



# BANK OF FINLAND

*Monthly Bulletin*

Towards a more market-orientated  
monetary policy in Finland

Recent developments in financial  
markets and monetary policy

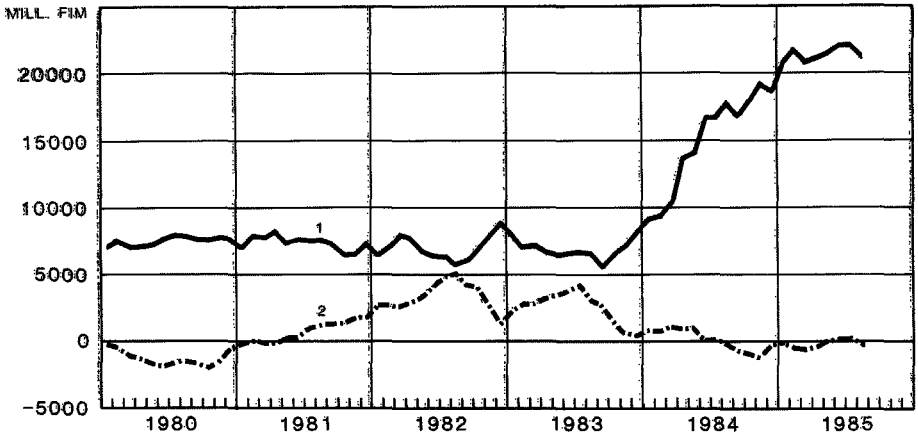
Monetary and foreign exchange  
policy measures from October 1984  
to September 1985

Finland's balance of payments  
January—June 1985

SEPTEMBER 1985

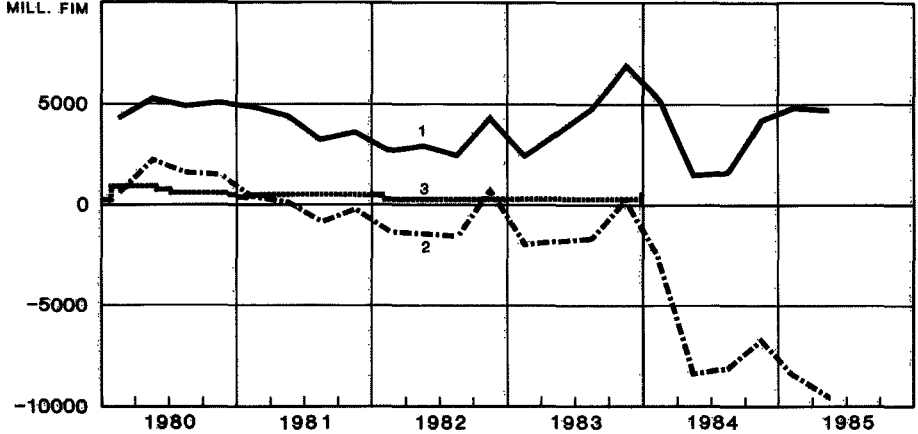
Vol. 59 No. 9

**BANK OF FINLAND'S CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, 1980-85**



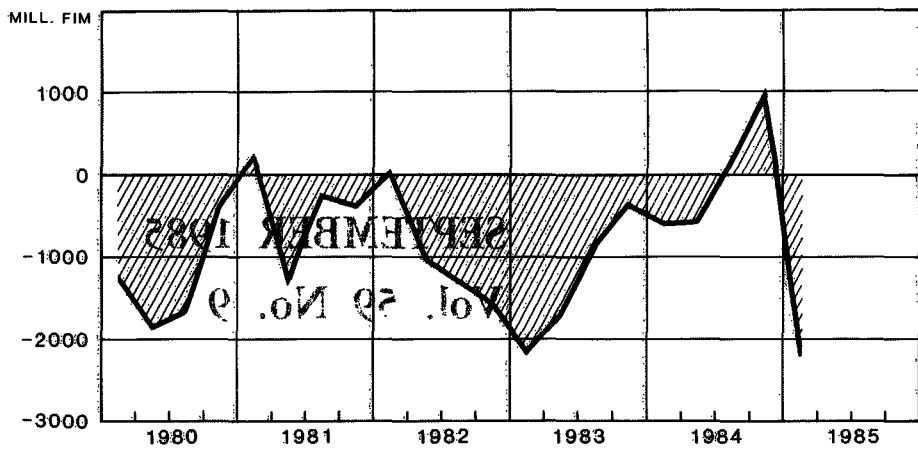
- 1. Gold and convertible currencies
- 2. Tied currencies

**DEPOSIT BANKS' CENTRAL BANK POSITION, 1980-85**



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

**BALANCE OF PAYMENTS CURRENT ACCOUNT SURPLUS/DEFICIT, 1980-85**



Seasonally adjusted quarterly figures

# TOWARDS A MORE MARKET-ORIENTATED MONETARY POLICY IN FINLAND

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The Bank of Finland has, for some time, taken a favourable attitude towards the development of more market-orientated financial markets and monetary policy. Indeed, the past few years have seen the implementation of several measures involving active deregulation. As a result, interest rates have assumed greater importance as an element of monetary control. However, the development is primarily a matter of a process which was set in motion and has been sustained by forces which first appeared in the markets in the 1970s. Despite rapid structural change, the functioning of the financial system in Finland, as in other countries, has maintained many of its traditional features.

## MONETARY CONTROL: THE TRADITIONAL SYSTEM

Throughout the entire post-war period, the banks' lending rates have more or less been strictly regulated by the Bank of Finland. This was a condition for the central banks' policy of low interest rates, which was supported by tax exemption of households' bank deposits. This entailed a system which was characterized by bank domination in financial intermediation and credit rationing. In these circumstances, the main aim of monetary policy was to regulate the terms of the banks' central bank financing so as to limit their scope for credit expansion. The major instruments of this policy were various kinds of borrowing quotas and penalty interest rates on central bank finance. By requiring the banks to deposit a proportion of their stock of deposits with the Bank of Finland as cash reserve deposits, the central bank ensured practical applicability of its monetary policy instruments. The changes in the base rate (formerly the discount rate) have been small and it has generally been low in relation to inflation.

The activities of the other financial institutions have been subject to control by the authorities in one way or another, or else the need for control has been minimal. Moreover, the foreign exchange regulations have, under normal conditions, provided a good means of limiting capital flows between countries. Tax rules and bond issue controls have had a restraining effect on the development of the capital market.

On the basis of the experiences gained from monetary policy as it has traditionally been pursued, it can be noted in its favour that credit rationing tended to strengthen the link between developments in credit and investment. On the other hand, this type of monetary policy had many weaknesses.

Monetary policy was primarily based on measures which sought to directly influence the banks' interest margins, and hence their profitability. This direct link between monetary policy measures and banks' profitability could in certain situations make it difficult for the Bank of Finland to take strong action, since the central bank is also under obligation to ensure that stability is maintained in the financial markets.

Probably an even more important factor complicating and delaying decisions than this basic conflict between central bank goals was the direct control of the positions of individual banks (e.g., in the form of bank-specific quotas for central bank finance).

Furthermore, methods of monetary control were vulnerable to external factors. Substantial currency inflows in times of an export boom increased banks' liquidity, reducing the need for and thus the cost of central bank debt. It would have been necessary to complement

monetary policy with other methods of control so that the inflow of liquidity could have been sterilized efficiently. In their absence, the system of escalating penalty rates tended to have a destabilizing effect.

Credit rationing by banks and other forms of quantitative regulation do not guarantee an efficient allocation of financial resources, even if credit institutions are forced to spend more on company and investment analyses than would otherwise be the case.

Finally, any allocation of strict quotas involves a certain degree of arbitrariness, which is always open to criticism.

## DEREGULATION

The major factors contributing to rapid structural change in the financial markets are the same in Finland as in other countries: high inflation, slow growth, increased volatility in and uncertainty about foreign exchange rates, the internationalization of business and banking, and technological developments which have radically facilitated and lowered the costs of data collection and processing.

Contributing to the expansion of the unregulated money market were measures which had been designed for other purposes. In 1975, the Bank of Finland established the call money market to enable banks to even out differences in their liquidity positions. With the daily quotation of the call money rate, it became a reference rate for the financial markets. Towards the end of the 1970s, the prerequisites for the traditional system of monetary control were enhanced by the tightening of lending-rate regulations and the introduction of the cash reserve requirement.

In fact, it was not until the 1980s that the Bank of Finland started to implement measures involving active deregulation or otherwise supporting trends towards greater market-orientation.

In keeping with the changing environment, the authorities have taken a liberal attitude to-

wards the internationalization of the banking sector. Finnish banks expanded their operations abroad in the form of subsidiaries in the 1970s, and the first Finnish-owned branch was established in 1984. The establishment of foreign-owned banks in Finland has been permitted since 1982.<sup>1</sup>

In the early 1980s, the banks were granted the right to accept deposits and raise credits in foreign exchange in connection with forward deals. These new opportunities to carry on forward transactions, together with the internationalization of business and banking, led to more general interest rate awareness and an increase in both the scale and volatility of capital flows. Thus the scope for efficient regulation of capital flows was rapidly reduced.

In 1982, a new credit instrument was introduced in the unregulated credit market when the banks obtained the right to issue certificates of deposit (CDs). These certificates have not, however, had any significant effect on developments in the financial markets, partly because some restrictions have been imposed on the right of issue and partly because banks have other instruments at their disposal for funding at unregulated rates.

Undoubtedly, the most important monetary policy measure was the Bank of Finland's decision to relax the regulation of the banks' average lending rates.<sup>2</sup>

## MONETARY CONTROL TODAY

It should be pointed out that the banks' dominant position in financial intermediation is virtually unchanged. There is nothing to suggest that direct financial transactions between companies have increased. The development and diversification of the financial markets

(Continued on page 35)

<sup>1</sup> See the front article in the October 1984 issue of the Bulletin.

<sup>2</sup> See p. 27 in the back article of this Bulletin.

	1984		1985			
	Aug. 31	Dec. 31	Aug. 8	Aug. 15	Aug. 23	Aug. 30
<b>Assets</b>						
Gold and foreign currency claims	18 221	19 302	22 131	21 532	21 476	21 783
Gold	1 383	1 732	1 732	1 732	1 732	1 732
Special drawing rights	835	936	942	932	938	941
IMF reserve tranche	757	859	826	817	813	795
Convertible currencies	14 990	15 387	18 327	17 802	17 751	18 062
Tied currencies	256	388	304	249	242	253
Other foreign claims	3 424	2 835	2 821	2 821	2 821	2 841
Markka subscription to Finland's IMF quota	2 726	2 835	2 821	2 821	2 821	2 841
Term credits	698	—	—	—	—	—
Claims on financial institutions	4 446	9 166	9 464	10 632	9 552	8 936
Banks' cheque accounts	18	530	71	38	11	52
Call money market advances	1 149	5 018	5 865	7 136	6 208	5 553
Till-money credits	1 108	1 563	1 546	1 497	1 379	1 371
Bonds	2 130	1 999	1 939	1 939	1 933	1 938
Other claims on financial institutions	41	56	43	22	21	22
Claims on the public sector	2 080	1 951	1 576	1 581	1 573	1 575
Government promissory notes	1 000	1 000	560	560	560	560
Bonds	302	124	150	150	144	145
Total coinage	769	806	866	868	869	870
Other claims on the public sector	9	21	0	3	—	—
Claims on corporations	4 701	4 846	4 901	4 883	4 894	4 896
Financing of exports	1 695	1 786	1 694	1 685	1 687	1 693
Financing of domestic deliveries	2 740	2 860	3 032	3 035	3 045	3 041
Bonds	148	114	97	85	85	85
Other claims on corporations	118	86	78	78	77	77
Other assets	110	142	144	145	144	145
<b>Total</b>	<b>32 982</b>	<b>38 242</b>	<b>41 037</b>	<b>41 594</b>	<b>40 460</b>	<b>40 176</b>
<b>Liabilities</b>						
Foreign currency liabilities	674	809	47	124	266	442
Convertible accounts	43	84	47	40	32	30
Tied currencies	631	725	—	84	234	412
Other foreign liabilities	3 605	3 752	3 705	3 695	3 691	3 714
IMF markka accounts	2 726	2 835	2 821	2 821	2 821	2 841
Allocations of special drawing rights	879	917	884	874	870	873
Notes and coin in circulation	6 776	7 442	7 367	7 331	7 295	7 342
Notes	6 135	6 744	6 638	6 602	6 567	6 614
Coin	641	698	729	729	728	728
Liabilities to financial institutions	10 930	11 879	15 190	14 548	13 253	15 368
Banks' cheque accounts	13	147	98	36	39	0
Call money market deposits	4 109	2 216	4 458	3 894	2 591	4 692
Cash reserve deposits	6 670	8 696	9 878	9 878	9 878	9 928
Capital import deposits	59	745	666	654	653	656
Other liabilities to financial institutions	79	75	90	86	92	92
Liabilities to the public sector	1 230	4 277	2 959	4 359	4 359	1 558
Cheque accounts	1	1	1	1	1	0
Government deposit account	1 200	4 200	2 900	4 300	4 300	1 500
Export deposits	29	76	58	58	58	58
Capital import deposits	—	—	—	—	—	—
Other liabilities to the public sector	0	0	0	0	0	0
Liabilities to corporations	3 019	2 814	4 410	4 261	4 187	4 202
Deposits for investment and ship purchase	1 863	2 127	3 751	3 751	3 753	3 771
Capital import deposits	1 151	668	655	506	431	427
Other liabilities to corporations	5	19	4	4	3	4
Other liabilities	16	16	22	15	65	16
Valuation account and reserves	1 354	963	989	913	996	1 185
SITRA's capital	400	400	400	400	400	400
Capital accounts	4 978	5 890	5 948	5 948	5 948	5 949
Primary capital	3 000	5 000	5 000	5 000	5 000	5 000
Reserve fund	1 638	638	764	764	764	764
Undisposed profits	273	—	126	126	126	126
Net earnings	67	252	58	58	58	59
<b>Total</b>	<b>32 982</b>	<b>38 242</b>	<b>41 037</b>	<b>41 594</b>	<b>40 460</b>	<b>40 176</b>

