	16	17	18	19	20	21	22	23	24
0.7365	0.00358	0.2831	0.0613	0.4079	0.0441	0.01943	6.624	..	..	5.305 63	115.9
0.7353	0.00369	0.3111	0.0514	0.2325	0.0391	0.02351	7.491	..	..	5.943 25	125.1
0.6907	0.00344	0.3013	0.0414	0.1939	0.0375	0.02534	7.357	..	..	6.147 39	102.8
0.6940	0.00327	0.3012	0.0367	0.1520	0.0366	0.02610	7.419	..	..	6.278 79	102.5
0.7355	0.00343	0.3339	0.0343	0.1259	0.0364	0.03028	7.228	..	..	5.944 32	103.9
0.7133	0.00331	0.3217	0.0346	0.1261	0.0358	0.02931	7.148	..	..	5.886 47	102.7
0.7213	0.00335	0.3265	0.0346	0.1274	0.0362	0.03062	7.230	..	..	5.954 02	103.8
0.7311	0.00340	0.3312	0.0347	0.1281	0.0365	0.03099	7.301	..	..	6.039 58	105.0
0.7342	0.00345	0.3355	0.0345	0.1258	0.0370	0.03201	7.313	..	..	6.024 88	105.0
0.7368	0.00350	0.3409	0.0341	0.1240	0.0369	0.03209	7.278	..	..	5.960 80	104.5
0.7379	0.00351	0.3431	0.0339	0.1238	0.0368	0.03182	7.255	..	..	5.943 98	104.5
0.7481	0.00355	0.3481	0.0337	0.1236	0.0369	0.03139	7.252	..	..	5.922 50	104.5
0.7506	0.00355	0.3483	0.0335	0.1243	0.0366	0.03049	7.263	..	..	5.933 16	104.6
0.7524	0.00357	0.3505	0.0333	0.1231	0.0366	0.03025	7.242	..	..	5.910 76	104.6
0.7512	0.00354	0.3553	0.0329	0.1190	0.0360	0.03004	7.107	3.084	5.156	5.795 56	104.3
0.7517	0.00353	0.3555	0.0325	0.1184	0.0356	0.02975	7.050	3.063	5.153	5.745 75	104.1
0.7407	0.00347	0.3503	0.0322	0.1176	0.0352	0.02980	7.003	3.119	5.103	5.713 28	103.8
0.7350	0.00343	0.3478	0.0319	0.1162	0.0350	0.03097	6.971	3.165	5.072	5.701 15	103.3
0.7316	0.00339	0.3474	0.0316	0.1155	0.0350	0.03106	6.935	3.136	5.063	5.673 51	103.1

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



DEPOSITS BY THE PUBLIC

Mill. FIM

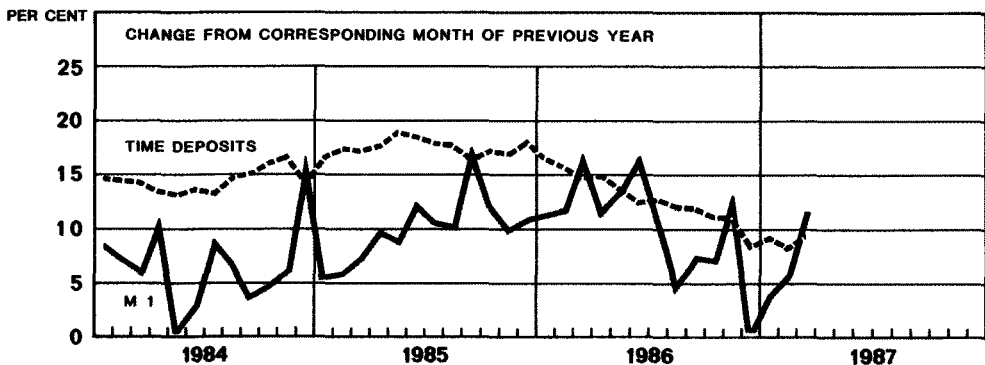
End of year and month	Demand deposits				Time deposits					Total (4 + 9)
	Commercial banks	Savings banks & Co-op. banks	Posti-pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	All deposit banks (5 to 8)	
	1	2	3	4	5	6	7	8	9	10
1983	7 056	4 567	3 676	15 300	34 302	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
1986*	9 643	6 235	4 194	20 071	51 003	42 315	36 263	13 992	143 572	163 643

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
July	9 141	5 837	5 629	20 606	49 832	40 837	34 897	12 981	138 547	159 153
Aug.	7 368	5 661	5 873	18 902	49 962	41 026	35 073	13 209	139 270	158 172
Sept.	9 240	5 842	5 871	20 953	49 591	41 102	35 046	13 045	138 784	159 737
Oct.	9 505	5 890	4 899	20 294	49 922	41 403	35 283	13 603	140 211	160 505
Nov.	9 010	6 073	5 278	20 361	50 201	41 867	35 636	13 778	141 482	161 843
Dec.	9 643	6 235	4 194	20 071	51 003	42 315	36 263	13 992	143 572	163 643

1987*

Jan.	9 054	5 891	4 401	19 346	51 823	43 129	37 068	14 402	146 423	165 770
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ADVANCES TO THE PUBLIC – MONEY SUPPLY

Mill. FIM

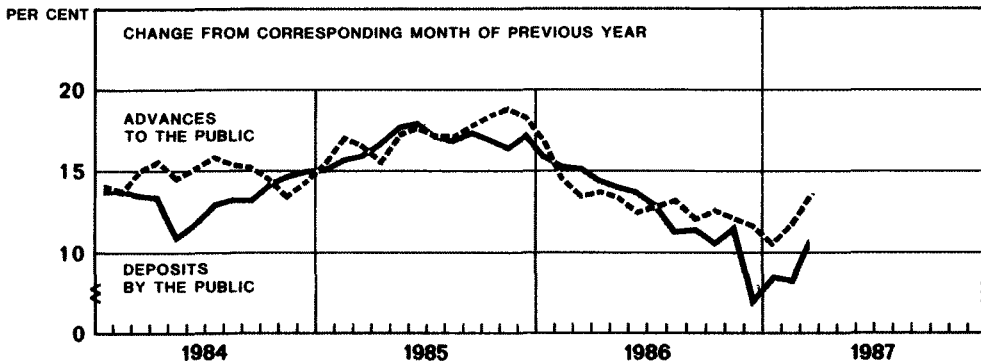
End of year and month	Advances granted by				Types of advances			Total (1 to 4) (5 to 7)	Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency		M ₁	M ₁ + Quasi-Money
	1	2	3	4	5	6	7		8	9	10
1983	56 162	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
1986*	88 188	42 230	40 776	20 052	158 689	7 542	25 016	191 246	27 838	179 324

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
July	85 332	39 927	38 490	18 504	151 405	7 369	23 480	182 253	27 670	173 524
Aug.	86 187	40 328	38 977	18 987	153 012	8 393	23 073	184 479	26 030	172 484
Sept.	86 148	40 864	39 542	19 607	154 570	7 771	23 819	186 160	28 064	174 220
Oct.	87 572	41 343	39 913	20 120	156 083	7 573	25 294	188 949	27 471	175 271
Nov.	88 261	41 642	40 213	20 571	157 222	7 644	25 820	190 686	27 915	176 682
Dec.	88 188	42 230	40 776	20 052	158 689	7 542	25 016	191 246	27 838	179 324

1987*

Jan.	88 786	42 644	40 929	20 238	160 024	7 455	25 118	192 597	27 075	181 194
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STATE FINANCES

Mill. FIM

Revenue	Jan.-Dec.	
	1985	1986
Income and wealth tax (net)	25 137	27 527
Gross receipts	66 054	71 034
Refunds & local authorities	-40 917	-43 507
Other taxes on income and wealth	614	553
Employers' child allowance payments	671	4
Sales tax	24 811	27 623
Customs duties and import charges and levies	1 642	1 782
Excise duties	12 697	13 191
Excise duty on alcoholic bevs.	4 494	4 919
Excise duty on tobacco	1 820	1 940
Excise duty on liquid fuel	4 465	4 348
Other excise duties	1 917	1 982
Tax on autom. and motor-cycles	2 864	3 451
Stamp duties	2 755	3 335
Special diesel etc. vehicles tax	490	547
Other taxes and similar revenue	2 194	2 122
Total taxes	73 875	80 134
Miscellaneous revenue	6 110	7 209
Interest, dividends etc.	2 341	2 478
Surplus of state enterprises	1 964	1 953
Redemptions of loans granted	2 071	2 209
Total revenue	86 361	93 983
Foreign borrowing	3 374	6 376
Domestic borrowing	7 815	8 369
Total borrowing	11 189	14 744
Deficit (+) or surplus (-)	-146	-2 905
Total	97 404	105 822

Expenditure	Jan.-Dec.	
	1985	1986
Wages, salaries, pensions etc.	14 534	15 516
Repair and maintenance	1 810	1 825
Other consumption expenditure	8 490	9 014
Total consumption expenditure	24 835	26 354
State aid to local authorities	21 183	23 215
State aid to industries	9 811	10 602
of which: agric. price subsidies	5 156	4 311
Child allowances	2 480	1 966
Share in national pensions and sickness insurance schemes	2 083	1 604
Deficit of State enterprises	1 103	1 379
Other transfer expenditure	12 608	14 079
Total transfer expenditure	49 269	52 845
Machinery and equipment	2 132	2 434
Construction of buildings	1 172	1 079
Land and waterway construction	2 395	2 599
Total real investment	5 700	6 111
Interest on State debt	4 686	4 711
Other expenditure	31	23
Total other expenditure	4 717	4 733
Increase in inventories	219	324
Lending	4 088	4 021
Other financial investment	894	892
Total expenditure	89 722	95 281
Redemption of foreign loans	1 766	6 447
Redemption of domestic loans	5 916	4 094
Total redemptions	7 682	10 541
Total	97 404	105 822

State debt	1985	1986	1987			
	Dec.	Dec.	Jan.	Feb.	March	April
Foreign debt	25 677	26 981	28 280	27 937	27 878	27 895
Long-term debt	20 872	24 602	24 585	24 270	24 917	24 382
Short-term credit	432	411	302	397	529	451
Domestic debt	21 304	25 013	24 887	24 667	25 446	24 833
Total State debt	46 981	51 994	53 167	52 604	53 324	52 728
Total debt mill. \$	8 562	10 597	11 455	11 535	11 826	11 923