End of year or month	Foreign sector						Public sector			
	Gold, SDRs, IMF reserve tranche	Convertible currencies, net	Total convertible reserves (1+2)	Tied currencies, net	Other claims, net	Net claims (3 to 5)	Claims	Certificates of deposit and deposit account	Other liabilities	Net liabilities (8-7+9)
	1	2	3	4	5	6	7	8	9	10
1981	2 408	5 050	7 458	1 909	-991	8 376	1 236	1 600	578	942
1982	2 444	6 561	9 005	1 525	-1 447	9 083	1 040	1 700	50	710
1983	2 360	5 835	8 195	550	-794	7 951	2 178	3 000	0	822
1984	3 527	15 303	18 830	-337	-917	17 576	1 951	4 200	77	2 326
1984										
Aug.	2 975	14 947	17 922	-375	-181	17 366	2 080	1 200	30	-850
Sept.	3 009	13 991	17 000	-836	-910	15 254	2 039	1 500	38	-501
Oct.	3 019	15 013	18 032	-1 025	-915	16 092	1 998	1 500	52	-446
Nov.	3 095	16 237	19 332	-1 342	-905	17 085	2 000	2 200	65	265
Dec.	3 527	15 303	18 830	-337	-917	17 576	1 951	4 200	77	2 326
1985										
Jan.	3 542	17 438	20 980	-34	-924	20 022	1 952	1 200	85	-667
Feb.	3 631	18 254	21 885	-368	-965	20 552	1 958	2 800	93	935
March	3 540	17 366	20 906	-502	-910	19 494	2 021	1 400	100	-521
April	3 565	17 639	21 204	-321	-917	19 966	1 808	1 000	510	-298
May	3 537	18 128	21 665	62	-907	20 820	1 819	1 100	100	-619
June	3 547	18 743	22 290	253	-901	21 642	1 817	800	58	-959
July	3 498	18 842	22 340	269	-889	21 720	1 580	1 600	58	78
Aug.	3 468	18 032	21 500	-159	-873	20 468	1 575	1 500	58	-17

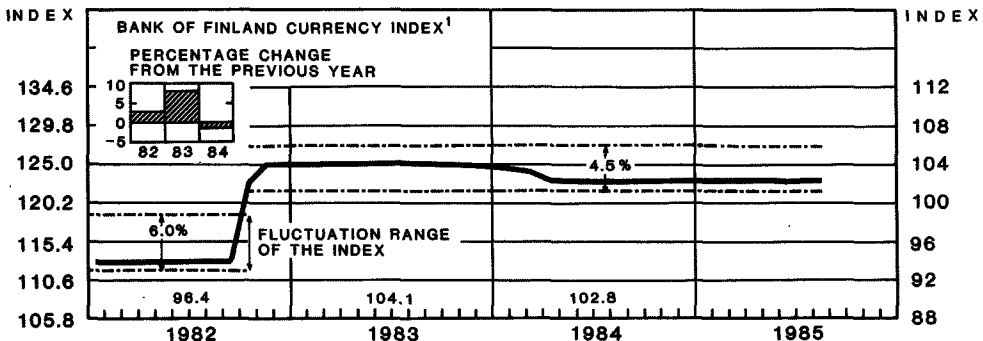
## OFFICIAL FOREIGN EXCHANGE RESERVES

Mill. FIM

	Dec. 31, 1984	May 31, 1985	June 28, 1985	July 31, 1985	Aug. 30, 1985
Gold	1 732	1 732	1 732	1 732	1 732
SDRs	936	963	960	934	941
IMF reserve tranche	859	842	855	832	795
Convertible currencies, net	15 303	18 128	18 743	18 842	18 032
Total convertible reserves, net	18 830	21 665	22 290	22 340	21 500
Tied currencies, net	-337	62	253	269	-159
Total reserves, net	18 493	21 727	22 543	22 609	21 341

End of year or month	Domestic financial sector							Corporate sector			Notes and coin in circulation
	Till-money credits	Claims on cheque accounts, net	Demand for call money by deposit banks	Supply of call money by deposit banks	Cash reserve deposits	Other liabilities, net	Net claims (1+2+3-4-5-6)	Permanent special financing schemes	Liabilities, net	Net claims (8-9)	
	1	2	3	4	5	6	7	8	9	10	11
1981	768	495	1 796	1 080	2 492	-406	-107	3 865	749	3 116	5 595
1982	889	163	3 126	1 470	3 132	-1 042	618	4 302	999	3 303	6 062
1983	942	443	5 785	610	5 039	-1 555	3 076	4 529	1 282	3 247	6 574
1984	1 563	383	5 018	2 216	8 696	-1 235	-2 713	4 646	2 614	2 032	7 442
1984											
Aug.	1 108	5	1 149	4 109	6 670	-2 033	-6 484	4 435	2 753	1 682	6 776
Sept.	1 145	27	2 109	2 281	6 734	-2 081	-3 653	4 545	2 834	1 711	6 869
Oct.	1 276	68	3 045	3 658	7 385	-1 816	-4 838	4 710	2 684	2 026	6 698
Nov.	1 170	22	4 819	4 153	8 029	-1 263	-4 908	4 735	2 602	2 133	6 897
Dec.	1 563	383	5 018	2 216	8 696	-1 235	-2 713	4 646	2 614	2 032	7 442
1985											
Jan.	1 382	110	2 868	5 738	8 799	-1 245	-8 932	4 765	2 632	2 133	6 881
Feb.	1 364	26	4 816	5 184	9 241	-1 197	-7 022	4 729	2 921	1 808	6 929
March	1 273	1	4 599	5 335	9 452	-1 173	-7 741	4 751	3 085	1 666	6 972
April	1 435	29	4 558	5 199	9 502	-1 170	-7 509	4 684	3 243	1 441	7 173
May	1 373	47	3 611	4 785	9 577	-1 175	-8 156	4 744	3 237	1 507	7 322
June	1 384	0	3 845	5 120	9 686	-1 163	-8 414	4 754	3 899	855	7 553
July	1 533	64	4 391	4 981	9 878	-1 203	-7 668	4 758	4 223	535	7 376
Aug.	1 371	52	5 553	4 692	9 928	-1 212	-6 432	4 734	4 040	694	7 342

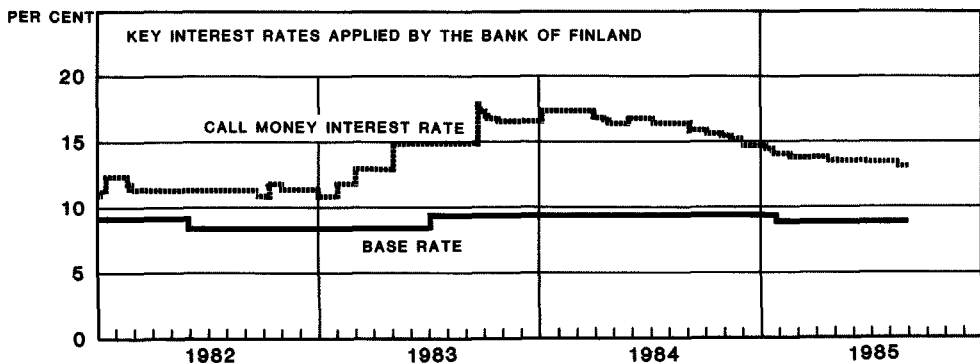
<sup>1</sup> The left-hand scale depicts movements in the external value of the markka under the index in use until December 31, 1983 (1974 = 100), and the right-hand scale movements in the external value of the markka under the revised index introduced on January 1, 1984 (1982 = 100).



# MONETARY POLICY INDICATORS

Average for period	Gross central bank debt of the deposit banks mill. FIM	Net central bank debt of the deposit banks mill. FIM	Cash reserve deposits of the deposit banks mill. FIM	Cash reserve requirement %	Call money credit extended by the Bank of Finland	Call money interest rate %	Average cost of gross central bank debt %	Base rate %	Average lending rate of the commercial banks <sup>1</sup> %
	1	2	3	4	5	6	7	8	9
1980	4 971	1 560	2 542	3.8	3 313	12.38	12.37	9.20	9.77
1981	4 095	-33	2 795	3.5	2 161	11.48	11.61	9.25	9.84
1982	3 201	-783	2 777	3.1	1 571	11.64	11.98	8.81	9.33
1983	4 539	-1 213	4 345	4.3	2 724	15.37	15.13	9.00	9.56
1984	3 176	-6 365	6 325	5.4	-39	16.53	16.53	9.50	10.49
1984									
June	1 175	-9 062	6 429	5.6	-2 633	16.80	16.80	9.50	10.50
July	1 463	-7 680	6 481	5.6	-1 199	16.53	16.51	9.50	10.50
Aug.	1 462	-8 136	6 598	5.6	-1 538	16.50	16.50	9.50	10.51
Sept.	2 127	-8 186	6 672	5.6	-1 515	16.10	16.04	9.50	10.56
Oct.	2 948	-6 801	6 755	5.6	-46	15.75	15.76	9.50	10.55
Nov.	4 181	-6 888	7 410	5.6	522	15.48	15.48	9.50	10.63
Dec.	5 650	-5 999	8 051	5.6	2 052	15.07	15.07	9.50	10.68
1985									
Jan.	4 713	-7 902	8 700	5.6	798	14.57	14.61	9.50	10.69
Feb.	4 414	-9 319	8 815	5.6	-504	14.18	14.18	9.00	10.30
March	5 727	-8 143	9 261	5.6	1 119	14.00	14.00	9.00	10.36
April	5 483	-8 901	9 453	5.6	552	13.96	13.96	9.00	10.38
May	4 691	-9 267	9 504	5.6	236	13.80	13.80	9.00	10.37
June	4 337	-10 150	9 588	5.6	-562	13.77	13.77	9.00	10.37
July	5 444	-8 711	9 695	5.6	984	13.60	13.60	9.00	10.40
Aug.	6 153	-7 843	9 881	5.6	2 038	13.43	13.43	9.00	..

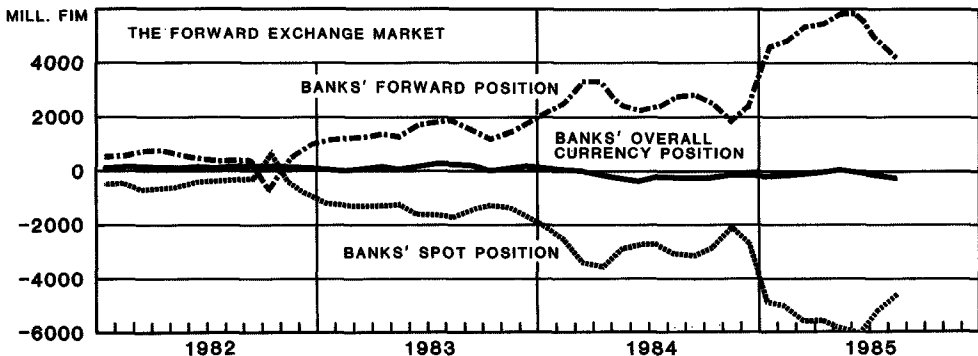
<sup>1</sup> End of period.





# FORWARD EXCHANGE MARKETS IN FINLAND

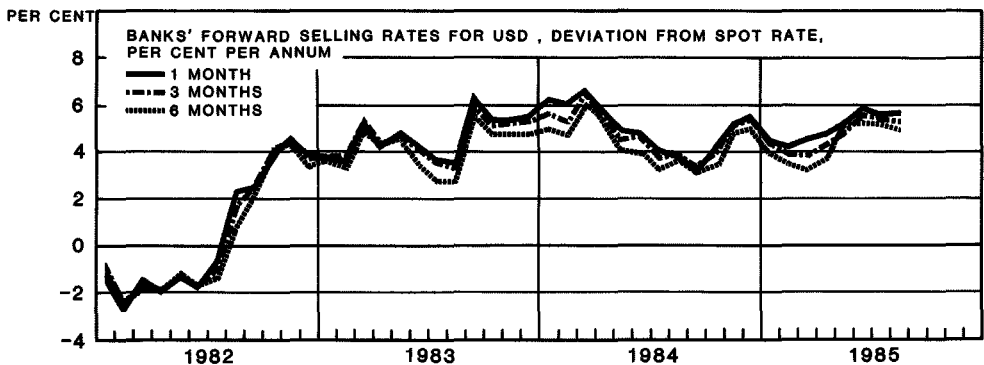
Period	Banks' forward positions in mill. FIM with						Banks' forward selling rates for USD		
	Domestic firms			Foreign banks	Bank of Finland	Overall	Deviation from spot rate, per cent per annum		
	Assets	Liabilities	Net	Net	Net	Net	1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
1983	7 541	1 227	6 314	-1 688	-2 290	2 373	5.6	5.3	4.8
1984	22 921	1 394	21 527	2 002	-19 962	3 746	5.6	5.5	5.1
1984									
March	10 052	1 611	8 441	-1 676	-3 560	3 173	6.7	6.6	6.2
April	11 249	1 326	9 923	-841	-5 109	3 846	5.8	5.7	5.5
May	13 528	1 156	12 372	178	-10 041	2 529	4.9	4.5	4.1
June	15 547	1 145	14 402	1 389	-12 667	3 083	4.8	4.7	4.0
July	15 956	1 306	14 650	1 541	-13 011	3 240	4.1	3.9	3.3
Aug.	20 049	1 354	18 695	2 557	-17 217	4 089	3.8	4.0	3.7
Sept.	20 548	1 679	18 869	2 406	-18 362	3 056	3.2	3.4	3.2
Oct.	22 267	1 741	20 526	1 914	-19 419	3 138	4.2	4.0	3.5
Nov.	22 383	1 786	20 597	1 790	-20 139	2 460	5.2	5.2	4.9
Dec.	22 921	1 394	21 527	2 002	-19 962	3 746	5.6	5.5	5.1
1985									
Jan.	23 207	1 450	21 757	2 949	-19 394	5 420	4.5	4.4	4.1
Feb.	22 602	1 592	21 010	2 971	-18 333	5 186	4.3	4.0	3.6
March	23 343	2 246	21 097	1 048	-16 848	5 575	4.6	4.0	3.3
April	22 987	2 218	20 769	1 640	-16 768	5 752	4.8	4.3	3.8
May	22 085	2 316	19 769	1 708	-15 704	5 865	5.3	4.9	4.5
June	21 221	2 259	18 962	1 941	-15 352	5 478	6.0	5.7	5.4
July	19 534	2 250	17 284	2 418	-14 224	5 558	5.7	5.6	5.3



# FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange, FIM

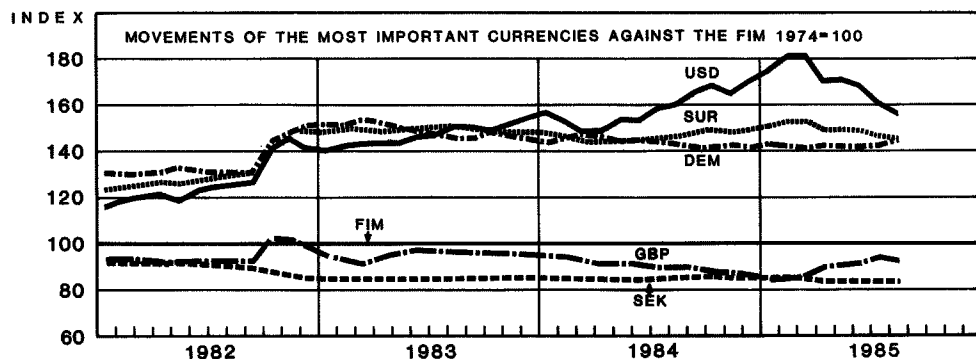
Period	New York 1 US \$ USD	Montreal 1 C \$ CAD	London 1 £ GBP	Dublin 1 Ir£ IEP	Stockholm 100 Skr SEK	Oslo 100 Nkr NOK	Copenhagen 100 Dkr DKK	Frankfurt 100 DM DEM	Amsterdam 100 Hfl NLG	Brussels 100 FB BEC BEL	
	1	2	3	4	5	6	7	8	9	10	11
1980	3.730	3.194	8.691	7.689	88.43	75.81	66.53	205.58	188.02	12.818	12.635
1981	4.315	3.602	8.731	6.976	85.74	75.54	60.96	191.31	173.43	11.688	11.095
1982	4.820	3.913	8.423	6.854	77.03	74.84	57.93	198.76	180.66	10.584	9.859
1983	5.570	4.524	8.456	6.957	72.75	76.44	61.07	218.61	195.66	10.934	10.742
1984	6.010	4.645	8.023	6.533	72.77	73.84	58.16	211.65	187.72	10.428	10.274
1984											
July	6.019	4.550	7.962	6.501	72.64	73.48	57.92	211.78	187.65	10.454	10.355
Aug.	6.072	4.661	7.987	6.502	72.78	73.27	57.78	210.61	186.72	10.433	10.336
Sept.	6.278	4.787	7.919	6.451	73.36	73.05	57.40	208.01	184.46	10.320	10.236
Oct.	6.378	4.842	7.793	6.455	73.57	72.06	57.61	208.14	184.61	10.294	10.206
Nov.	6.261	4.762	7.792	6.507	73.13	72.08	58.07	209.79	186.02	10.400	10.346
Dec.	6.458	4.896	7.686	6.512	73.07	72.10	58.16	208.46	184.72	10.379	10.341
1985											
Jan.	6.640	5.023	7.510	6.548	73.38	72.53	58.75	209.90	185.81	10.489	10.455
Feb.	6.853	5.078	7.525	6.496	73.69	72.64	58.28	208.47	184.09	10.385	10.342
March	6.861	4.962	7.688	6.486	72.97	72.56	58.11	207.80	183.82	10.341	10.286
April	6.445	4.732	8.028	6.562	72.05	72.52	58.32	209.55	185.32	10.405	10.354
May	6.477	4.716	8.091	6.533	72.14	72.47	58.00	208.44	184.60	10.365	10.319
June	6.371	4.665	8.172	6.535	72.10	72.40	58.06	208.37	184.78	10.347	10.298
July	6.099	4.516	8.402	6.570	71.95	72.29	58.26	209.37	185.97	10.398	10.316
Aug.	5.942	4.387	8.253	6.653	71.70	72.30	58.93	213.31	189.63	10.547	10.425



## Average selling rates for foreign exchange. FIM

Zurich 100 Sfr CHF	Paris 100 FF FRF	Rome 100 Lit ITL	Vienna 100 OS ATS	Lisbon 100 Esc PTE	Reykjavik 100 lkr ISK	Madrid 100 Ptas ESB	Tokyo 100 Y JPY	Moscow 1 CI Rbl SUR	I special drawing right SDR	Currency index <sup>1</sup>
12	13	14	15	16	17	18	19	20	21	22
222.87	88.65	0.440	28.90	7.60	0.81	5.25	1.662	5.741	4.842 55	113.6
220.34	79.92	0.385	27.17	7.17	60.35	4.72	1.967	5.986	5.071 40	113.1
237.79	73.65	0.358	28.31	6.13	40.79	4.41	1.943	6.624	5.305 63	115.9
265.70	73.53	0.369	31.11	5.14	23.25	3.91	2.351	7.491	5.943 25	125.1
256.42	69.07	0.344	30.13	4.14	19.39	3.75	2.534	7.357	6.147 39	102.8
250.57	69.13	0.346	30.20	4.08	20.17	3.75	2.484	7.296	6.131 93	102.5
251.43	68.75	0.343	30.01	4.08	19.78	3.71	2.511	7.340	6.162 64	102.5
251.64	67.93	0.338	29.64	4.03	19.44	3.71	2.565	7.435	6.272 79	102.5
253.02	68.01	0.337	29.66	3.97	19.35	3.72	2.588	7.486	6.323 99	102.5
254.59	68.52	0.339	29.87	3.91	17.78	3.75	2.578	7.447	6.268 66	102.5
252.66	68.18	0.340	29.71	3.92	16.38	3.77	2.609	7.516	6.366 57	102.5
250.36	68.70	0.343	29.92	3.90	16.54	3.81	2.619	7.582	6.470 31	102.5
245.43	68.34	0.339	29.70	3.83	16.72	3.79	2.636	7.652	6.582 22	102.5
244.48	68.14	0.331	29.61	3.81	16.62	3.76	2.660	7.654	6.601 66	102.5
249.89	68.78	0.329	29.85	3.77	16.02	3.76	2.568	7.487	6.380 70	102.5
247.90	68.50	0.328	29.68	3.71	15.73	3.71	2.578	7.496	6.399 94	102.5
248.20	68.49	0.328	29.67	3.69	15.52	3.67	2.564	7.455	6.344 84	102.4
252.74	68.98	0.323	29.82	3.64	15.07	3.64	2.529	7.359	6.211 68	102.5
259.72	69.98	0.319	30.40	3.63	14.77	3.64	2.509	7.319	6.131 58	102.5

<sup>1</sup> 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

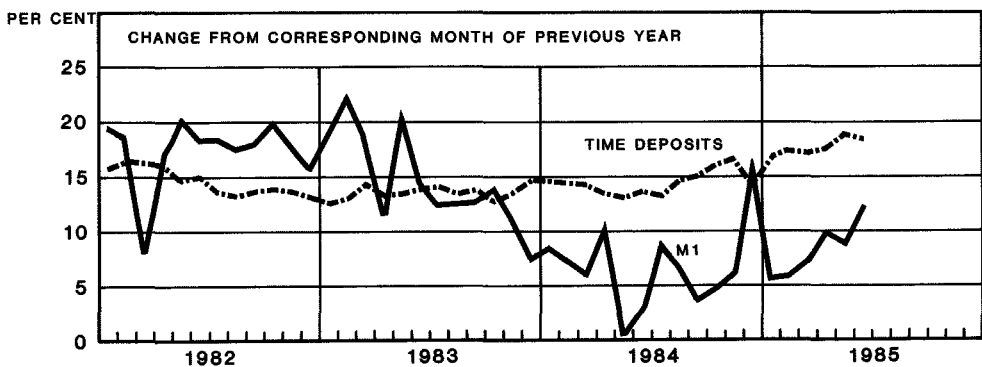
End of year and month	Demand deposits				Time deposits					Total (4 + 9)
	Commercial banks	Savings banks & Co-op. banks	Posti-pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	All deposit banks (5 to 8)	
	1	2	3	4	5	6	7	8	9	10
1981	5 791	2 879	2 952	11 622	26 094	22 937	18 598	7 448	75 077	86 699
1982	7 155	3 874	3 049	14 078	29 465	25 883	21 040	8 666	85 054	99 132
1983	7 057	4 567	3 676	15 300	34 302	29 273	24 175	9 938	97 688	112 988
1984*	8 470	5 268	4 463	18 201	39 354	33 333	27 900	11 265	111 852	130 053

1984\*

May	6 978	4 216	3 960	15 154	34 485	30 801	25 653	10 552	101 491	116 645
June	6 843	4 291	4 231	15 365	35 435	31 442	26 232	10 364	103 473	118 838
July	7 091	4 458	4 638	16 187	35 505	31 608	26 315	10 524	103 952	120 139
Aug.	6 910	4 454	4 708	16 072	36 139	31 989	26 598	10 672	105 398	121 470
Sept.	6 489	4 400	4 826	15 715	36 626	32 140	26 882	10 593	106 241	121 956
Oct.	7 423	4 522	4 621	16 566	37 457	32 255	26 919	10 710	107 341	123 907
Nov.	7 532	4 315	3 876	15 723	38 240	32 459	27 192	10 815	108 706	124 429
Dec.	8 470	5 268	4 463	18 201	39 354	33 333	27 900	11 265	111 852	130 053

1985\*

Jan.	7 742	4 442	4 655	16 839	40 372	34 040	28 637	11 762	114 811	131 650
Feb.	7 340	4 255	4 445	16 040	41 866	34 730	29 275	11 806	117 677	133 717
March	6 579	4 273	4 663	15 515	42 639	34 659	29 180	11 692	118 170	133 685
April	7 660	4 504	4 786	16 950	42 772	34 904	29 368	11 726	118 770	135 720
May	7 461	4 732	4 444	16 637	43 804	35 347	29 838	11 892	120 881	137 518



# ADVANCES TO THE PUBLIC – MONEY SUPPLY

Mill. FIM

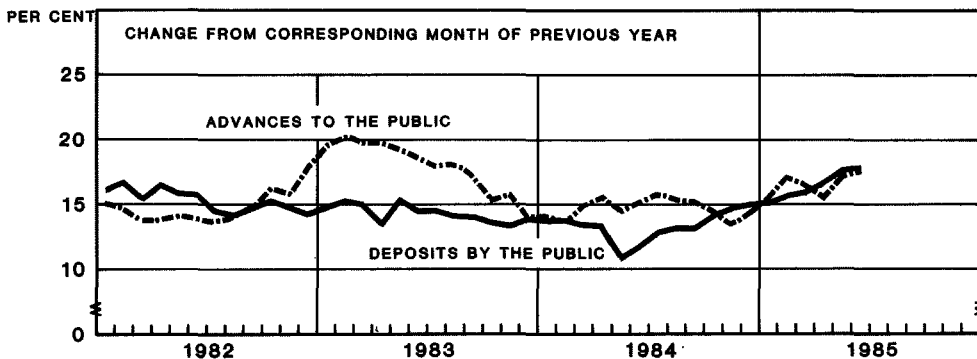
End of year and month	Advances granted by				Types of advances			Total (1 to 4) (5 to 7)	Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency		M <sub>1</sub>	M <sub>1</sub> + Quasi-Money
	1	2	3	4	5	6	7		8	9
1981	40 462	22 009	20 059	11 135	80 817	2 877	9 971	93 665	17 186	94 577
1982	48 620	25 682	23 601	12 684	93 014	3 468	14 105	110 587	19 917	107 549
1983	56 162	29 276	27 322	13 471	104 627	4 350	17 254	126 231	21 427	121 905
1984*	65 965	32 705	31 164	14 686	118 924	5 233	20 363	144 520	24 945	141 658