FOREIGN TRADE

Mill. FIM

Period	Value, mill. FIM		
	Exports f.o.b	Imports c.i.f.	Surplus of exports (+) or imports (-)
	1	2	3
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
1986*	82 579	77 601	+4 978

1986*			
July	6 996	6 632	+364
Aug.	6 471	6 479	-8
Sept.	7 760	7 683	+77
Oct.	7 935	6 600	+1 335
Nov.	7 602	6 754	+848
Dec.	7 474	6 835	+639

1987*			
Jan.	6 717	6 707	+10
Feb.	6 379	5 733	+646
March	7 365	7 331	+43

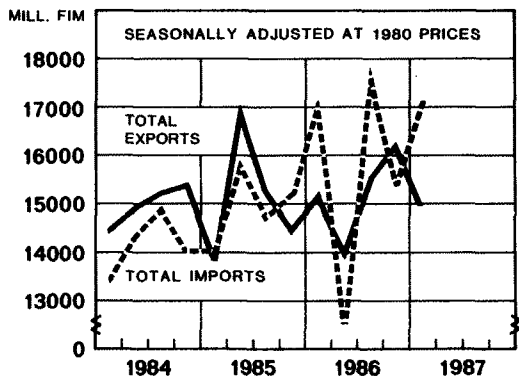
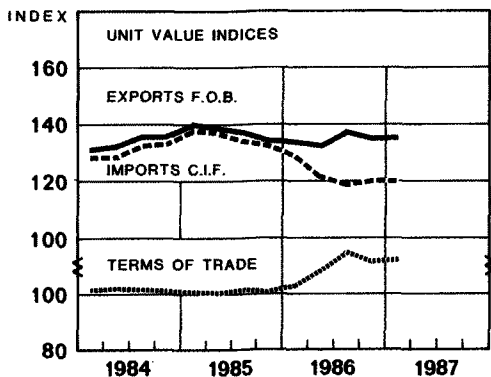
Jan.-March			
1986*	20 024	20 752	-728
1987*	20 462	19 771	+691

Period	Indices of exports and imports 1980=100				
	Volume		Unit value		Terms of trade
	Exports	Imports	Exports	Imports	
	1	2	3	4	5
1982	100	95	119	117	101
1983	104	98	127	125	101
1984	114	98	134	131	102
1985	115	104	138	135	102
1986	116	110	135	121	111

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	129	103
Apr.-June	104	90	133	122	109
July-Sept.	116	119	138	120	115
Oct.-Dec.	128	115	136	121	112

1987*					
Jan.-March	114	113	136	120	118



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	
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
1986*	2 478	6 947	24 600	26 115	22 439	45 413	3 949	12 898	15 069	273

1986*

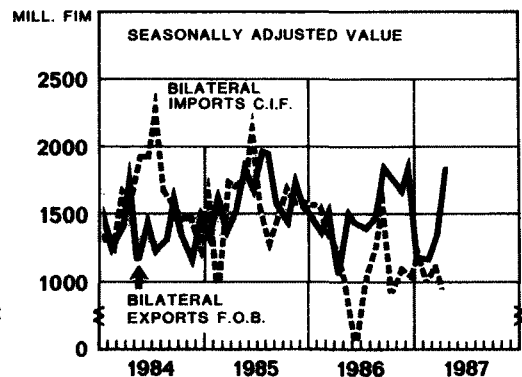
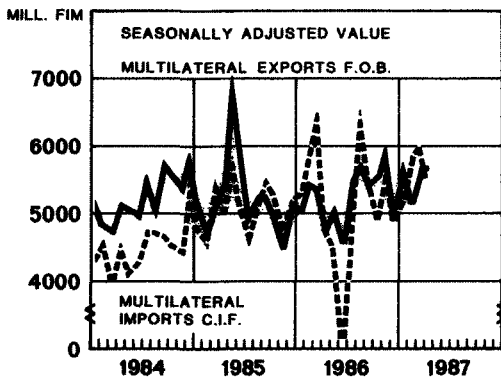
July	263	637	2 308	2 069	1 719	3 730	427	1 228	1 240	6
Aug.	236	545	2 072	1 819	1 799	3 563	421	1 047	1 422	25
Sept.	125	607	2 245	2 726	2 057	4 569	412	1 203	1 483	16
Oct.	154	702	2 444	2 396	2 239	3 771	337	1 123	1 275	94
Nov.	163	755	2 190	2 443	2 051	3 866	314	1 197	1 368	10
Dec.	179	626	1 992	2 964	1 713	3 948	238	1 426	1 181	42

1987*

Jan.	213	584	2 042	2 075	1 803	3 922	304	1 079	1 255	146
Feb.	202	512	2 079	1 825	1 760	3 263	94	928	1 426	22
March	374	619	2 277	2 229	1 866	3 988	236	1 447	1 619	41

Jan.-March

1986*	943	1 491	5 483	5 845	6 262	12 629	1 014	3 116	3 953	-38
1987*	789	1 715	6 399	6 129	5 430	11 173	635	3 453	4 300	210



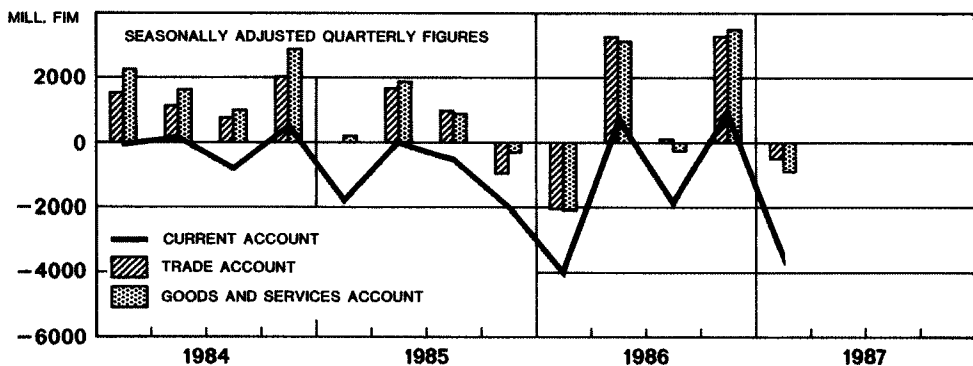
FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January–March				January–March			
	1986*		1987*		1986*		1987*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
OECD countries in Europe	63.4	12 697	66.7	13 645	59.9	12 440	63.7	12 592
Austria	0.9	173	1.0	214	1.2	252	1.3	254
Belgium and Luxembourg	1.8	360	1.7	354	2.2	457	2.6	521
Denmark	5.1	1 015	4.2	867	2.6	541	2.8	545
France	4.6	916	5.6	1 146	4.0	820	5.1	1 008
Federal Republic of Germany	10.2	2 052	10.8	2 212	17.0	3 527	18.2	3 595
Italy	2.2	448	2.6	523	3.9	801	4.4	862
Netherlands	3.7	731	4.1	840	2.9	605	2.9	565
Norway	4.8	964	5.7	1 172	2.7	566	2.3	448
Portugal	0.3	51	0.3	57	0.8	168	1.1	225
Spain	0.9	182	1.2	241	1.3	263	1.2	229
Sweden	15.0	3 005	15.0	3 067	13.0	2 691	12.7	2 519
Switzerland	1.8	366	2.0	418	1.7	361	2.0	399
United Kingdom	10.5	2 111	10.8	2 201	5.9	1 233	6.3	1 251
Other	1.6	323	1.6	333	0.7	155	0.9	171
OECD countries outside Europe	9.5	1 909	9.1	1 858	12.4	2 568	12.9	2 551
Canada	1.2	234	1.2	253	0.4	86	0.4	77
Japan	1.4	276	1.3	265	6.6	1 378	7.3	1 446
United States	5.7	1 144	5.6	1 137	5.0	1 039	5.0	986
Other	1.3	255	1.0	203	0.3	65	0.2	42
CMEA countries	18.8	3 771	15.7	3 214	18.8	3 902	16.2	3 205
Czechoslovakia	0.5	93	0.5	92	0.5	96	0.5	100
German Democratic Republic	0.4	74	0.4	81	0.5	109	0.5	96
Poland	0.3	53	0.3	69	1.1	219	0.7	132
Soviet Union	16.6	3 333	13.9	2 847	16.2	3 354	13.9	2 743
Other	1.1	217	0.6	124	0.6	124	0.7	135
Latin America	1.4	273	1.7	349	2.1	445	1.8	356
Argentina	0.1	18	0.1	22	0.1	16	0.0	9
Brazil	0.2	38	0.4	83	0.7	145	0.4	88
Colombia	0.1	23	0.1	20	0.5	112	0.5	94
Other	1.0	194	1.1	224	0.8	172	0.8	165
Other	6.9	1 374	6.8	1 396	6.7	1 398	5.4	1 067
GRAND TOTAL	100.0	20 024	100.0	20 462	100.0	20 752	100.0	19 771
of which								
EFTA countries	22.6	4 531	24.0	4 904	18.8	3 896	18.5	3 649
EEC countries	40.3	8 071	42.4	8 671	41.1	8 530	45.2	8 930
OECD countries	72.9	14 606	75.8	15 503	72.3	15 008	76.6	15 142

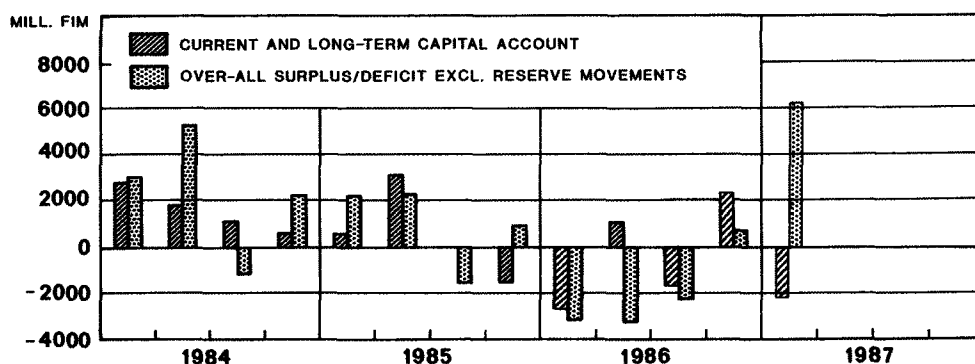
BALANCE OF PAYMENTS

Period	Exports f.o.b.	Imports c.i.f.	Trade account (1-2)	Transport, net	Travel, net	Other services, net	Goods and services account (3 to 6)	Invest- ment income, net	Un- requited transfers, net	Other, net	Current account (7 to 10)
	1	2	3	4	5	6	7	8	9	10	11
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*	83 731	82 025	+1 706	+3 662	-1 771	-558	+3 038	-6 247	-1 096	-395	-4 700
1986*	82 194	78 030	+4 165	+2 939	-2 419	-297	+4 388	-6 954	-1 553	-382	-4 500
1984											
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	20 048	18 982	+1 066	+935	-529	-220	+1 252	-1 781	-349	-146	-1 025
Apr.-June	22 423	21 436	+987	+1 016	-473	-294	+1 237	-1 696	-270	-73	-802
July-Sept.	20 598	19 681	+917	+904	-295	-193	+1 334	-1 255	-219	-77	-217
Oct.-Dec.	20 661	21 926	-1 265	+807	-475	+149	-784	-1 515	-259	-99	-2 657
1986*											
Jan.-March	19 945	20 874	-930	+785	-600	-233	-977	-1 681	-494	-110	-3 263
Apr.-June	18 214	15 976	+2 238	+713	-645	-51	+2 255	-2 064	-326	-86	-220
July-Sept.	21 134	20 890	+244	+827	-513	-117	+440	-1 445	-308	-56	-1 369
Oct.-Dec.	22 902	20 289	+2 612	+615	-661	+105	+2 670	-1 763	-425	-130	+352
1987*											
Jan.-March	20 394	19 905	+489	+650	-811	-213	+116	-1 914	-616	-136	-2 550



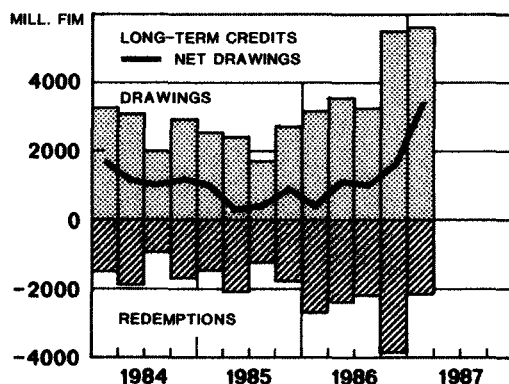
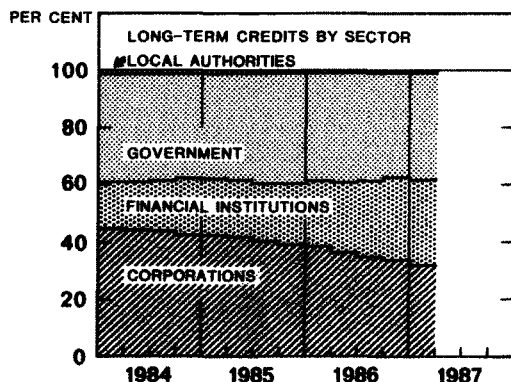
Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net	Long-term capital account (12 to 15)	Current and long-term capital account (11 + 16)	Prepayments and liabilities related to imports	Prepayments and receivables related 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
+10 112	-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	+544	-3 177	+5 267	-984	+3 744	-3 744
+19 319	-13 930	+382	-2 427	+3 344	-1 156	-18	-307	-10 754	+4 305	-7 930	+7 930
+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	+598	+573	-1 122	+2 208	-105	+2 153	-2 153
+3 023	-2 632	+354	+3 139	+3 884	+3 082	+841	-1 460	+1 911	-2 146	+2 228	-2 228
+2 139	-1 557	+263	-626	+219	+2	-47	-270	-1 400	+149	-1 566	+1 566
+3 535	-2 211	+386	-642	+1 068	-1 589	-823	-324	+2 548	+1 118	+930	-930
+3 955	-3 377	+241	-236	+583	-2 680	+1 822	-564	-3 085	+1 345	-3 162	+3 162
+4 434	-2 991	-111	-316	+1 016	+795	-1 172	-657	-2 589	+386	-3 236	+3 236
+4 065	-2 745	+110	-1 679	-249	-1 618	+1 044	+475	-3 349	+1 235	-2 213	+2 213
+6 865	-4 817	+142	-195	+1 995	+2 347	-1 712	+440	-1 731	+1 338	+681	-681
+6 990	-2 736	-257	-3 588	+409	-2 141	+1 678	+826	+5 200	+673	+6 235	-6 235

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

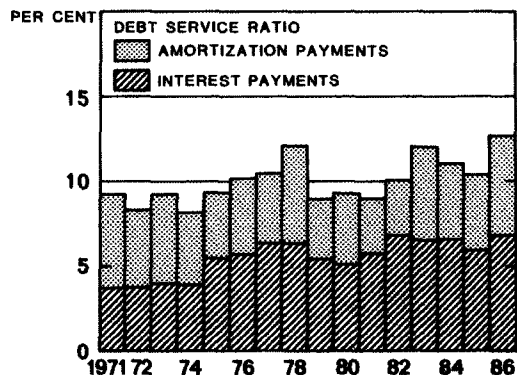
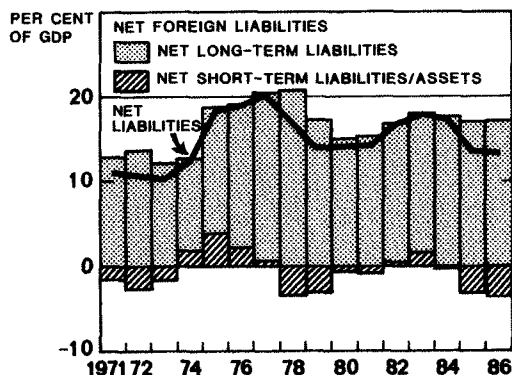


FINLAND'S FOREIGN ASSETS AND LIABILITIES

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
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*	6 539	10 524	2 774	19 837	63 228	2 893	3 274	6 313	895	76 603	56 766
1986*	5 647	13 735	3 225	22 607	68 466	2 072	4 875	6 959	953	83 325	60 718
1984											
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	8 473	9 942	2 061	20 476	64 484	3 651	2 899	2 900	778	74 712	54 236
June	8 027	10 379	2 177	20 583	64 801	3 318	3 058	6 317	873	78 367	57 784
Sept.	7 194	10 484	2 167	19 845	63 385	3 064	3 104	6 210	867	76 630	56 785
Dec.	6 539	10 524	2 774	19 837	63 228	2 893	3 274	6 313	895	76 603	56 766
1986*											
March	6 103	10 702	2 712	19 517	63 570	2 803	3 356	6 407	820	76 956	57 439
June	6 158	11 685	2 784	20 627	66 600	2 546	3 419	7 117	832	80 514	59 887
Sept.	5 865	12 609	3 119	21 593	67 670	2 487	3 685	6 911	906	81 659	60 066
Dec.	5 647	13 735	3 225	22 607	68 466	2 072	4 875	6 959	953	83 325	60 718
1987*											
March	5 654	14 295	5 597	25 546	70 325	1 986	4 974	6 572	1 683	85 540	59 994



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
11 842	29 263	15 915	57 020	5 705	39 443	16 181	61 328	4 308	49 116	11 505	5 535
22 912	43 319	12 804	79 035	4 562	55 695	17 988	78 245	-790	53 232	11 594	4 613
25 183	38 775	18 155	82 113	4 070	51 374	16 103	71 547	-10 565	46 201	11 276	4 808
16 613	54 598	17 881	89 093	3 455	56 881	16 119	76 454	-12 638	48 080	13 356	6 185
20 705	31 935	14 978	67 618	3 775	47 084	16 836	67 694	76	48 481	2 451	1 178
21 064	34 621	14 727	70 411	4 815	47 882	17 431	70 128	-283	51 926	2 223	596
22 912	43 319	12 804	79 035	4 562	55 695	17 988	78 245	-790	53 232	3 387	1 377
24 785	44 984	15 869	85 638	4 535	59 386	18 402	82 323	-3 316	50 920	3 397	1 561
26 208	46 661	18 635	91 504	3 729	62 896	18 772	85 397	-6 106	51 678	2 791	1 039
24 770	44 927	18 183	87 880	4 240	59 370	17 880	81 490	-6 390	50 395	2 320	1 011
25 183	38 775	18 155	82 113	4 070	51 374	16 103	71 547	-10 565	46 201	2 768	1 197
21 647	40 424	18 037	80 109	3 659	50 424	18 682	72 765	-7 343	50 096	3 858	2 126
18 470	45 237	18 213	81 921	3 499	52 647	16 965	73 111	-8 809	51 078	3 288	1 176
16 168	51 541	17 881	85 591	3 565	55 602	18 234	77 401	-8 190	51 876	2 312	837
16 613	54 598	17 881	89 093	3 455	56 881	16 119	76 454	-12 638	48 080	3 897	2 046
22 417	46 066	16 710	85 193	3 456	53 548	18 944	75 947	-9 245	50 749	3 699	1 769



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
1985	1 324	140.5	143.1	132.8	137.5	145.8	142.4	144.3	144.4	142.8
1986	1 264	133.2	139.8	113.1	122.3	145.7	148.0	150.5	153.9	148.2
1986										
Sept.	1 248	131.3	138.0	111.0	118.7	144.7	149.2	150.6	154.1	148.3
Oct.	1 250	131.5	138.5	110.3	119.0	145.0	149.2	152.0	156.2	149.6
Nov.	1 252	131.7	138.7	110.3	119.1	145.1	149.4	152.3	156.2	150.1
Dec.	1 256	131.9	138.8	110.9	119.5	144.9	149.8	152.3	156.2	150.2
1987										
Jan.	1 269	132.9	139.9	111.7	121.0	145.6	149.9	154.0	158.9	151.4
Feb.	1 271	133.2	140.3	111.8	120.9	146.2	151.0	154.3	158.9	151.8
March	1 274	133.3	140.6	111.0	120.6	146.6	151.4	155.8	165.2	151.4
April	1 277	133.7	141.2	110.9	120.7	146.9	152.7	157.2	165.5	153.7