1984\*

May	60 965	30 522	28 535	14 362	109 106	5 140	20 138	134 384	21 486	126 686
June	62 468	30 718	28 825	14 344	110 255	5 208	20 892	136 355	22 026	129 549
July	62 941	31 049	29 134	14 466	111 229	5 365	20 996	137 590	22 495	130 602
Aug.	63 398	31 479	29 648	14 406	112 850	5 345	20 736	138 931	22 460	132 019
Sept.	64 225	31 820	30 077	14 562	114 602	5 401	20 681	140 684	22 238	132 660
Oct.	64 242	32 223	30 465	14 536	116 239	5 398	19 829	141 466	22 832	134 162
Nov.	64 911	32 478	30 810	14 687	117 443	5 697	19 746	142 886	22 426	135 800
Dec.	65 965	32 705	31 164	14 686	118 924	5 233	20 363	144 520	24 945	141 658

1985\*

Jan.	68 756	33 087	31 445	15 369	120 263	6 014	22 380	148 657	23 357	143 069
Feb.	71 757	33 384	31 707	15 327	121 848	6 099	24 228	152 175	22 617	145 403
March	72 453	33 564	31 988	15 565	123 188	6 305	24 077	153 570	22 152	145 638
April	73 567	33 860	32 184	15 483	124 350	6 319	24 425	155 094	23 595	147 783
May	75 015	34 172	32 621	15 882	126 021	6 365	25 304	157 690	23 423	149 700



# FOREIGN TRADE BY MAIN GROUPS

Mill. FIM

Period	Exports, f.o.b.					Imports, c.i.f.				
	Agricultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Raw materials and intermediate goods	Fuels and lubricants	Finished goods		Other goods
								Investment goods	Consumer goods	
1	2	3	4	5	6	7	8	9	10	
1980	1 403	7 742	15 751	11 546	16 353	38 622	4 088	7 989	7 440	111
1981	2 036	6 852	17 127	14 858	19 435	39 156	5 115	8 877	8 015	106
1982	1 676	6 278	17 502	18 908	18 662	41 144	4 869	9 195	9 130	413
1983	1 723	6 944	19 327	20 211	21 487	44 757	5 006	10 860	10 572	333
1984	2 865	7 145	23 573	22 998	24 323	47 028	5 034	10 993	11 454	173

## 1984

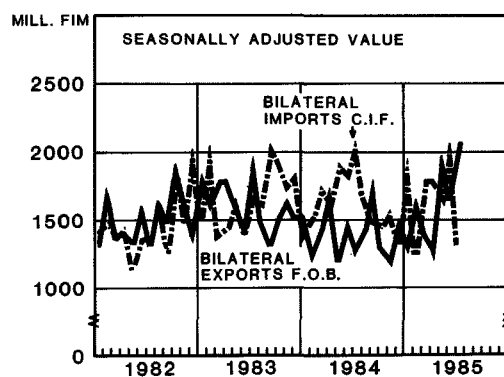
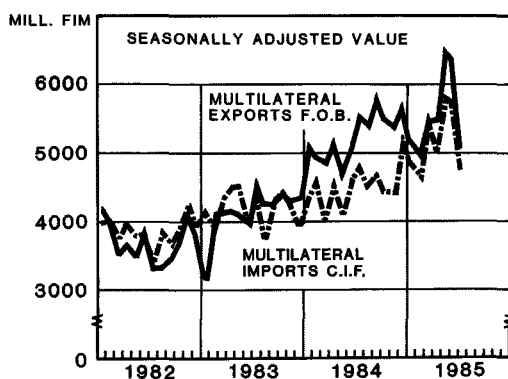
Oct.	180	674	2 209	2 662	2 010	4 175	538	958	1 075	10
Nov.	151	584	2 165	2 349	2 037	3 946	483	958	982	11
Dec.	229	604	2 020	1 531	2 500	4 319	227	1 059	1 006	11

## 1985\*

Jan.	282	622	2 050	1 835	2 117	4 740	273	878	1 013	181
Feb.	393	482	1 991	1 860	1 860	2 740	218	788	1 025	16
March	295	465	2 157	1 586	2 111	4 251	248	1 082	1 214	149
April	287	590	2 221	1 886	2 107	4 375	436	1 049	1 203	9
May	293	620	2 356	2 869	2 436	4 779	395	930	1 047	8
June	211	680	1 864	2 009	2 091	4 530	604	1 013	913	7

## Jan.—June

1984	1 656	3 508	11 093	11 201	12 090	22 147	2 269	5 551	5 625	108
1985*	1 761	3 459	12 639	12 045	12 722	25 415	2 174	5 740	6 415	370



## FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January-June				January-June			
	1984*		1985*		1984*		1985*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
<b>OECD countries in Europe</b>	58.3	23 045	57.1	24 343	55.5	19 816	56.5	22 651
Austria	0.7	290	0.7	278	1.1	394	1.1	443
Belgium and Luxembourg	1.5	605	1.5	625	2.0	717	2.0	809
Denmark	4.3	1 703	3.9	1 653	2.5	910	2.4	957
France	4.4	1 739	4.3	1 849	3.3	1 166	3.4	1 376
Federal Republic of Germany	10.3	4 087	9.2	3 926	14.4	5 141	14.8	5 918
Italy	2.2	882	2.0	857	3.4	1 207	3.3	1 334
Netherlands	3.7	1 441	3.3	1 425	2.8	994	3.0	1 179
Norway	5.0	1 988	4.2	1 808	2.2	773	2.8	1 116
Portugal	0.2	92	0.3	123	0.7	254	0.7	296
Spain	0.7	289	0.8	350	0.9	318	1.0	405
Sweden	12.0	4 726	13.1	5 570	12.9	4 616	11.6	4 654
Switzerland	1.2	485	1.7	708	1.7	593	1.6	631
United Kingdom	10.6	4 181	10.7	4 559	6.9	2 475	8.0	3 215
Other	1.5	537	1.4	612	0.7	258	0.8	318
<b>OECD countries outside Europe</b>	10.5	4 165	10.7	4 561	11.9	4 230	11.7	4 689
Canada	0.8	302	1.3	530	0.6	226	0.6	260
Japan	1.3	522	1.6	684	6.0	2 126	5.3	2 129
United States	7.4	2 925	6.6	2 820	5.0	1 770	5.5	2 191
Other	1.0	416	1.2	527	0.3	108	0.3	109
<b>CMEA countries</b>	22.2	8 777	22.0	9 369	25.2	9 012	23.3	9 368
Czechoslovakia	0.4	150	0.4	157	0.4	150	0.4	176
German Democratic Republic	0.5	184	0.5	230	0.5	185	0.5	186
Poland	0.3	124	0.5	225	1.3	461	0.7	296
Soviet Union	20.5	8 106	19.9	8 489	22.5	8 045	20.5	8 210
Other	0.5	213	0.7	268	0.5	171	1.2	500
<b>Latin America</b>	0.8	300	1.8	757	2.7	960	2.8	1 116
Argentina	0.1	30	0.1	37	0.2	56	0.2	60
Brazil	0.2	60	0.1	63	1.0	365	1.0	384
Colombia	0.1	51	0.2	68	0.6	209	0.6	260
Other	0.4	159	1.4	589	0.9	330	1.0	412
<b>Other</b>	8.2	3 261	8.4	3 596	4.7	1 682	5.7	2 290
<b>GRAND TOTAL</b>	100.0	39 548	100.0	42 626	100.0	35 700	100.0	40 114
of which								
<b>EFTA countries</b>	19.3	7 632	20.1	8 561	18.8	6 698	18.0	7 206
<b>EEC countries</b>	38.1	15 055	35.9	15 312	35.8	12 779	37.4	15 021
<b>OECD countries</b>	68.8	27 210	67.8	28 904	67.3	24 030	68.2	27 340

# 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
1981	60 243	61 703	-1 460	+3 088	+405	+1 049	+3 082	-4 423	-498	+107	-1 732
1982	62 867	65 147	-2 280	+2 856	-277	+1 732	+2 031	-5 447	-643	+161	-3 898
1983	69 368	72 139	-2 771	+3 200	-748	+1 610	+1 291	-5 817	-797	+96	-5 227
1984*	80 607	75 099	+5 508	+3 919	-1 212	-163	+8 052	-6 781	-997	-274	0

1982

July-Sept.	13 308	15 419	-2 111	+789	+151	+478	-693	-1 359	-139	+75	-2 116
Oct.-Dec.	17 904	19 494	-1 590	+668	-191	+319	-794	-1 328	-150	+42	-2 230

1983

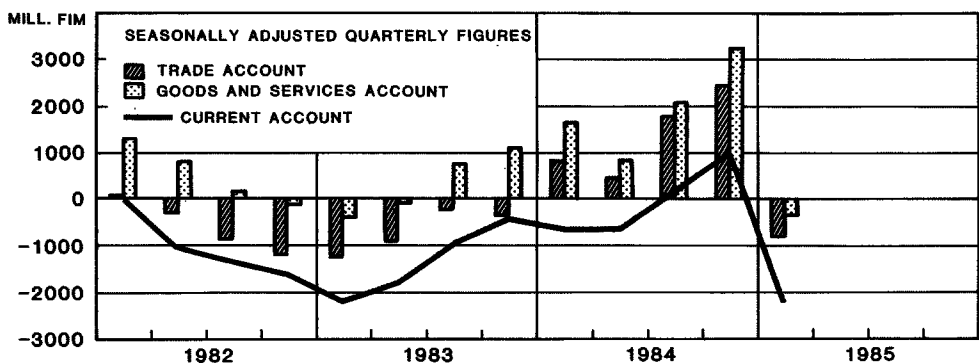
Jan.-March	16 740	16 469	+271	+744	-292	+142	+865	-1 557	-243	+5	-930
Apr.-June	17 098	17 538	-440	+753	-229	+288	+372	-1 492	-176	+42	-1 254
July-Sept.	16 180	17 970	-1 790	+888	+45	+487	-370	-1 463	-174	+53	-1 954
Oct.-Dec.	19 350	20 162	-812	+815	-272	+693	+424	-1 305	-204	-4	-1 089

1984\*

Jan.-March	19 678	17 066	+2 612	+967	-370	-61	+3 148	-2 010	-272	-72	+794
Apr.-June	19 701	18 846	+855	+984	-326	-181	+1 332	-1 219	-190	-44	-121
July-Sept.	19 395	19 324	+71	+1 105	-123	-104	+949	-1 593	-267	-51	-962
Oct.-Dec.	21 833	19 863	+1 970	+863	-393	+183	+2 623	-1 959	-268	-107	+289

1985\*

Jan.-March	20 106	18 933	+1 173	+887	-489	-280	+1 291	-1 578	-350	-135	-772
Apr.-June	22 564	21 410	+1 154	+961	-433	-209	+1 473	-1 502	-303	-61	-393

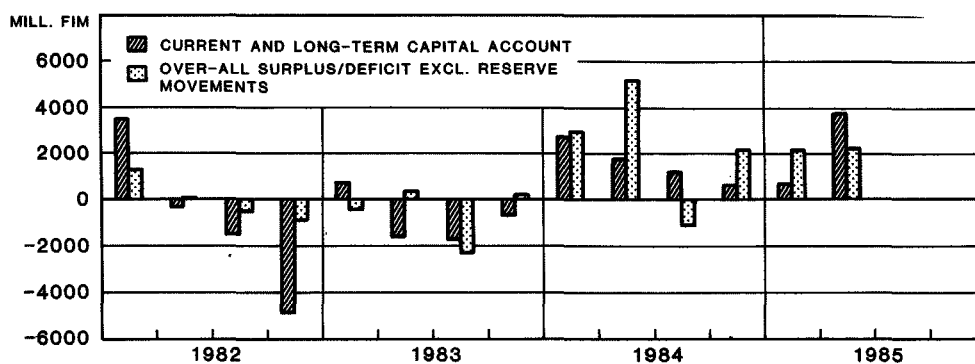




Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net	Long-term capital account (12 to 15)	Current and long-term capital account (11 + 16)	Prepayments and liabilities related to imports	Prepayments and receivables related 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
+8 312	-4 643	-518	-826	+2 325	+593	-148	+723	-421	+1 056 <sup>1</sup>	+1 803	-1 803
+10 213	-4 721	-1 239	-3 642	+611	-3 287	-914	+771	+1 493	+1 811	-126	+126
+10 112	-7 273	+423	-1 388	+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	+6 295	+695	+3 308	+2 086	-3 109	+9 275	-9 275
+1 859	-883	-127	-246	+603	-1 513	-277	-143	-520	+1 909	-544	+544
+2 385	-1 477	-670	-2 930	-2 692	-4 922	-328	-429	+3 701	+1 039	-939	+939
+2 985	-1 271	+100	-182	+1 632	+702	-115	+654	-1 220	-503	-482	+482
+2 435	-2 895	+273	-204	-391	-1 645	+1 261	-343	+699	+425	+397	-397
+1 479	-1 269	+142	-129	+223	-1 731	+1 197	-1 662	-593	+476	-2 313	+2 313
+3 213	-1 838	-92	-873	+410	-679	+930	-2 029	+2 380	-366	+236	-236
+4 075	-1 887	-235	-47	+1 906	+2 700	-1 002	+1 135	+2 443	-2 290	+2 986	-2 986
+3 858	-2 351	+89	+276	+1 872	+1 751	+1 087	+162	+2 531	-309	+5 222	-5 222
+2 495	-1 185	-603	+1 475	+2 182	+1 220	+332	+6	-2 186	-512	-1 140	+1 140
+3 659	-2 115	-933	-276	+335	+624	+278	+2 005	-702	+2	+2 207	-2 207
+2 977	-1 738	+336	-49	+1 526	+754	+568	-1 156	+1 748	+239	+2 153	-2 153
+3 355	-2 709	+354	+3 111	+4 111	+3 718	+956	-2 342	+1 488	-1 592	+2 228	-2 228