Consumer prices 1981 = 100

Period	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
1985	134.6	139.1	140.3	126.1	130.9	129.7	155.7	130.4	132.5	140.4
1986	139.4	144.2	146.4	131.6	134.5	135.0	164.1	130.7	139.9	149.0
1986										
Sept.	140.2	144.9	147.4	133.0	134.2	136.0	164.4	131.4	142.3	150.3
Oct.	140.7	145.4	147.6	134.3	134.3	136.5	167.1	131.6	142.8	150.7
Nov.	140.6	145.0	147.6	135.0	134.3	136.9	167.1	131.1	143.3	151.0
Dec.	140.8	144.5	147.5	135.2	134.3	137.0	167.1	132.4	143.3	151.1
1987										
Jan.	142.2	145.1	152.9	130.9	134.6	137.7	170.3	135.0	146.3	154.3
Feb.	142.7	145.4	152.9	132.7	134.6	138.0	171.6	135.8	146.5	155.1
March	143.4	146.3	155.2	134.6	134.6	138.7	171.6	137.2	146.8	155.1
April	144.0	147.2	155.5	135.3	134.7	139.4	172.8	138.0	147.8	155.3

WAGES

Index of wage and salary earnings 1980 = 100

Period	By industries			By institutional sectors			All salary earners	All wage earners	All employees	
	Wage earners in			Employees in services	State employees	Municipal employees				Employees in private sector
	Agriculture	Industry	Construction							
1	2	3	4	5	6	7	8	9	10	
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	165.1	158.8	166.7	163.5	164.2	162.2	163.5
1986*	176.3	171.0	179.0	178.2	170.2	180.1	174.5	176.6	172.0	174.9
1986*										
Jan.-March	177.2	166.7	175.5	173.9	167.0	176.1	169.5	171.8	167.9	170.4
Apr.-June	174.7	172.1	174.3	178.4	170.8	180.2	174.4	176.9	171.7	175.0
July-Sept.	172.2	171.5	178.8	179.4	171.4	181.2	175.3	177.8	172.2	175.8
Oct.-Dec.	180.9	173.7	187.4	181.0	171.5	182.9	178.7	179.9	176.0	178.5
1987*										
Jan.-March	184.7	176.8	190.7	185.2	178.2	186.6	181.5	183.7	178.9	182.0

PRODUCTION

Volume indices of production 1980 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communication	Commerce	Public sector services	Others
1984										
Oct.-Dec.	121	122	91	117	140	108	121	119	116	127
1985										
Jan.-March	107	112	74	102	81	94	106	100	117	117
Apr.-June	114	121	77	109	85	113	111	112	117	127
July-Sept.	112	107	175	37	109	114	111	113	118	125
Oct.-Dec.	124	124	83	110	140	116	125	124	120	134
1986*										
Jan.-March	108	109	71	96	80	97	109	103	120	122
Apr.-June	114	121	77	90	71	117	111	118	117	132
July-Sept.	116	110	181	39	111	117	116	119	121	130
Oct.-Dec.	127	129	85	105	139	117	130	126	123	139

PRODUCTION

Index of industrial production 1980 = 100

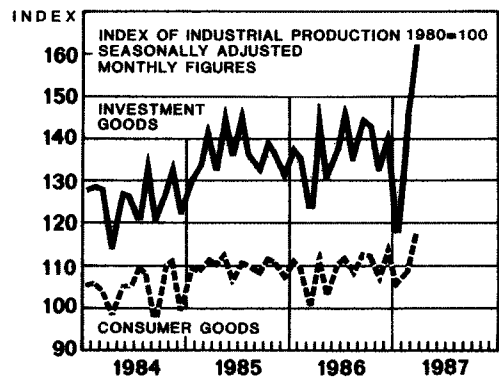
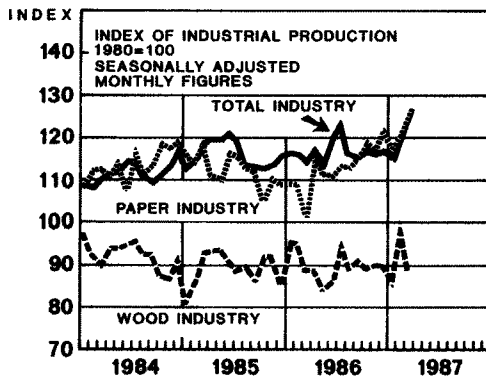
Period	Total	Investment goods	Consumer goods	Other producer goods	Special indices of manufacturing						Total adjusted for seasonal variations
					Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
	1	2	3	4	5	6	7	8	9	10	11
1984	111.8	126.8	105.6	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
1986*	117.1	138.7	110.3	116.2	109.8	90.3	113.6	118.7	103.6	132.9	117.3

1986*

March	107.5	126.4	104.0	105.5	90.7	86.2	95.5	122.3	81.4	120.6	115.0
April	125.6	157.6	117.8	123.4	113.8	115.9	119.2	134.1	98.7	149.1	117.9
May	118.6	159.1	109.7	115.5	103.1	102.4	106.6	122.0	98.3	148.0	114.3
June	118.0	152.6	104.7	118.0	106.3	96.0	101.6	114.5	102.8	141.7	120.5
July	86.1	71.1	75.0	93.8	103.3	45.6	126.1	84.0	71.4	72.1	124.1
Aug.	114.3	124.2	108.4	115.0	107.2	80.3	117.5	123.0	118.4	122.2	116.5
Sept.	125.4	148.4	117.8	124.7	111.4	105.2	115.6	125.7	139.5	145.2	115.7
Oct.	134.6	163.5	128.2	132.2	139.8	107.7	125.3	122.1	140.3	158.7	117.1
Nov.	124.3	144.9	118.7	122.9	129.4	92.4	123.3	126.0	116.0	140.9	116.5
Dec.	116.9	140.3	111.0	115.3	113.7	72.2	117.2	117.9	90.5	135.0	117.3

1987*

Jan.	117.4	124.8	115.5	116.7	99.2	80.9	119.5	119.6	93.8	122.7	115.3
Feb.	115.3	143.2	107.3	113.9	89.6	92.3	115.3	109.5	89.0	131.3	121.4
March	130.1	164.3	118.9	129.1	101.4	98.8	128.2	131.1	106.0	152.9	126.5



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
1985*	3 710	2 600	2 437	163	6.3	43 349	114	110
1986*	3 716	2 612	2 431	182	7.0	38 832	117	115
1986*								
Feb.	3 715	2 540	2 346	194	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	171	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	126	104
Aug.	3 718	2 647	2 481	166	6.3	1 194	116	114
Sept.	3 715	2 600	2 428	172	6.6	2 143	116	126
Oct.	3 716	2 576	2 394	182	7.1	3 100	119	130
Nov.	3 717	2 567	2 392	175	6.8	3 626	110	115
Dec.	3 718	2 572	2 399	173	6.7	3 981	137	126
1987*								
Jan.	3 719	2 510	2 337	173	6.9	3 173	114	103
Feb.	3 718	2 486	2 346	141	5.7	4 912	104	106
March	3 718	2 520	2 376	144	5.7	5 678	..	..

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
1985*	48.17	18.17	6.70	16.53	3.41	44.74	17.40	4.94	15.97	3.35	49.64
1986*	47.77	16.84	6.19	17.18	3.97	39.43	14.92	4.97	13.25	3.44	54.20
1985*											
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	9.24	2.96	1.19	4.06	0.50	8.15	3.53	0.56	2.89	0.67	46.75
Apr.-June	16.94	6.83	2.97	4.89	0.95	5.33	2.26	0.70	1.62	0.39	55.46
July-Sept.	12.77	4.35	1.27	4.79	1.28	11.63	3.89	1.83	3.82	1.27	57.01
Oct.-Dec.	8.82	2.70	0.76	3.44	1.24	14.32	5.24	1.88	4.92	1.11	52.40

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 = call money credits and term credits extended to and certificates of deposit bought from the commercial banks and Postipankki. As from January 1984, the only source of central bank debt was the call money market. Three month term credits were introduced in December 1986 and open market operations in CDs were started in March 1987. Banks' borrowing from the central bank is monitored; a bank exceeding stipulated limits comes under the special surveillance of the central bank. The rate of interest on call money credits is set by the central bank. The 3-month HELBOR is the arithmetic mean of daily inter-bank offered rates for the four biggest commercial banks and Postipankki.

Net central bank debt of the deposit banks = Gross central bank debt of the deposit banks - The commercial banks' and Postipankki's call money and term deposits and their holdings of CDs issued by the Bank of Finland. - 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 September 7, 1984. 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 and major part of a bank's net foreign debt 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 credits and a 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 credits.

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. From the beginning of 1987, all quotations are expressed as FIM per one unit of foreign currency. The Australian dollar (AUD) and the European Currency Unit (XEU) have been added to the list of quoted currencies. The *currency index* is shown as annual and monthly averages 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 M_1 = 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 19-19. 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, excluding repatriations of equity capital (included under direct investment), as from the beginning of 1986 repurchases of shares (included under portfolio investment), and repayments 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.

PRICE INDICES

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

WAGES - PRODUCTION

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

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

LABOUR - TIMBER FELLINGS - INTERNAL TRADE - CONSTRUCTION OF BUILDINGS

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

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

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

SOME PARTICULARS ABOUT FINLAND

FORM OF GOVERNMENT

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

Parliament, comprising 200 members is elected by universal suffrage for a period of 4 years. The number of seats of the different parties in Parliament elected in 1987 is as follows: Social Democratic Party of Finland 56, National Coalition Party 53, Centre Party 40, Democratic League of the People of Finland 16, Finnish Rural Party 9, Swedish People's Party 13, Christian League of Finland 5, The Greens 4 and Democratic alternative 4.

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

INTERNATIONAL ORGANIZATIONS

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

LAND

THE AREA is 338 000 square kilometres (Great Britain's area is 244 000 sq. km and Italy's area 301 000 sq. km). Of the total, inland waters form 9.4 %. Of the land area (1980) 2.5 mill. ha (8.2 %) are cultivated and 19.7 mill. ha (64.6 %) 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 (1985): 4.9 million. Sweden 8.4, Switzerland 6.5, Denmark 5.1, and Norway 4.2 million.

DENSITY OF POPULATION (1985): In South Finland 47.9, 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 (1985): 40 % of the population inhabit the rural areas, 60 % towns. The largest towns are: Helsinki (Helsingfors), the capital, 485 795 inhabitants, Tampere (Tammerfors) 169 026, Turku (Åbo) 161 398.