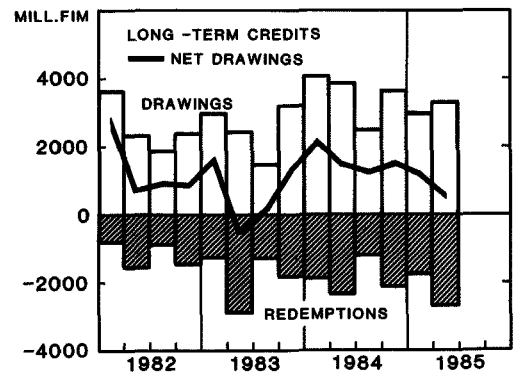
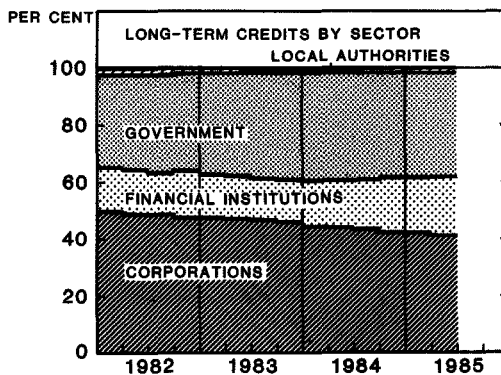
Assets: increase -, decrease +. Liabilities: increase +, decrease -

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

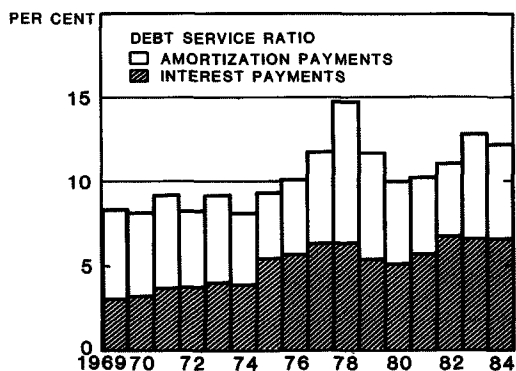
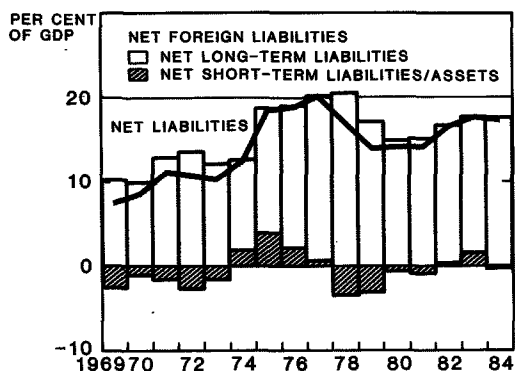


# FINLAND'S FOREIGN ASSETS AND LIABILITIES

End of year and month	Long-term assets				Long-term liabilities						Net long-term liabilities (10-4)
	Export credits	Direct investment	Other	Total (1 to 3)	Financial loans	Import credits	Direct investment	Portfolio investment	Other	Total (5 to 9)	
	1	2	3	4	5	6	7	8	9	10	
1981	4 673	3 426	1 317	9 416	35 536	4 444	2 183	..	391	42 554	33 138
1982	6 628	4 626	3 796	15 050	47 547	4 608	2 223	..	752	55 130	40 080
1983	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1984*	8 920	8 689	1 915	19 524	63 958	3 865	2 646	2 013	805	73 287	53 763
1982											
Sept.	5 556	4 084	1 466	11 106	41 198	4 515	2 345	..	687	48 745	37 639
Dec.	6 628	4 626	3 796	15 050	47 547	4 608	2 223	..	752	55 130	40 080
1983											
March	6 672	5 003	3 892	15 567	49 897	4 759	2 288	..	846	57 790	42 223
June	6 458	4 998	3 956	15 412	49 921	4 462	2 306	..	812	57 501	42 089
Sept.	6 411	5 392	3 935	15 738	50 705	4 566	2 303	..	798	58 372	42 634
Dec.	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1984*											
March	6 658	6 687	3 539	16 884	54 014	4 225	2 354	987	731	62 311	45 427
June	6 827	7 435	3 230	17 492	57 198	3 937	2 393	1 640	729	65 897	48 405
Sept.	7 767	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	2 646	2 013	805	73 287	53 763
1985*											
March	8 504	9 408	2 071	19 983	64 798	3 616	2 631	2 900	778	74 723	54 740
June	8 080	9 824	2 195	20 099	65 273	3 350	2 763	6 317	873	78 576	58 477



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
11 362	13 781	14 176	39 319	2 427	20 218	14 743	37 388	-1 931	31 207	7 994	3 494
12 737	22 899	13 858	49 494	5 348	31 331	13 782	50 461	967	41 047	9 069	3 464
11 842	29 263	15 915	57 020	5 705	39 443	16 180	61 328	4 308	49 116	11 591	5 621
22 912	43 319	12 491	78 722	4 562	55 695	17 922	78 179	-543	53 220	12 878	5 896
12 456	17 474	13 531	43 461	4 097	21 737	14 859	40 693	-2 768	34 871	2 040	662
12 737	22 899	13 858	49 494	5 348	31 331	13 782	50 461	967	41 047	2 542	1 185
12 365	22 166	14 580	49 111	4 637	29 530	15 112	49 279	168	42 391	2 535	942
12 905	23 008	14 878	50 791	4 705	31 137	16 563	52 405	1 614	43 703	3 788	2 243
10 556	23 605	15 681	49 842	4 737	31 289	16 805	52 831	2 989	45 623	2 542	1 049
11 842	29 263	15 915	57 020	5 705	39 443	16 180	61 328	4 308	49 116	2 726	1 387
14 740	25 724	15 522	55 986	3 657	37 966	15 617	57 240	1 254	46 681	3 523	1 452
20 705	31 935	15 083	67 723	3 775	47 084	16 884	67 743	20	48 425	3 260	1 987
21 064	34 621	14 700	70 385	4 815	47 882	17 388	70 085	-300	51 909	2 448	821
22 912	43 319	12 491	78 722	4 562	55 695	17 922	78 179	-543	53 220	3 647	1 636
24 785	44 978	13 876	83 639	4 535	59 101	18 427	82 063	-1 576	53 164	3 237	1 688
26 206	46 672	16 054	88 932	3 729	62 283	19 197	85 209	-3 723	54 754	3 662	2 108



# 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
1983	1 189	127.6	128.8	124.2	125.9	130.8	128.5	128.7	124.4	129.3
1984	1 261	134.5	135.9	130.0	132.6	137.5	135.8	136.6	133.7	136.1
1984										
Dec.	1 298	138.1	139.7	133.4	137.1	140.4	138.2	139.0	136.5	138.3
1985										
Jan.	1 308	139.2	140.5	135.1	137.8	142.7	138.5	140.0	137.8	139.1
Feb.	1 321	140.4	141.5	137.0	139.5	143.3	139.4	140.8	138.0	140.1
March	1 332	141.4	142.2	138.9	140.6	144.6	139.9	143.3	144.0	141.8
April	1 334	141.5	143.4	135.6	139.8	145.2	141.5	144.1	145.1	142.5
May	1 335	141.6	144.2	133.9	139.3	146.2	142.5	144.2	145.4	142.3
June	1 332	141.3	143.9	133.4	138.6	146.0	142.9	144.6	145.6	142.7
July	1 330	141.1	144.2	131.4	138.6	146.0	142.9	144.9	145.8	143.1

Period	Consumer prices 1981 = 100									
	Total	Food	Beverages and tobacco	Clothing and footwear	Rent, heating and lighting	Household goods and services	Health and medical services	Transport and communication	Education and recreation	Other goods and services
1983	118.7	120.0	125.1	112.8	118.4	114.3	126.6	117.4	116.9	120.7
1984	127.1	129.1	132.5	119.4	124.5	123.0	145.2	125.4	126.4	130.8
1984										
Dec.	129.8	132.6	133.1	123.4	126.4	126.2	149.4	128.0	128.8	133.7
1985										
Jan.	131.2	133.7	139.6	119.4	126.9	126.6	153.6	129.2	130.3	137.7
Feb.	131.7	134.9	139.7	121.4	126.9	127.4	153.6	129.7	130.2	137.9
March	133.0	137.9	139.7	123.7	127.2	128.0	153.6	131.5	130.7	138.2
April	133.7	139.3	139.7	125.9	127.2	128.5	153.6	132.2	131.2	138.9
May	135.0	140.0	139.7	126.6	132.6	129.2	154.7	130.6	131.8	139.9
June	135.3	141.1	139.7	126.4	132.6	129.4	154.4	130.8	132.0	140.3
July	135.4	141.3	139.7	125.2	132.6	129.6	154.4	131.1	132.2	140.4

# 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	
1982	124.1	125.1	124.3	124.8	123.8	125.5	124.8	124.9	124.6	124.8
1983	132.1	137.3	138.2	138.8	137.3	140.0	137.4	138.4	136.9	137.8
1984*	148.5	149.9	152.7	152.1	146.4	154.7	150.5	151.2	149.7	150.7
1984*										
Jan.-June	147.2	152.2	151.1	152.5	146.8	155.1	151.2	151.6	150.8	151.3
July-Sept.	150.9	151.1	153.0	153.3	146.8	155.9	152.0	152.6	150.8	152.0
Oct.-Dec.	154.6	152.7	158.0	154.5	148.2	156.6	154.2	154.1	153.4	153.8
1985*										
Jan.-March	150.3	157.0	164.3	159.6	153.1	162.5	157.3	158.0	157.2	157.7
Apr.-June	165.0	164.4	169.6	165.4	158.1	167.2	165.3	164.6	164.9	164.7

# PRODUCTION

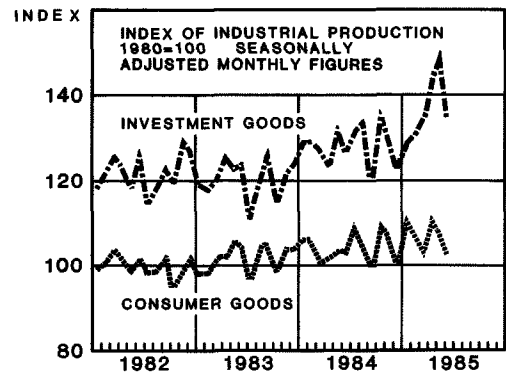
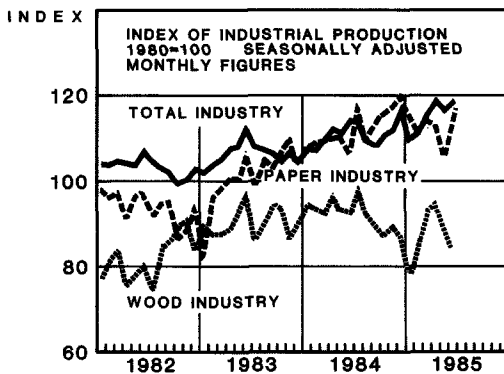
Volume indices of production 1980 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communication	Commerce	Public sector services	Others
1983*										
Jan.-March	101	103	74	100	83	95	97	95	111	108
Apr.-June	107	111	80	90	90	103	105	109	111	115
July-Sept.	108	99	206	41	119	103	108	105	112	113
Oct.-Dec.	117	116	88	101	148	104	121	117	114	121
1984*										
Jan.-March	104	110	75	89	82	93	103	98	114	113
Apr.-June	109	114	83	90	84	104	109	108	114	121
July-Sept.	110	102	199	45	114	104	107	110	115	119
Oct.-Dec.	121	123	94	118	141	106	121	119	117	128
1985*										
Jan.-March	108	111	78	101	83	89	107	101	117	117

# PRODUCTION

Index of industrial production 1980 = 100

Period	Special indices of manufacturing										Total adjusted for seasonal variations
	Total	Investment goods	Consumer goods	Other producer goods	Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
	1	2	3	4	5	6	7	8	9	10	11
1982	103.6	122.9	100.5	101.5	106.0	82.4	94.7	98.8	110.0	113.9	103.8
1983*	106.9	121.2	102.4	106.4	108.6	91.0	102.2	105.1	117.3	114.5	106.9
1984*	111.3	129.2	105.0	111.0	108.3	92.3	113.0	109.6	107.8	120.8	111.6
1984*											
June	110.7	144.8	103.0	108.3	104.0	103.0	91.5	105.3	114.7	128.4	114.7
July	74.9	54.7	71.9	79.8	97.2	41.7	124.2	70.9	62.1	56.0	114.5
Aug.	114.7	131.5	108.7	114.5	114.3	90.5	117.5	112.2	124.7	122.7	109.7
Sept.	110.5	127.3	102.0	111.5	105.6	99.6	111.3	112.2	127.7	120.6	108.6
Oct.	126.3	145.0	122.4	124.7	140.4	104.6	124.2	121.4	135.8	137.9	111.3
Nov.	124.2	144.5	121.7	121.6	132.1	94.9	123.0	120.7	116.6	136.8	111.9
Dec.	104.4	122.7	98.4	104.0	102.4	65.3	109.5	102.5	94.3	116.6	117.6
1985*											
Jan.	117.1	131.4	114.6	115.7	101.9	78.3	117.9	107.7	108.0	126.4	110.2
Feb.	108.3	128.1	103.2	107.2	87.5	78.2	109.4	106.0	86.6	119.5	112.5
March	119.1	143.9	110.7	118.6	101.4	98.4	122.1	121.9	111.5	131.6	116.9
April	118.6	148.5	109.6	117.5	104.7	107.5	104.9	127.3	101.9	137.7	119.6
May	126.8	173.7	115.5	123.8	112.2	115.7	107.0	124.7	124.1	157.2	117.6
June	113.4	154.2	102.2	111.5	101.4	92.3	105.7	104.4	115.2	137.1	119.5



# 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
1983	3 681	2 546	2 390	156	6.1	39 324	107	110
1984*	3 700	2 572	2 413	158	6.2	41 288	109	109
1984*								
May	3 697	2 579	2 438	140	5.4	3 734	114	120
June	3 695	2 745	2 570	175	6.4	2 664	114	105
July	3 700	2 761	2 614	146	5.3	1 323	113	93
Aug.	3 700	2 598	2 454	145	5.6	1 649	113	120
Sept.	3 703	2 549	2 395	153	6.0	2 353	106	117
Oct.	3 706	2 520	2 370	150	6.0	3 561	113	121
Nov.	3 704	2 517	2 358	159	6.3	4 269	111	117
Dec.	3 705	2 544	2 386	158	6.2	5 134	130	113
1985*								
Jan.	3 706	2 531	2 360	171	6.8	4 241	99	103
Feb.	3 707	2 534	2 363	171	6.7	4 581	97	101
March	3 706	2 528	2 355	173	6.8	6 031	107	110
April	3 707	2 565	2 394	170	6.6	5 882	107	114
May	3 709	2 611	2 461	150	5.7	4 598	..	..
June	3 708	2 761	2 594	168	6.1	2 407	..	..

## 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
1983	51.78	19.66	6.44	22.03	3.65	47.37	18.43	5.92	19.46	3.55	51.44
1984*	49.68	19.92	5.65	17.44	3.15	44.24	17.66	5.13	15.76	2.83	52.13
1983											
Oct.-Dec.	8.59	3.31	0.95	3.31	1.02	15.46	6.12	2.07	6.24	1.02	51.44
1984*											
Jan.-March	9.11	3.83	1.12	3.08	0.61	8.72	3.72	0.71	3.08	0.62	47.01
Apr.-June	16.19	7.21	2.35	4.67	0.73	8.64	3.53	0.55	3.57	0.51	53.65
July-Sept.	12.85	4.82	1.26	4.67	1.04	9.61	3.61	1.64	2.74	0.90	55.96
Oct.-Dec.	10.28	3.44	0.81	4.65	0.72	14.40	5.84	1.96	5.00	0.65	52.13
1985*											
Jan.-March	8.49	3.30	1.07	2.94	0.61	7.87	3.55	0.52	2.64	0.68	48.31

# EXPLANATIONS RELATING TO THE STATISTICAL SECTION

## BANK OF FINLAND

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

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

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

## MONETARY POLICY INDICATORS

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

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

Net central bank debt of the deposit banks = Gross central bank debt of the deposit banks — The commercial banks' and Postipankki's deposits on the call money market — All deposit banks' cash reserve deposits at the Bank of Finland.

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

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

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

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

## FORWARD EXCHANGE MARKETS IN FINLAND

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

## FOREIGN EXCHANGE RATES

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

## DEPOSITS BY THE PUBLIC — ADVANCES TO THE PUBLIC — MONEY SUPPLY

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

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

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

*Money Supply M<sub>1</sub>* = Finnish notes and coins in circulation — Finnish notes and coins held by the banks + Demand deposits held by the public (incl. Demand deposits at the Bank of Finland). Quasi-Money = Time deposits held by the public (incl. Time deposits at the Bank of Finland).

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

## STATE FINANCES

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

## FOREIGN TRADE

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

## BALANCE OF PAYMENTS

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

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

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

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

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

## FOREIGN ASSETS AND LIABILITIES

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

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

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

Columns 22 and 23 during the year and the quarter.

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

## PRICE INDICES

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

## WAGES — PRODUCTION

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

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

## LABOUR — TIMBER FELLINGS — INTERNAL TRADE — CONSTRUCTION OF BUILDINGS

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

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



# SOME PARTICULARS ABOUT FINLAND

## FORM OF GOVERNMENT

From 1155 to 1809 Finland formed a part of the kingdom of Sweden. Connected from 1809 with Russia, Finland was an autonomous country with the Emperor as Grand Duke until December 6, 1917, the date of Finland's declaration of independence. The republican constitution was adopted in 1919. The legislative power of the country is vested in Parliament and the President. The highest executive power is held by the President, elected for a period of 6 years. The President for the current term, January 27, 1982, to March 1, 1988, is Mauno Koivisto.

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

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

## INTERNATIONAL ORGANIZATIONS

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

## LAND

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

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

## POPULATION

NUMBER OF INHABITANTS (1983): 4.9 million. Sweden 8.3, Switzerland 6.4, Denmark 5.1, and Norway 4.1 million.

DENSITY OF POPULATION (1983): In South Finland 47.4, in East and Central Finland 14.3, in North Finland 4.2 and in the whole country an average of 16.0 inhabitants to the square kilometre.

DISTRIBUTION BY AREA (1983): 40% of the population inhabit the rural areas, 60% towns. The largest towns are: Helsinki (Helsingfors), the capital, 484 471 inhabitants, Tampere (Tammerfors) 167 344, Turku (Åbo) 163 002.

EMPLOYMENT (1984): Agriculture and forestry 12%, industry and construction 33%, commerce 14%, transport and communication 7%, financing, insurance, real estate and business services 6%, community and personal services 28%.

LANGUAGE (1983): Finnish speaking 93.6%, Swedish speaking 6.1%, others 0.3%.

EDUCATION (1985): 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 (1983): births 13.8‰, deaths 9.3‰, change + 5.8‰, net immigration + 1.4‰. Deaths in France 10.3‰ and Great Britain 11.7‰.

## TRADE AND TRANSPORT

NATIONAL INCOME (1984), in million FIM: Gross domestic product at factor cost by industrial origin: agriculture and fishing 12 849 (5%), forestry 10 004 (4%), manufacturing 82 263 (30%), construction 21 786 (8%), trade, restaurants and hotels 30 337 (11%), transport and communication 21 419 (8%), banking and insurance 11 676 (4%), ownership of dwellings 17 688 (6%), other services 65 583 (24%), total 273 605. Index of real domestic product 111 (1980 = 100).

FOREST RESOURCES (1982). The growing stock comprised of 1 658 million m<sup>3</sup> (solid volume with bark) of which 45% was pine and 37% spruce the remaining 18% being broad-leaved trees chiefly birch. Of the growing stock 667 million m<sup>3</sup> was up to the standard required for logs, 52% of these being pine. The annual growth was 67 million m<sup>3</sup> and the total drain calculated on the basis of roundwood consumption was 48.5 million m<sup>3</sup>.

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

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

STATE RAILWAYS (Dec. 31, 1984): Length 6 069 km.

MERCHANT FLEET (June 30, 1985): Passenger vessels 161 (245 886 gross reg. tons), tankers 40 (956 935 gross reg. tons), dry cargo vessels 155 (739 596 gross reg. tons), other vessels 103 (21 211 gross reg. tons), total 459 (1 963 628 gross reg. tons).

MOTOR VEHICLES (Dec. 31, 1984): Passenger cars 1 473 975, lorries and vans 173 784, buses 9 069, others 11 159, total 1 667 987.

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 18.3, DEM 19.4, GBP 15.6, USD 9.5, other currencies 37.2. The permissible range of fluctuation is about 2.25 per cent on either side of the theoretical arithmetic mean. The fluctuation limits are 106.0 and 101.3.

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

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

RATES OF INTEREST (Feb. 1, 1985). The Bank of Finland's base rate is 9%. The interest rates for domestic lending other than bank financing by the Bank of Finland vary between 6½% and 11½%. Other credit institutions: time deposits 4%, 6 month deposits 6%, 12 month deposits 7½%; 24 month deposits 8% and sight deposits 1%. The highest lending rate is 13½%.

# RECENT DEVELOPMENTS IN FINANCIAL MARKETS AND MONETARY POLICY<sup>1</sup>

by Hannele Luukkainen, M.Pol.Sc.  
and Kjell Peter Söderlund, Lic.Pol.Sc.  
Bank of Finland

## CHANGES IN THE MONETARY POLICY ENVIRONMENT

As in many other countries, financial developments in Finland have, in recent years, been increasingly influenced by market forces. Up to the early 1980s, an essential feature of the financial system was the prevalence of interest rate regulation. In practice, nearly all rates were linked to the Bank of Finland's base rate (formerly the discount rate), which was generally maintained at a low level and changed infrequently. As a consequence, real deposit and lending rates were negative during the major part of the 1970s. The low deposit rates were largely attributable to the fact that interest earned on deposits was tax-free. Tax exemption was formulated in a way which induced the banks to avoid interest rate competition and to agree to apply uniform deposit rates. The Bank of Finland regulated the banks' average and maximum lending rates, which could be kept relatively low because of the low deposit rates.

Low and rigid interest rates gave rise to an almost continuous excess demand for credit, and financial markets were cleared by credit rationing rather than by interest rates. The commercial banks were almost permanently indebted to the central bank. In these circumstances the terms of central bank finance constituted the major instrument of monetary policy.

In recent years, the functioning of the Finnish financial markets has been becoming progressively more market-oriented. The call money market was established in 1975 to facilitate liquidity management by banks. Important

recent developments have been the emergence of an unregulated market for short-term funds as well as the rapid growth of the forward exchange market.

The new financial markets have arisen as a result of several factors: weaker expectations concerning the return on real investment, the strong liquidity position of firms due to weaker investment activity, and more efficient management of companies' liquid funds as a consequence of technological developments and greater interest-rate awareness. In the 1970s, in particular, regulated interest rates were low relative to inflation and this gave incentives to lenders and borrowers alike to develop new forms of financial intermediation at market-determined rates.

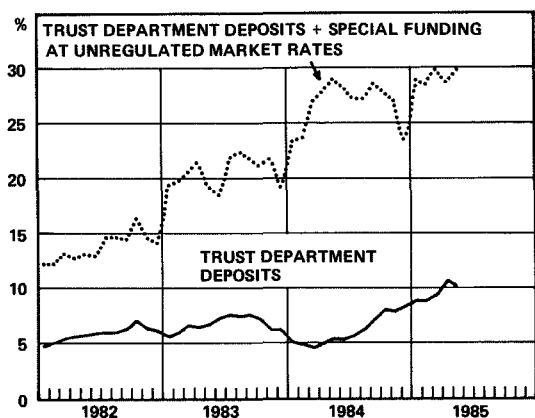
In addition, capital movements between Finland and other countries have increased. Hence, fluctuations in international interest rates and exchange rate expectations have a more pronounced affect on Finnish financial market conditions than before. It is becoming increasingly difficult to separate domestic interest rates from international ones or to pursue an autonomous monetary policy, especially since Finnish exchange rate policy aims at stabilizing the external value of the markka.

## CHANGING ROLE OF INTEREST RATES

The role of administered interest rates has declined with the rapid increase in the banks' funding at unregulated market rates. The share of unregulated deposits in commercial banks' total deposits increased to almost 30 per cent last year (Chart 1). Parallel to this development, bank lending not subject to interest rate

<sup>1</sup> See also the front article of this Bulletin.

**CHART 1. SHARE OF UNREGULATED MARKET RATE DEPOSITS IN TOTAL DEPOSITS**



regulation has also grown sharply. By channeling finance through captive finance companies and private placements, the banks have been able to circumvent the average lending rate regulations.