EMPLOYMENT (1986): 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 (1985): Finnish speaking 93.6 %, Swedish speaking 6.1 %, others 0.3 %.

EDUCATION (1987): 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 (1985): births 12.2 ‰, deaths 9.8 ‰, change + 3.5 ‰, net immigration + 0.6 ‰. Deaths in France 10.1 ‰ and Great Britain 11.8 ‰.

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 (1984). 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 52.3 million m³.

AGRICULTURE (1984). Cultivated land 2.4 million hectares. Number of holdings 203 933 of which 143 931 are of more than 5 ha. Measure of self-sufficiency in bread cereals 93 %.

INDUSTRY (1984). Gross value of industrial production FIM 244 745 mill., number of workers 390 301, salaried employees 147 608, motive power 8.7 mill. kW. Index of industrial production 111.8 for 1984 (1980 = 100).

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

MERCHANT FLEET (March 31, 1987): Passenger vessels 166 (262 450 gross reg. tons), tankers 30 (487 476 gross reg. tons), dry cargo vessels 121 (393 062 gross reg. tons), other vessels 109 (41 321 gross reg. tons), total 426 (1 184 309 gross reg. tons).

AUTOMOBILES (Dec. 31, 1986): Passenger cars 1 619 848, lorries and vans 187 465, buses 9 166, other automobiles 12 470, total 1 828 949.

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 20.4, DEM 19.3, GBP 14.3, USD 9.0, other currencies 37.0. The permissible range of fluctuation is about 2.25 per cent on either side of the theoretical arithmetic mean. The fluctuation limits are 106.0 and 101.3.

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

OTHER CREDIT INSTITUTIONS (Dec. 31, 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, Postipankki and three development credit institutions. The co-operative stores accept deposits from their members. The Social Insurance Institution and 48 private insurance companies also grant credits.

RATES OF INTEREST (May 19, 1986). The Bank of Finland's base rate is 7 %. The interest rates for domestic lending other than bank financing by the Bank of Finland vary between 4 ½ % and 9 ½ %. Other credit institutions: time deposits 2 ½ %, 6 month deposits 4 %, 12 month deposits 5 ½ %, 24 month deposits 7 %.

FIXED EXCHANGE RATE POLICY IN FINLAND

by Johnny Åkerholm, Head of Department
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For most of the postwar period, Finland has sought to pursue a fixed exchange rate policy. Accordingly, following the breakdown of the international fixed exchange rate system in the early 1970s, Finland implemented various institutional arrangements to enable the continuation of this policy. With the suspension of convertibility of the US dollar into gold in 1971, Finland pegged to the dollar. In mid-1973, this arrangement became unsatisfactory because of marked fluctuations in international exchange rates and in the value of the markka against major European currencies. As a result, the markka ceased to be officially pegged. In practice, however, the Bank of Finland calculated different kinds of currency baskets, which were used as a basis for the guidance of intervention policy.

In November 1977, this basket concept was incorporated in the law, which was amended to correspond to the conditions prevailing in the post-Bretton Woods period. Thus, Finland has, during the last decade, had an exchange rate regime which institutionally is rather similar to the international system of fixed exchange rates in force during the Bretton Woods era, with the difference that a currency basket has replaced the US dollar as the target for the peg.

But the economic environment has changed substantially during the last few years. In particular, financial markets have developed rapidly and capital flows have become much more flexible and volatile.

In the following, the major characteristics of the present institutional framework are described. Then some comparisons of the currency baskets in use in Finland, Norway and Sweden are presented. Movements in the

external value of the Finnish markka are assessed in terms of different weighting schemes and the rationale behind the official basket is discussed. Finally, the role of fixed exchange rate policy in a world with increasing flexibility in capital flows is considered.

PRESENT INSTITUTIONAL FRAMEWORK¹

The institutional framework is laid down in the second paragraph of the Currency Act, according to which the Government determines, on the proposal of the Bank Supervisors delegated by Parliament, both the basis for calculating the currency index and its fluctuation limits. In the event of a change in the fluctuation range, the Government can either accept or reject the proposal but not alter or delay it. The Bank of Finland is required to intervene in the foreign exchange market in order to keep the index within the fluctuation limits.

The weights in the basket are determined on the basis of the structure of Finland's merchandise trade in convertible currencies. A prerequisite for a country to be included in the index is that its trade share has been not less than one per cent during each of the preceding three full calendar years. For a currency to be included it must be quoted in Helsinki; in other cases the currency which is normally used in that trade is used to reflect the weight of the country in question. The weights are calculated on the basis of two-year moving averages. Thus, in practice, they are altered every time new quarterly trade figures become available and at the turn of the year because of the chain principle used in computing the weights.

¹ A more detailed description of the evolution of the system since 1977 and the technical arrangements relating to it are presented in the back article of the February 1984 issue of the Bulletin.

PRESENT BASKET

The present weights have been in force since April 1, 1987. As can be seen from Table 1, the basket currently contains 12 currencies. The Swedish krona has the largest individual weight, making up more than one fifth of the basket. The share of the Deutschemark is almost as large, just under 20 per cent. Indeed, the currencies participating in the European Monetary System (EMS) account for almost 43 per cent of the currencies. If allowance is made for the fact that the Swiss franc has, in practice, closely followed the EMS currencies, the effective weight of the EMS currency area is more than 45 per cent.

TABLE 1. WEIGHTS IN THE BANK OF FINLAND CURRENCY INDEX AS FROM APRIL 1, 1987

Country	Currency	Weight (per cent)
United States	USD	9.0
United Kingdom	GBP	14.3
Sweden	SEK	20.4
Norway	NOK	5.2
Denmark	DKK	5.2
Fed. Rep. of Germany	DEM	19.3
Netherlands	NLG	4.9
Belgium	BEC	2.9
Switzerland	CHF	2.5
France	FRF	6.2
Italy	ITL	4.4
Japan	JPY	5.7

dollar and the SEK-basket also the Spanish peseta. The NOK-basket assigns a somewhat higher weight to the French franc and the Canadian dollar than do the other weighting schemes, while the SEK-basket allocates a relatively modest share to the Japanese yen. As in the case of the markka, the Norwegian and Swedish currencies are also closely tied to the EMS-area; the direct weights of the EMS-currencies are 44.0 and 40.5 per cent, respectively.

TABLE 2. CURRENCY BASKETS IN FINLAND, NORWAY AND SWEDEN, WEIGHTS IN PER CENT

Currency	FIM-basket	NOK-basket	SEK-basket
FIM	—	3.0	6.5
NOK	5.2	—	9.2
SEK	20.4	15.0	—
DKK	5.2	6.8	7.8
DEM	19.3	17.7	15.6
NLG	4.9	4.6	4.7
BEC	2.9	2.4	3.6
FRF	6.2	9.2	5.2
ITL	4.4	3.3	3.6
USD	9.0	11.0	22.8
GBP	14.3	14.7	12.2
CHF	2.5	1.2	2.0
JPY	5.7	6.0	3.1
ATS	—	1.5	1.3
ESP	—	—	1.3
CAD	—	3.6	1.1
EMS-currencies	42.9	44.0	40.5
EMS-currencies + ATS + CHF	45.4	46.7	43.8

THE FIM-BASKET IN A NORDIC PERSPECTIVE

Of the Nordic countries, Norway and Sweden apply the same kind of trade-weighted baskets as Finland, while Denmark is a member of the EMS. Given the similar approach to exchange rate policy in Finland, Norway and Sweden, it might be useful to compare the baskets applied by these countries.

Sweden has doubled the trade weight of the US dollar because of that currency's importance in international trade and financial markets. In other respects, however, the baskets closely resemble each other (Table 2). In addition to the currencies included in the FIM-basket, the NOK- and SEK-baskets include the Austrian schilling and the Canadian

The currency baskets applied by these three Nordic countries resemble each other even more closely, if allowance is made for the interactive effects arising from the fact that the respective currencies have fairly large shares in the other baskets. Given the fixed exchange rate target in these three countries, the FIM, SEK and NOK can be eliminated and the baskets calculated on the basis of the "out-side" currencies included in the baskets.

Such an exercise shows that the difference in the effective weight of the US dollar is markedly reduced (Table 3). The European currencies still dominate the baskets and the differences in currency composition are rather modest. The share of the European currencies is largest in the FIM-basket; the EMS-currencies have a weight of more than 55 per cent and, if

the close relationship between the EMS-currencies and the Swiss franc and Austrian schilling is taken into account, the weight of the "European currency area" rises to almost 60 per cent. Even in the SEK-basket, in which the influence of the EMS is weakest, the share of the EMS currency area and the currencies closely associated with it is around 50 per cent.

TABLE 3. THE CURRENCY BASKETS OF THE FIM, SEK AND NOK CALCULATED ON THE BASIS OF "OUTSIDE" CURRENCIES, WEIGHTS IN PER CENT

Currency	FIM-basket	NOK-basket	SEK-basket
DKK	7.5	8.4	9.1
DEM	24.3	21.3	19.1
NLG	6.3	5.6	5.6
BEC	3.9	3.1	4.1
FRF	8.1	10.5	6.7
ITL	5.5	4.1	4.3
USD	14.9	15.1	25.1
GBP	18.3	17.5	15.0
CHF	3.1	1.7	2.4
JPY	6.9	6.8	4.2
ATS	0.4	1.7	1.5
ESP	0.3	0.2	1.3
CAD	0.5	3.9	1.5
EMS-currencies	55.6	53.7	48.9
EMS-currencies + ATS + CHF	59.1	57.1	52.8

Except for the large influence of the US dollar on the Swedish krona, the FIM, NOK and SEK are related to the more "freely floating" currencies or currency blocks in rather similar ways (Table 4).

TABLE 4. THE DEPENDENCE OF THE FIM, NOK AND SEK ON "FLOATING" CURRENCIES OR CURRENCY AREAS, WEIGHTS IN PER CENT

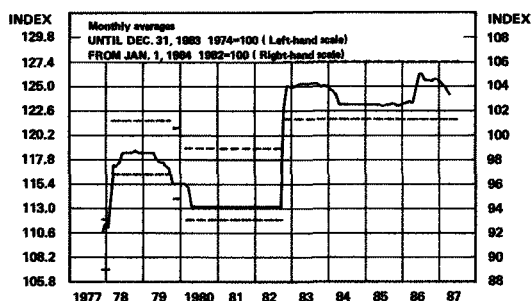
Currency or currency area	FIM-basket	NOK-basket	SEK-basket
USD	14.9	15.1	25.1
GBP	18.3	17.5	15.0
JPY	6.9	6.8	4.2
CAD	0.5	3.9	1.5
ESP	0.3	0.2	1.3
EMS-currencies + ATS + CHF	59.1	57.1	52.8

MOVEMENTS IN THE EXTERNAL VALUE OF THE FINNISH MARKKA

By international standards, the external value of the Finnish markka has been rather stable during the last ten years. Since the revision of

the Currency Act ten years ago, the markka has been officially both devalued and revalued (i.e. the Government has changed the fluctuation limits) twice (Chart 1). Altogether, the markka has weakened by some 12 per cent against the official currency basket. The index has been kept very stable for prolonged periods.

CHART 1. THE CURRENCY INDEX AND THE FLUCTUATION LIMITS, MONTHLY AVERAGES



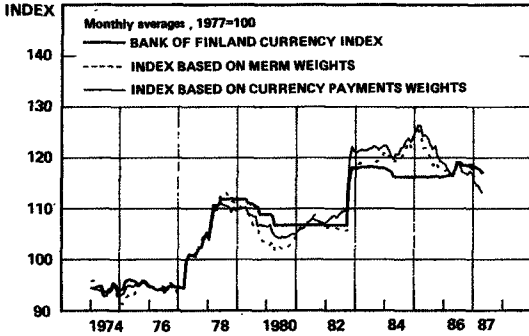
There are, of course, a number of alternative ways of assessing movements in nominal effective exchange rates. As can be seen from Chart 2, if the external value of the markka is calculated on the basis of payments currency weights or MERM-weights, the fluctuations in the external value become more pronounced. In particular, it can be noted that, according to these indices, the external value of the markka weakened clearly in 1983–84, whereas it has strengthened continually during the last 2 to 2 1/2 years. These differences in the movement of the markka as measured by different baskets are almost exclusively due to developments in the US dollar, to which the alternative indices assign a larger weight.²

However, it seems that even if international exchange rates have changed greatly over prolonged periods and different weighting schemes give a different picture of these movements, the differences have not been lasting. Over the entire period of more than a decade depicted in Chart 2, the different weighting schemes give a very similar picture

² See the Appendix for a definition of the baskets used.

of movements in the external value of the markka.

CHART 2. THE EXTERNAL VALUE OF THE FINNISH MARKKA, MONTHLY AVERAGES, 1977 = 100



THE CURRENCY COMPOSITION OF THE BASKET AND POLICY AIMS

Clearly, baskets can be constructed with very different policy aims in mind. For example, the MERM-basket is constructed with the explicit target of keeping the trade account in balance. If the objective is to minimize short-term currency gains and losses arising from international exchange rate fluctuations, then the relevant index is one based on currencies actually used in payments.

In Finland, as in Norway and Sweden, the international competitive position of the economy has been the chief consideration when choosing the currency composition of the basket. The rationale behind this has been that, by maintaining, on average, a stable foreign exchange relationship vis-à-vis the most important trading partners, the competitive environment would remain as stable as possible.

There are, however, a number of factors which prevent a trade-weighted basket from achieving this objective, at least in the short run. In particular, import and export products are not homogeneous and the competitive position does not necessarily remain stable for all producers at the same time. In certain sectors, the

international price level may be heavily dependent on one or two currencies, or producers from only one or two countries may be market leaders. Producers in such industries may then experience large fluctuations in their international competitive position, even if the trade-weighted currency index is kept stable. If such products occupy a significant position in overall exports and imports, the economy as a whole is vulnerable to, at least short-term, changes in its competitive position when the relationships between international currencies change.

Moreover, a trade-weighted index only takes into account bilateral competition between producers in the respective countries but not third-country competition. There are, for example, many sectors in Finland whose major markets are on the Continent of Europe, but which face their toughest competition from other Scandinavian producers. An assessment of currency relationships only on the Continent does not therefore necessarily give a proper picture of the actual competitive position, if there are large exchange rate changes in the Scandinavian countries.

Last but not least, the indices are calculated on the basis of nominal values. This does not take into account differences in the rate of inflation between countries, and therefore substantial changes in the real exchange rate and thus the competitive position are possible if both the currency composition of the basket and the index are kept stable.

Nevertheless, trade-weighted baskets are usually preferable for official use, even if stabilization of the competitive position is the policy target. The basic concept is simple and straightforward, and it is much easier to understand than the alternatives, which are often theoretically more sophisticated and elegant. Also, the data is readily available and usually highly reliable.

Furthermore, there now exists a whole range of different instruments which can be used to reduce short-term exchange rate risks. Utiliza-

tion of these also helps to stabilize the competitive position, irrespective of the index, against short-term fluctuations in the international currency markets and to also eliminate short-term losses (and gains). In addition, risks arising from prolonged exchange rate misalignments in the international markets can be substantially reduced through sophisticated portfolio management, something in which producers have become increasingly adept during the last decade.

THE ROLE OF THE BASKET AND THE CURRENCY COMPOSITION OF THE BASKET WITH FLEXIBLE CAPITAL FLOWS

It is relevant to relate exchange rate policy primarily to competitive factors only if the exchange rate can be treated as an independent instrument in the economic policy tool box. With increasing flexibility in capital flows this becomes increasingly difficult, however; the time-span during which the central bank can make a choice between external and internal targets is constantly shortening. In these circumstances, the exchange rate target tends more and more to assume the role of an operational intermediate target for monetary policy, in the same way as monetary growth or interest rates are often used as intermediate targets in countries which do not set explicit exchange rate targets.

For a small open economy, the fixed exchange rate target thus implies that monetary policy has to adjust to monetary policy in the countries whose currencies are included in the basket. While this change in the short-term role of the fixed exchange rate does not discredit a basket based on trade weights, the choice of basket has to be based on a wider range of factors than before. The anchor for monetary policy is preferably chosen in the light of the country's own policy targets. The chosen external constraint on policy should also give a clear indication to the other agents in the economy concerning the implications and at the same time it should allow monetary

policy to operate under as stable circumstances as possible.

EXCHANGE RATE RISKS AND THE FLEXIBILITY OF CAPITAL FLOWS

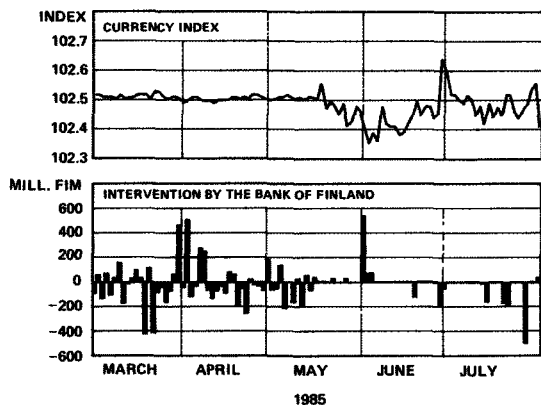
In conditions where controls on capital flows are being abolished or are becoming less effective, only the existence of different risk factors can provide the central bank with some scope for influencing domestic interest rates in the short run. The greater the number of currencies included in the basket, the more difficult and costly it is for market participants to completely eliminate exchange rate risks, even if the domestic exchange rate is known with certainty to be stable against the basket.

An additional source of uncertainty arises if the central bank allows short-term fluctuations in the index itself. As can be seen from Chart 1, the Bank of Finland succeeded in keeping the index very stable for a period of 2 1/2 years in 1980–1982 and again for more than a year in 1984–1985. Initially, this did not cause any problems in the market, but with time, as the market and arbitrage became more efficient, short-term capital flows increased substantially. As a result, the Bank of Finland had to intervene on a continuing basis in the market – often on both sides during the same day – in order to keep the index stable and at the target level.

An important change occurred in May 1985 when the Bank of Finland started to tolerate larger daily fluctuations in the index. As Chart 3 shows, although intervention became much less frequent, volatility in the exchange rate did not increase significantly; in the initial period, daily quotations stayed within a band of some 0.2 per cent. In theory at least, this modest increase in volatility in the exchange rate allowed more short-term stability in capital flows and interest rates.

However, the market seems to have still perceived the exchange rate as basically very stable, also within the band. Hence, the shift

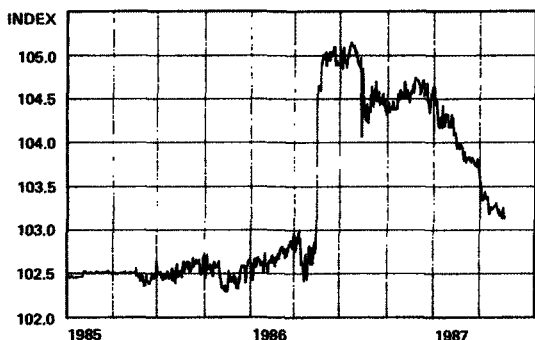
CHART 3. THE CURRENCY INDEX AND MARKET INTERVENTION, DAILY VALUES



in the intervention point in May 1986 was widely misinterpreted. Although the official fluctuation limits remained unchanged and the index was merely adjusted within the band, the market apparently interpreted the move as indicating at least the possibility of a major policy change. The shift in the intervention point therefore gave rise in some quarters to expectations of further changes, and pressures against the markka intensified during the summer months. These pressures abated only after lengthy period of high interest rates in the late summer and autumn of 1986.

On the other hand, this appears to have been a useful "learning period" for the market. During the first months of this year, market forces have been allowed a greater role in influencing the exchange rate than in the past, and the markka has strengthened modestly against the basket (Chart 4).

CHART 4. THE BANK OF FINLAND CURRENCY INDEX, DAILY VALUES



It is evident that the increased flexibility of capital flows and the change in the short-term role of the exchange rate constitutes something of a potential dilemma for central bank policy. On the one hand, when the exchange rate assumes the role of an intermediate policy target the exchange rate signals the central bank's basic policy intentions to the market. As the experience from 1986 shows, it is important in these circumstances for the central bank to keep the market convinced of its commitment to the chosen policy stance and of the underlying stability of the exchange rate.