Over the past few years, the Bank of Finland has adapted the implementation of monetary policy to the changes in financial markets. The system of granting the banks individual quotas for central bank finance was abolished at the beginning of 1984. Hence, the marginal cost of central bank financing is now equivalent to the call money rate, and it no longer changes automatically according to the amount of outstanding central bank debt. Furthermore, the cash reserve base has been extended under a new cash reserve agreement concluded in September 1984. In addition to traditional demand and time deposits, the cash reserve base now includes unregulated rate deposits, all deposits denominated in foreign currency, and the banks' net foreign liabilities after certain deductions.<sup>2</sup>

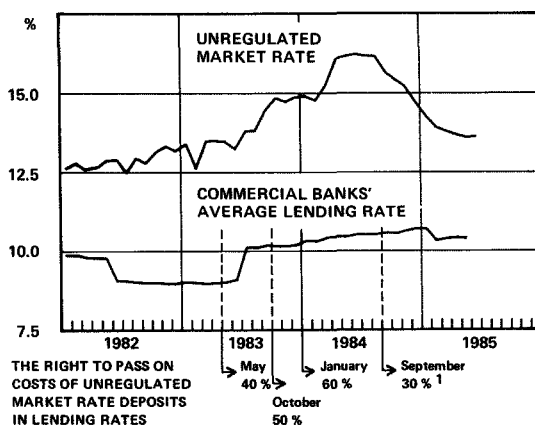
Particularly important has been the relaxation of interest rate regulation. The regulations have been revised so that the banks are now permitted to pass on in their average lending rates a proportion of their extra funding costs in the unregulated money market (Chart 2).

The banks have used this right almost exclusively to raise the rates of interest on new advances only, and a part of the right to raise interest rates has been left unused. Possible explanations for this could be that rises in interest rates have been constrained by insufficient demand for credit, on the one hand, and by interbank competition in the provision of credit, on the other.

One reason for easing interest rate controls was to reduce the opportunities of arbitrage caused by the interest rate differential between the regulated and unregulated market segments. Thus, for example, the upper limit on the banks' lending rates was abolished for credit extended to corporations in the form of cheque overdrafts and bills.

The changes have affected the mechanism by which equilibrium in financial markets is attained and monetary policy effects are transmitted. With the rapid growth in the banks' funding and lending at unregulated market rates, the significance of interest rates has been enhanced. The channels of monetary policy transmission have changed in line with the on-going development of the financial markets so that interest rates now affect the demand for credit more directly. At the same time, interest rate awareness has become more widespread in the economy as a whole.

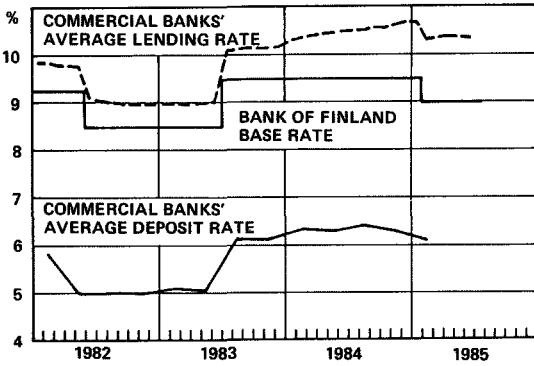
**CHART 2. THE RIGHT TO PASS ON INTEREST COSTS IN LENDING RATES**



<sup>2</sup> For more details of the new cash reserve agreement, see the item in the October 1984 issue of the Bulletin.

<sup>1</sup> Calculated on the basis of the banks' total deposits.

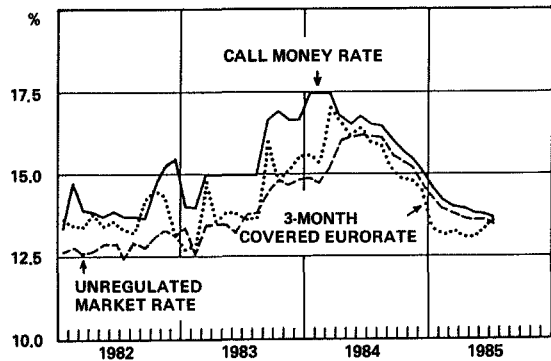
### CHART 3. REGULATED INTEREST RATES



At present, the financial system in Finland is characterized by the coexistence of an unregulated market segment where interest rates are relatively high and a regulated segment where interest rates are lower. Both reference rates - the base rate and the call money rate - are determined by the central bank. Regulated rates are linked to the base rate, while the call money rate functions as a benchmark for interest rates in the money market (Charts 3 and 4) and for unregulated interest rates more generally (Chart 5).

Regulated and unregulated rates are, however, closely interlinked. In particular, the unregulated rates influence the regulated rates through the right of the banks to pass on a part of their unregulated-rate funding costs in their lending rates. Moreover, credits granted to companies

### CHART 4. SHORT-TERM INTEREST RATES IN THE UNREGULATED MARKET

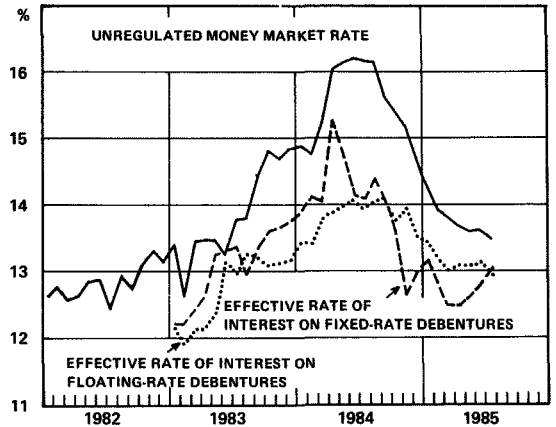


usually combine components at both regulated and unregulated rates.

The changes in the financial system and in the methods of monetary control have recently made it more difficult to interpret developments in financial markets. Traditional indicators of monetary tightness such as the central bank position of banks and various credit aggregates are considered to be less important and increasing importance is being attached to the behaviour of interest rates.

In spite of the rapid change which the financial markets have undergone, the new features should not, however, be over-emphasized. Interest earnings on deposits are still largely tax-exempt and likely to remain so in the foreseeable future. This will restrict the scope for interest rate competition between banks and tend to preserve the dichotomy in the financial markets.

### CHART 5. LONG-TERM INTEREST RATES IN THE UNREGULATED MARKET



### MONETARY POLICY<sup>3</sup>

By and large, economic performance has remained favourable in Finland. In a country traditionally susceptible to sharp cyclical fluctuations

<sup>3</sup> For specific measures, see the chronological list following this article.

tuations, 1984 witnessed the fourth successive year of stable growth. Real GDP is forecast to grow by about 3 per cent this year. In recent years, there has been a better match between investment and saving in the economy than has normally been the case in the past. The current account was in balance last year, and is expected to post only a small deficit this year.

To some extent these favourable developments are due to special factors, but they are also attributable to successful counter-cyclical policies. Fiscal policy was tightened considerably in the course of last year, nor is any easing in stance in prospect this year either. The rate of inflation, although slower than before, is still somewhat higher than in most competitor countries. Hence, curbing the rate of inflation, which is currently running at about 6 per cent, will remain the major objective of economic policy.

Monetary policy was tightened in the autumn of 1983 by raising the call money rate (Chart 6). This measure was aimed at checking speculative pressures on the markka. These pressures were quickly dissipated and the capital outflows reversed. By then, however, the international upswing was spreading to Finland, and preventing economic overheating and curbing inflation required the maintenance of a persistently tight policy stance.

During the early months of 1984, the Bank of Finland call money rate was kept at 17.5

per cent. The high interest rate, coupled with confidence in the external value of the markka, induced heavy capital inflows. However, the major part of the domestic liquidity impact of these inflows was sterilized by the Bank of Finland in the call money market. The central bank also intervened heavily in the forward exchange market.

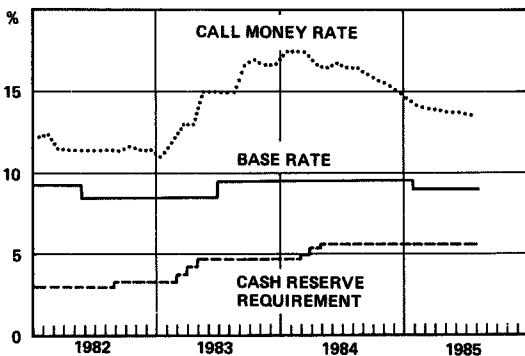
As inflationary pressures abated and international interest rates fell, the call money rate was lowered successively during the second half of 1984. Owing to certain changes in the operation of the call money market<sup>4</sup> in the spring, the call money rate also began to determine to a large extent the rates on the banks' funding in the unregulated money market (Chart 4). Therefore, the money market did not ease significantly despite the lowering of the call money rate.

In 1985, the Bank of Finland has continued its policy of giving priority to the combatting of inflation. Accordingly, the call money rate has been lowered only cautiously so far in 1985. In line with the call money rate, the unregulated money market rate has also gone down. However, the interest rate differential vis-à-vis foreign interest rates has remained substantial.

With the deceleration of inflation, it was also considered possible to lower slightly the Bank of Finland's base rate. In February this year, the base rate was reduced by 0.5 percentage point to 9 per cent, and hence rates of interest on traditional deposits also declined by an equivalent amount. The average rate of interest on the banks' stock of lending decreased somewhat less. This was the result of the higher interest rates on new loans made possible by the relaxation of interest rate regulation.

The cash reserve requirement, 5.6 per cent, has not been changed since April 1984. However, owing to the extension of the reserve base in 1984, cash reserve deposits increased substantially during last autumn.

**CHART 6. MAIN MONETARY POLICY INSTRUMENTS**

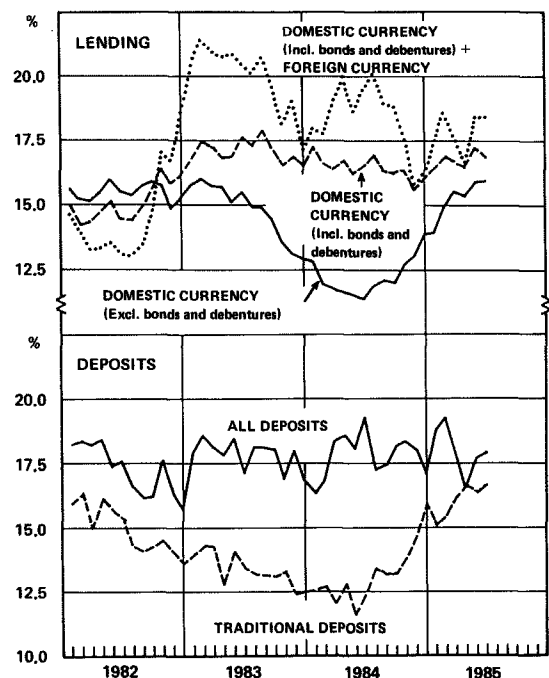


<sup>4</sup> See, for instance, the front article in the June-July 1984 issue of the Bulletin.

## FINANCIAL AGGREGATES

The tightening of monetary policy in the early months of 1984 resulted in a deceleration in the banks' markka-denominated lending subject to interest rate regulation (Chart 7). At the same time, the high unregulated money market rate prompted firms to defer investments to some extent. The interpretation that monetary policy affected the timing of investment is supported by the results of the Bank of Finland's investment inquiry carried out in June this year.<sup>5</sup>

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



The rate of growth of regulated rate lending has increased since the second half of 1984. Besides the lower call money rate, this may be due to the relaxation of interest rate regulation and the associated reintermediation of financial flows as well as the sharpened competition between banks. Growth of the banks' markka-denominated lending at unregulated rates (bonds and debentures) as well as lending denominated in foreign currency has decelerated, but is still high.

<sup>5</sup> See the item in the August 1985 issue of the Bulletin.

Like credit aggregates, developments in various deposit aggregates have also been characterized by rapid expansion in relation to real economic growth (Chart 7). The rate of growth of the banks' total unregulated-rate funding fell slightly during the second half of last year, whereas that of traditional deposits started to grow again. The demand for time deposits has been sustained by the fall in inflation and a continuingly high savings ratio.

## CAPITAL MARKETS

A further notable feature of recent developments in financial markets has been the expansion of the bond market. In addition to tax-free government bonds offered for public subscription, private issues of taxable bonds have, in recent years, secured a foothold on the bond market. Issues, especially of debentures, have grown at a rapid rate. This development is partly due to a tax deduction for capital income which has been applicable to interest earnings since 1982.

Almost as much finance was raised through share and bond issues last year as through bank credits at regulated rates. This is indicative of the strengthening of the capital market, which has traditionally been very thin in Finland. On the other hand, more than half of the bond issues were government bonds or loans of private-placement type.

The rate of growth in bond issues accelerated during the first half of this year. This was largely attributable to heavy sales of domestically issued bonds to international investors, who were attracted by a combination of high yields, favourable tax treatment and the stability of the Finnish markka. The value of bonds sold to foreigners through the Helsinki Stock Exchange is estimated to have amounted to FIM 4-5 million during the first six months of this year, i.e. more than during the whole of last year. To stem this inflow of foreign capital, the Bank of Finland decided to prohibit, until further notice, sales of markka-denominated bonds abroad as from June 24th 1985.

# MONETARY AND FOREIGN EXCHANGE POLICY MEASURES FROM OCTOBER 1984 TO SEPTEMBER 1985

**1984**

## **October**

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

## **November**

*Financing of domestic suppliers' credits.* The Bank of Finland raises the rate of interest applied to domestic suppliers' credits by one percentage point to 10 ½ per cent. At the same time, the Bank raises the lower limit on the contract price of a delivery which can be financed to FIM 1 million and the commitment fee to a maximum of 0.35 per cent. The revisions are to concern domestic suppliers' credits granted as from November 1, 1984.