If, on the other hand, the central bank wants to allow itself, at least in the short run, some room for manoeuvre and/or stability in interest rates, some fluctuation in the exchange rate becomes necessary. As was also clearly demonstrated in 1986, such variation, even within officially recognized fluctuation limits, may give rise to misinterpretations concerning the basic policy stance. The simultaneous maintenance of a fixed exchange rate policy and the existence of short-term fluctuations in the index might be a difficult, but not necessarily an impossible, task to pursue. It nevertheless remains true that the successful achievement of this goal requires confidence on the part of the markets in the central bank and, more generally, in the overall soundness of economic policy.

APPENDIX

THE MERM-INDEX AND THE PAYMENTS CURRENCY INDEX

Both indices are calculated using the same Divisia-Törnqvist formula (geometrical mean) as is used in the computation of the official index.

In the case of the MERM-index, the weights are fixed 1977 weights and computed on the basis of the IMF-world trade model.³ In this

³ Source: ARTUS and McGUIRK, 1981, A Revised Version of the Multilateral Exchange Rate Model, IMF Staff Papers, vol. 28, pp. 275-309.

model, the weights are calculated with the aim of stabilizing the trade account, and hence the model also allows for price elasticities. The weights used are:

Currency	MERM-weights
USD	27.9
GBP	3.2
SEK	9.7
NOK	3.6
DKK	1.5
DEM	14.0
NLG	1.6
BEC	2.0
CHF	1.4
FRF	7.2
ITL	5.2
JPY	15.9
CAD	4.9
ATS	1.9

The payments currency index is based on statistics produced at the Bank of Finland. The weighting scheme has typically been changed quarterly. The most recent weights are from January 1, 1987.

Currency	Payments currency weights
USD	28.0
GBP	11.4
SEK	16.2
NOK	3.0
DKK	2.7
DEM	22.4
NLG	3.5
BEC	1.6
CHF	2.6
FRF	4.5
ITL	2.0
JPY	2.2

MONETARY AND FOREIGN EXCHANGE POLICY MEASURES FROM AUGUST 1986 TO JUNE 1987

1986

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 credits Per cent	Rate on call money deposits 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 credits 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 credits Per cent	Rate on call money deposits Per cent
October 2	12.0	11.0
October 16	11.8	10.8

The decision of the Parliamentary Bank Supervisors on the temporary removal of the upper limit on the call money lending rate expires on October 21, 1986. From that date, the upper limit on the call money lending rate is again the base rate plus 15 percentage points.

Investment reserves. On October 23, 1986, the Council of State decides to release, as from April 1, 1986, investment reserves made for accounting periods ending in 1984 for use in the Greater Helsinki area. The utilization period is to expire on December 31, 1987.

In the same context, the Council of State decides to raise the special investment allowance from 3 to 6 per cent outside the Greater Helsinki area. The increased allowance can be applied to investment reserves to be used during accounting periods ending between November 1, 1986 and December 31, 1987.

Change in the cash reserve agreement. Samuel Montagu Osakepankki starts operations in Finland at the beginning of October, and on October 17, 1986 it joins the cash reserve agreement between the Bank of Finland and the banks.

November

Changes in the terms of central bank financing. As from the beginning of November, the Bank of Finland grants Samuel Montagu Osakepankki the same rights to central bank financing and to participation in the call money market as the other commercial banks. After Bank of Helsinki Ltd ceases operations as an independent bank and is merged with Union Bank of Finland Ltd at the beginning of November, the Bank of Finland cancels the rights of Bank of Helsinki Ltd to central bank financing and to participation in the call money market with effect from November 1, 1986.

Lending rates. On November 28, 1986, the Bank of Finland decides that henceforth lending rates applied in short- (up to 1 year) and medium-term (between 1 and 5 years) loan agreements may be linked to a reference rate which reflects the cost of unregulated short-term funding. The introduction of a reference rate requires the prior approval of the Bank of Finland.

Banks are still required to link lending rates on all housing loans and on all long-term loans of more than five years to the Bank of Finland's base rate or to charge fixed rates of interest on such loans. In addition, banks may continue to apply these interest rates to short- and medium-term credits. Similarly, they may continue to link lending rates on short-term credits to the call money rate.

December

Terms of central bank financing. On December 1, 1986, the Bank of Finland introduces a system under which the banks may, in addition to call money credit, also obtain central bank financing in the form of longer-term credits at fixed rates of interest. Initially, only three-month credits are to be granted and the quantity of credit and the rate of interest charged are to be determined on the basis of banks' requests for credit within the framework of the targets set for central bank financing by the Bank of Finland. The upper limit on the rate of interest applied to fixed-rate term loans extended by the central bank is the same as that on the call money lending rate, i.e. the base rate plus 15 percentage points.

For the present, the Bank of Finland does not undertake to accept longer-term deposits at fixed rates.

Call money market. The Bank of Finland lowers the call money deposit rate from 10.8 to 9.0 per cent as from December 1 and raises the rate on call money credits from 11.8 to 11.9 per cent as from December 2 and further to 12.0 per cent as from December 9.

Credits for the financing of domestic suppliers' deliveries. The rate of interest applied to credits for the financing of domestic suppliers' deliveries is raised by one percentage point to the equivalent of the base rate plus 2.0 percentage points as from December 10, 1986. The Bank of Finland's share in the financing

of domestic suppliers' deliveries is raised from 30 per cent to 40 per cent for the period from December 10, 1986 to December 31, 1987. At the same time, it is decided to again permit the use of credits for the financing of domestic suppliers' deliveries in the financing of sawmill investments.

1987

January

Financing of short-term export credits. As from the beginning of 1987, the Bank of Finland restricts the financing of short-term export credits to concern export companies the turnover of which does not exceed FIM 200 million.

New-export credits. As from the beginning of 1987, the Bank of Finland restricts the use of new-export credits so that the duration of a new-export credit extended to a company cannot exceed five years from the drawing of the first credit instalment. The rate of interest collected by the Bank of Finland from banks for new-export credits is raised to the same level as that applied to the financing of short-term export credits, i.e. the Bank of Finland's base rate.

Cash reserve agreement. The Bank of Finland and the banks agree on the revision of the cash reserve agreement as from January 1, 1987 so that certificates of deposit and certain long-term foreign credits intermediated by banks are no longer subject to the cash reserve requirement.

Amendments to Foreign Exchange Regulations. As from January 1, 1987, the Bank of Finland grants the Labour Savings Bank of Finland the status of an authorized bank.

Call money market. The Bank of Finland lowers the rate on call money credits from 12.0 to 11.9 per cent as from January 26.

February

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

Effective as from	Rate on call money credits	Rate on call money deposits
	Per cent	Per cent
February 2	11.8	9.0 (unchanged)
February 13	11.7	8.5
February 20	11.6	8.0

Term deposits. With effect from February 4, 1987, the Bank of Finland allows the banks entitled to central bank financing to make bids for three-month fixed-rate deposits with the Bank of Finland. This arrangement is to operate alongside the existing arrangement for three-month central bank credits.

March

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

Effective as from	Rate on call money credits	Rate on call money deposits
	Per cent	Per cent
March 5	11.5	7.5
March 17	11.4	7.5

Banks' central bank financing. On March 17, 1987, the Bank of Finland complements the system of monetary control by introducing dealings in certificates of deposit with banks on an experimental basis alongside term credits and term assets. At the same time, the use of call money credits is limited as from March 30, 1987. With effect from that date, each bank may daily resort to call money credit only up to an amount corresponding to 7.5 per cent of the total amount of its equity capital and cash reserve deposits. A penalty rate of interest is to be charged on credit exceeding the limit.

April

Call money market. The Bank of Finland lowers the call money credit rate from 11.4 to 11.2 per cent as from April 2 and further to 11.0 per cent as from April 29.

May

Interest rate policy. As from the beginning of May, the Bank of Finland reduces the restrictions on the use of money market rates as reference rates for bank loans. Besides the base rate, the banks may, without special approval, use some other Bank of Finland rate, the official money market rate used in market transactions or some derivative of these rates as reference rates for all lending except housing loans.

As from May 1, the Bank of Finland begins to publish daily 1, 2, 3, 6, and 12-month HELIBOR (Helsinki Interbank Offered Rate) rates, which the banks may henceforth use as reference rates in their lending. HELIBOR rates are the average bid rates for each category of certificate of deposit as quoted by the five largest banks each day at 1 p.m.

June

Revisions to the Foreign Exchange Regulations. The Bank of Finland decides on certain

revisions to the Foreign Exchange Regulations that enter into force on June 15, 1987.

With certain exceptions, it is allowed to make direct investments abroad without obtaining the advance permission of the Bank of Finland up to the value of FIM 30 million. It is, however, necessary to provide the authorized bank with the data required by the Bank of Finland.

In payments of suppliers' credits for imports, credit periods exceeding six months are allowed without the special permission of the Bank of Finland up to the maximum amount of FIM 100 000.

The processing of applications for permission in respect of recreational dwellings abroad is transferred to the authorized banks. The upper limit of FIM 600 000 permitted for a purchase is not amended in this context, and for purchases exceeding this amount, the Bank of Finland grants permission on a case-by-case basis.

Investments in foreign publicly quoted securities are allowed up to the maximum amount of FIM 50 000.

Details of other minor changes and revisions to the Foreign Exchange Regulations are to be released when new pages of the Foreign Exchange Regulations are published.

ITEMS

Finland's balance of payments January–March 1987. According to the Bank of Finland's preliminary figures, the current account showed a deficit of FIM 2 550 million in January–March this year. The net inflow of long-term capital amounted to FIM 409 million and the net inflow of short-term capital to FIM 8 376 million. Consequently, the Bank of Finland's foreign exchange reserves increased by FIM 6 235 million. During the corresponding period of 1986, the current account had shown a deficit of FIM 3 263 million.

Current account. Compiled on a balance-of-payments (SNA) basis, the trade account registered a surplus of FIM 489 million in January–March, compared with a surplus of FIM 930 million in the first quarter of 1986. Commodity exports grew by 2 per cent in value and by 1 per cent in volume. Export volumes grew by 12 per cent in the forest industries and by 15 per cent in the basic metals industries, but fell by more than 15 per cent in the chemical industry and the textile, clothing and footwear industries. Import prices were 7 per cent lower than in the corresponding period last year and, as a result, the value of commodity imports declined by 5 per cent. Imports of raw materials and intermediate goods fell slightly compared with January–March of 1986. Import volumes of fuels and lubricants went up by 11 per cent and those of investment goods by 7 per cent.

The deficit on the services account amounted to FIM 373 million in January–March, which was FIM 300 million more than in the corresponding period last year. The surplus on the transport account decreased from FIM 785 million to FIM 650 million. Travel receipts grew by 3 per cent and travel expenditure by 20 per cent, giving rise to a deficit of FIM 811 million on the travel account. In the first quarter of the previous year, the travel account had shown a deficit of FIM 600 million. The "other services account" posted a deficit of FIM 213 million.

Interest payments on foreign loans amounted to FIM 3 647 million. With interest income on foreign assets of FIM 1 734 million, the investment account showed a deficit of FIM 1 914 million. This was FIM 233 million more than in the corresponding period last year. The unrequited transfers account registered a deficit of FIM 136 million.

Capital account. Drawings of long-term loans amounted to FIM 6 990 million in January–March, which was FIM 3 billion more than in the corresponding period last year. The central government accounted for FIM 2 745 million of the drawings. Redemptions of long-term loans totalled FIM 2 736 million. Drawings of long-term export credits granted to foreign customers reached FIM 545 million and redemptions of outstanding exports credits FIM 288 million. Finnish net direct investment abroad totalled FIM 902 million and net foreign direct investment in Finland FIM 113 million. The total net inflow of long-term capital amounted to FIM 409 million, which was about FIM 200 million less than in the corresponding period last year.

The inflow of short-term capital (incl. errors and omissions) totalled FIM 8 376 million in January–March. Short-term liabilities related to imports grew by an estimated FIM 1 678 million, while net prepayments and receivables related to exports fell by FIM 826 million. The net short-term liability of the authorized banks increased by FIM 5 200 million.

The foreign exchange reserves of the Bank of Finland grew by FIM 6 235 million in January–March. The convertible foreign exchange reserves increased by FIM 7 020 million, while tied currency claims declined by FIM 785 million. The fall in tied currency claims was due to the special account arrangement agreed between the Bank of Finland and the Foreign Trade Bank of the Soviet Union. In the balance of payments, the special account has

been included under other long-term claims. At the end of March, the convertible foreign exchange reserves of the Bank of Finland totalled FIM 17 281 million and tied currency claims FIM 2 537 million.

At the end of March, Finland's net foreign debt totalled FIM 49 669 million, of which the central government accounted for FIM 25 379 million. The net long-term debt amounted to 58 914 million and net short-term claims to FIM 9 245 million.

Board of Management of the Bank of Finland. The Bank Supervisors delegated by Parliament have granted leave of absence to Mr. Harri Holkeri, Member of the Board of Management, as from April 30, 1987, for the period during which he is Prime Minister of the current Government. Messrs. Seppo Lindblom and Esko Ollila, who held ministerial posts in the last Government, have resumed their duties as Members of the Board of Management as from May 1, 1987.

**MAJOR BALANCE OF PAYMENTS ITEMS
JANUARY—MARCH 1987, MILLION FIM¹**

	Receipts	Expenditure	Net
Trade (exports f.o.b., imports c.i.f.)	20 459	19 783	676
Adjustment items	-65	122	-187
Trade account	20 394	19 905	489
Transport (c.i.f.)	1 170	519	650
Travel	580	1 391	-811
Other services	1 152	1 365	-213
Services account	2 902	3 276	-373
GOODS AND SERVICES ACCOUNT	23 297	23 181	116
Investment income, net	1 734	3 647	-1 914
Unrequited transfers	132	749	-616
Other	882	1 018	-136
A. CURRENT ACCOUNT	26 045	28 595	-2 550
	Change in assets	Change in liabilities	Net
Long-term financial loans and suppliers' credits: ²			
drawings	-545	6 990	6 445
redemptions	288	-2 736	-2 448
Direct investment	-902	113	-789
Other long-term capital	-2 491	-308	-2 799
B. LONG-TERM CAPITAL ACCOUNT	-3 650	4 059	409
BASIC BALANCE (A + B)			-2 141
Prepayments and liabilities related to imports			1 678
Prepayments and receivables related to exports	787	39	826
Short-term capital of authorized banks			5 200
Other short-term capital			1 573
Errors and omissions			-900
C. SHORT-TERM CAPITAL ACCOUNT			8 376
D. ALLOCATIONS OF SDRs OVERALL BALANCE (A + B + C + D)			6 235
Change in the foreign exchange reserves of the Bank of Finland			-6 235
Assets: increase -, decrease +			
Liabilities: increase +, decrease -			

¹ Preliminary figures.

² Assets include export credits only.

(continued from page 2)

Changes in direct taxes and public prices and charges included in the central government budget raised the consumer price index by one percentage point in 1986; the corresponding effect in 1985 was slightly smaller. A tightening in the taxation of non-industrial energy use accounted for 0.5 percentage point of the total impact of these tax measures. In 1987, fiscal measures are expected to raise the consumer price index by 0.6 percentage point.

The slight acceleration in the 12-month change in the consumer price index in the initial months of the current year was partly due to seasonal factors but also to the fact that the factors lowering prices at the beginning of last year were no longer reflected in the index. Assuming no significant change in the trend of import prices, consumer price inflation in Finland is likely to remain at between 3.5 and 4.0 per cent during the current year. The index clause included in the incomes agreements provides for compensatory wage increases, should the consumer price index rise by more

than 3.4 per cent between December 1986 and December 1987.

Most pay agreements are due to expire in February 1988. Given the carry-over effects from previous agreements, the agreed shortening in working hours, the likelihood that wage drift will remain approximately unchanged and the pressures for raising social security contributions, hourly labour costs are estimated to rise by more than 5 per cent next year, irrespective of new wage increases. Competitiveness and employment considerations will provide little room for pay increases next year. On the other hand, real wages and salaries are forecast to grow, even without new pay increases. Rather, a greater threat to wage moderation seems likely to be posed by nominal wage competition between trade unions, including compensatory claims arising from differences in wage developments during the current agreements.

May 26, 1987

BANK OF FINLAND

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Chairman

Pentti Uusivirta

Ele Alenius

Harri Holkeri

*Absent as
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Seppo Lindblom

Esko Ollila

Markku Puntila

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Directors

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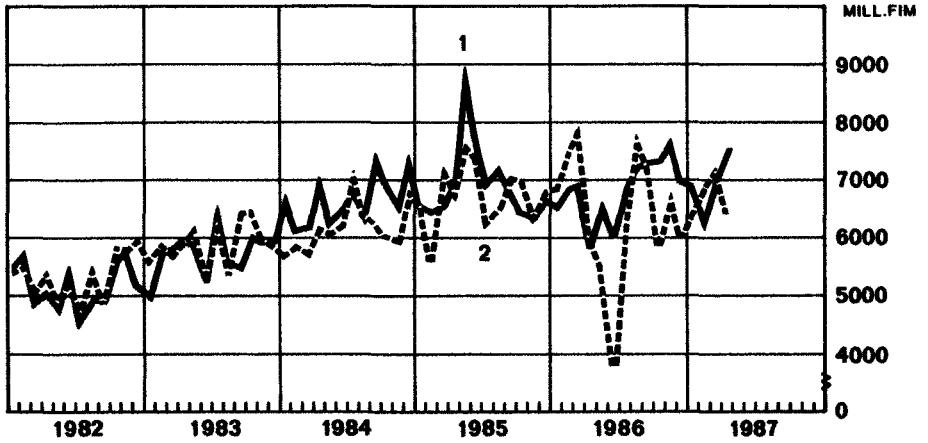
Foreign Exchange

Kaarlo V. Jännäri

Acting Head, Foreign Financing

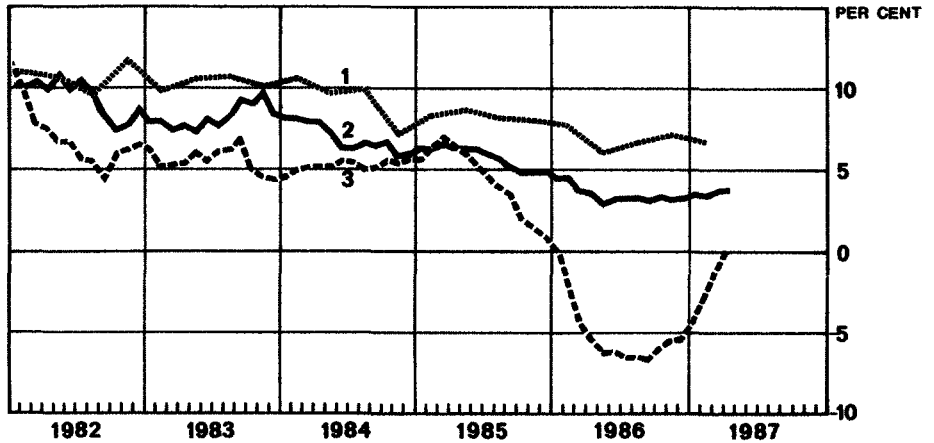
FOREIGN TRADE, 1982-87

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



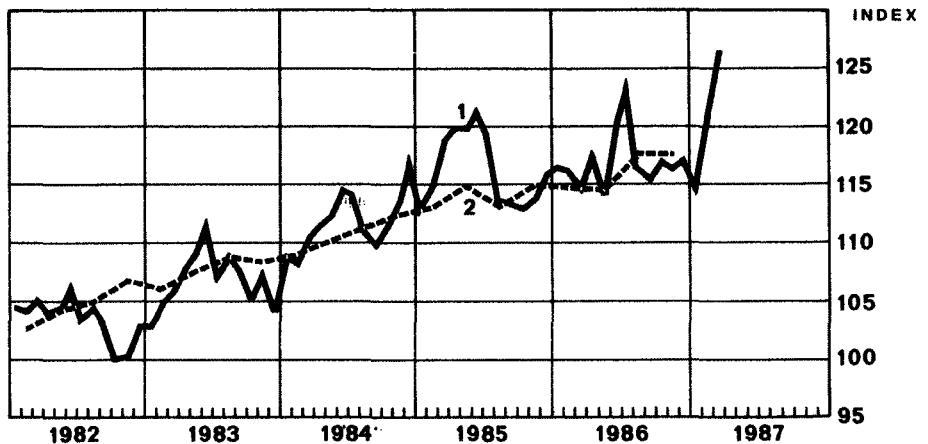
PRICES AND WAGES, 1982-87

- 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, 1982-87

- 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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