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

*Insurance companies' right to acquire foreign shares.* On November 9, 1984, the Bank of Finland authorizes the insurance companies engaged in foreign insurance business to also invest, on certain conditions, the funds obtained from their foreign insurance business in foreign shares.

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

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

## **December**

*Banks' foreign lending activities and transactions in foreign securities.* Through permits entering into force at the beginning of December, the Bank of Finland increases the banks' opportunities to engage in foreign lending activities and dealings in foreign securities, particularly shares. These permits require that the credits granted to non-residents and the security purchases are refinanced mainly by resorting to foreign credit.

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

**1985**

## **January**

*Arrangement for the financing of short-term export credits.* On January 1, 1985, the Bank of Finland raises the rate of interest on short-term export credits so that, irrespective of the credit period, it is the same as the Bank of Finland's base rate at any one time. At the same time, the Bank of Finland decides to reduce the maximum annual average amount of the Bank's financing of short-term export credits from FIM 30 to FIM 20 million.

*Call money market.* The Bank of Finland lowers the call money rate from 14.8 to 14.6 per cent as from January 11 and further to 14.2 per cent as from January 25.

*Export deposits.* The Council of State decides to discontinue the collection of export deposits on pulp as from January 31, 1985.

## February

*Interest rate policy.* The Bank of Finland lowers its base rate from 9.5 to 9.0 per cent as from February 1. The banks are required to lower, in general, the rates of interest on their outstanding loans by 0.5 percentage point from the same date. The upper limit on the banks' lending rates is also lowered to 13.5 per cent. In addition, the rates of interest on the banks' tax-exempt deposit accounts fall, on average, by 0.5 percentage point.

*Domestic foreign-currency-denominated loans.* As from February 1, 1985, the Bank of Finland limits the amount of domestic foreign currency loans granted by an authorized bank which do not require the prior approval of the Bank of Finland to no more than the amount of domestic non-bank foreign currency deposits with the bank.

*Payments agreement between Finland and Hungary.* Under an agreement concluded between the Finnish and Hungarian authorities in October 1984, the payments agreement between the two countries terminates on January 31, 1985. As from February 1, 1985, payments between the two countries are to be effected in convertible currencies.

*Call money market.* The Bank of Finland lowers the call money rate from 14.2 to 14.0 per cent as from February 26.

## March

*Currency options.* The Bank of Finland decides to entitle the authorized banks to conclude option contracts as from March 1, 1985. However, these contracts may not concern rates of exchange quoted against the Finnish markka.

*Amendments to Foreign Exchange Regulations.* The Bank of Finland revises the Foreign Exchange Regulations in certain respects as from March 1, 1985. The main details of the amendments are as follows:

Dividend receipts from foreign direct investment in Finland can be transferred abroad

through an authorized bank without the Bank of Finland's special permission.

Obtaining collateral security on behalf of a non-resident is allowed without the Bank of Finland's special permission. Similarly, granting collateral security to a non-resident on behalf of a resident is allowed without special permission.

## April

*Payments Agreement between Finland and Bulgaria.* In keeping with an agreement concluded between the Finnish and Bulgarian authorities in November 1984, the US dollar clearing account between the two countries is replaced by a Finnish markka clearing account as from April 1, 1985.

*Export deposits.* On April 3, the Council of State decides to repay export deposits. The export deposits collected on sawn wood are to be repaid during June and those on pulp during November.

*Call money market.* The Bank of Finland lowers the call money rate from 14.0 to 13.8 per cent as from April 26.

## June

*Investment reserves.* On June 13, the Council of State decides to release, as from October 1, 1985, investment reserves made by companies for accounting periods ending in 1983 or earlier. In the Greater Helsinki area, such reserves may not be used until April 1, 1986. The utilization period is to expire on December 12, 1987.

*Sale of Finnish bonds abroad.* The Bank of Finland prohibits, until further notice, the sale abroad of bonds and debentures quoted on the Helsinki Stock Exchange as from June 24.

*Call money market.* The Bank of Finland lowers the call money rate from 13.8 to 13.6 per cent as from June 26.



## **August**

*Call money market.* The Bank of Finland lowers the call money rate from 13.6 to 13.3 per cent as from August 15.

## **September**

*Forward market.* The Bank of Finland issues new guidelines on operations in the forward

market. Under these guidelines, firms are granted the right to hedge against the foreign exchange risk arising from the difference between their foreign currency claims and liabilities. Firms and private persons may still hedge against foreign exchange risks on an individual transactions basis as before. The new guidelines are to enter into force on September 9, 1985.

## ITEMS

**Finland's balance of payments January-June 1985.** According to the Bank of Finland's preliminary figures, the current account showed a deficit of FIM 1 165 million in January-June of this year. The net inflow of long-term capital amounted to FIM 5 637 million. Most of this was attributable to sales to foreign investors of bonds and debentures issued in Finland. The net outflow of short-term capital totalled FIM 91 million. Since the total net inflow of capital exceeded the deficit on current account, the Bank of Finland's foreign exchange reserves grew by FIM 4 381 million. In the first half of 1984, the current account had shown a surplus of FIM 673 million.

*Current account.* The trade account (including adjustment items) registered a surplus of FIM 2 327 million in January-June, as compared with a surplus of FIM 3 467 million in the corresponding period last year. Commodity exports were up 8 per cent in value and 2 per cent in volume on January-June 1984. The paper and metal and engineering industries accounted for most of the growth in the volume of exports. The value of commodity imports rose by 12 per cent and the volume by 6 per cent. Import volumes of raw materials and intermediate goods and of consumer goods increased, whereas imports of investment goods remained virtually unchanged.

The surplus on the services account amounted to FIM 437 million, which was almost 50 per cent less than in the corresponding period last year. At FIM 1 848 million, the surplus on the transport account was slightly smaller because of a decline in transport receipts. Travel receipts grew by 4 per cent and travel expenditure by 14 per cent, giving rise to a deficit of FIM 922 million on the travel account. In the first half of the previous year, it had shown a deficit of FIM 696 million. The "other services account" recorded a deficit of FIM 489 million.

Interest payments on foreign loans amounted to FIM 6 054 million. With interest income on

foreign assets reaching FIM 2 974 million, the investment income account showed a deficit of FIM 3 080 million. This was FIM 149 million less than in January-June 1984. The unrequited transfers account registered a deficit of FIM 653 million.

*Capital account.* Drawings of long-term loans amounted to FIM 6 332 million in January-June, FIM 1.6 billion less than in the corresponding period last year. The central government accounted for FIM 1 974 million of the drawings. Redemptions of long-term loans totalled FIM 4 447 million. Drawings of long-term export credits granted to foreign customers reached FIM 325 million and redemptions of outstanding export credits FIM 1 015 million. Finnish net direct investment abroad totalled FIM 1 151 million and net foreign direct investment in Finland FIM 116 million. Portfolio investment in Finland amounted to FIM 4 304 million in net terms. The total net inflow of long-term capital reached FIM 5 637 million, which was FIM 1.9 billion more than in the corresponding period last year.

The inflow of short-term capital (including errors and omissions) totalled FIM 91 million in the first half of the year. Short-term liabilities related to imports grew by an estimated FIM 1 524 million, while net prepayments and receivables related to exports increased by FIM 3 498 million. The net short-term liability of the authorized banks went up by FIM 3 236 million.

The foreign exchange reserves of the Bank of Finland grew by FIM 4 381 million. The convertible foreign exchange reserves rose by FIM 3 802 million, while the remaining FIM 579 million was due to a shift in the tied currency account from a net liability to a net claim position. At the end of June, the convertible foreign exchange reserves of the Bank of Finland totalled FIM 22 290 million and the tied foreign exchange reserves FIM 253 million.

At the end of June, Finland's net foreign debt totalled FIM 54 754 million, of which the central government accounted for FIM 23 971 million. The net long-term debt amounted to FIM 58 477 million and net short-term claims to FIM 3 723 million.

**MAJOR BALANCE OF PAYMENTS ITEMS  
JANUARY—JUNE 1985, MILLION FIM<sup>1</sup>**

	Receipts	Expenditure	Net
Trade (exports f.o.b., imports c.i.f.)	42 626	40 114	2 512
Adjustment items	44	229	-185
Trade account	42 670	40 343	2 327
Transport (c.i.f.)	3 128	1 280	1 848
Travel	1 333	2 255	-922
Other services	2 290	2 779	-489
Services account	6 751	6 314	437
<b>GOODS AND SERVICES ACCOUNT</b>	<b>49 421</b>	<b>46 657</b>	<b>2 764</b>
Investment income, net	2 974	6 054	-3 080
Unrequited transfers	278	931	-653
Other	1 647	1 843	-196
<b>A. CURRENT ACCOUNT</b>	<b>54 320</b>	<b>55 485</b>	<b>-1 165</b>
	Change in assets	Change in liabilities	Net
Long-term financial loans and suppliers' credits: <sup>2</sup>			
drawings	-325	6 332	6 007
redemptions	1 015	-4 447	-3 432
Direct investment	-1 151	116	-1 035
Other long-term capital	-284	4 381	4 097
<b>B. LONG-TERM CAPITAL ACCOUNT</b>	<b>-745</b>	<b>6 382</b>	<b>5 637</b>
<b>BASIC BALANCE (A + B)</b>			<b>4 472</b>
Prepayments and liabilities related to imports			1 524
Prepayments and receivables related to exports			-3 498
Short-term capital of authorized banks <sup>3</sup>			3 236
Other short-term capital			-339
Errors and omissions			-1 014
<b>C. SHORT-TERM CAPITAL ACCOUNT</b>			<b>-91</b>
<b>D. ALLOCATIONS OF SDRs</b>			<b>-</b>
<b>OVERALL BALANCE (A + B + C + D)</b>			<b>4 381</b>
Change in the foreign exchange reserves of the Bank of Finland			-4 381

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

<sup>1</sup> Preliminary figures.

<sup>2</sup> Assets include export credits only.

<sup>3</sup> Figures include the foreign assets and liabilities of foreign branches.

(Continued from page 2)

have discouraged this type of disintermediation. The rapid expansion of finance companies, which are owned by banks, can to a certain extent be attributed to the confrontation between market forces and regulation.

The major change in the financial markets is in the way they function. Interest rates play a far more important role in allocating funds than before. Hence, it seems justified, at least as long as structural change goes on, to pay closer attention to the rate of interest and its relation to the real economy. Today, monetary policy is discussed in terms of interest rates.

The circumstances are new, but, with no previous experience on how the economy will react to interest rate fluctuations in the changed institutional setting, monetary policy is highly pragmatic. First, assessment of the monetary policy stance is based, in addition to various interest rates, on careful analysis of the growth of different credit and money supply aggregates. Secondly, monetary policy decisions have to be based more directly than before on continuous assessment of developments in the ultimate target variables (inflation, investment etc).

**EXPERIENCES**

The "new" monetary policy was put to the test in 1984 at a time when monetary expansion was rapid, demand strong and the rate of inflation still higher than in competitor countries. At the same time, the conditions in which traditional monetary policy had been pursued no longer existed. The direct effect of the rate of interest on financial markets became the crucial factor. Interest rates were kept high throughout the year with the result that both demand and inflation pressures were dampened. Thus, the efficiency of monetary control seems to have been maintained, even though the scope for various forms of direct regulation has been radically reduced. Stability in the financial markets has also been maintained despite the far-reaching changes in

the markets themselves and in the banks' competitive and operating conditions.

So far, the banks have not raised their lending rates to the full extent permitted under the system of lending rate regulation. This suggests that the market-clearing level of interest rates may not be so far away as has been feared.

It has been encouraging to note the general willingness, not least in political circles, to accept higher interest rates as part of the changes in the financial markets.

But, while there is reason to be fairly satisfied with our experiences so far of structural change and deregulation, the new situation is far from being problem-free. We still know very little about the impact of interest rates, and the fact that the markets are in the midst of an ongoing process of change, incorporating elements of both credit rationing and direct interest rate effects, makes any assessment especially difficult.

Moreover, 1984 showed just how mobile capital flows have become, although there was a limit to this mobility. However, the same high level of interest rates which attracted capital into the country also enabled excess liquidity to be sterilized at the Bank of Finland (call money deposits and forward claims). Nevertheless, both companies' and banks' liquidity have increased substantially, and this could entail certain risks if a shift were to occur in expectations concerning the real rate of return on investment and exchange rates.

As regards future prospects, another uncertainty is that the mobility of capital increase even further. More generally it can be said that the question as to what extent autonomy in monetary policy and what is feasible in this respect remains unanswered so far.

August 27, 1985

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## BANK OF FINLAND

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### Board of Management

Rolf Kullberg  
*Chairman*

Pentti Uusivirta                      Ele Alenius  
Harri Holkeri                          Seppo Lindblom  
*Absent as Minister  
of Trade and Industry*

Esko Ollila                              Markku Puntila  
*Acting Member of the Board*

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### Directors

Markku Puntila                      Eino Helenius  
Pentti Koivikko                      Sirkka Hämäläinen  
Matti Vanhala

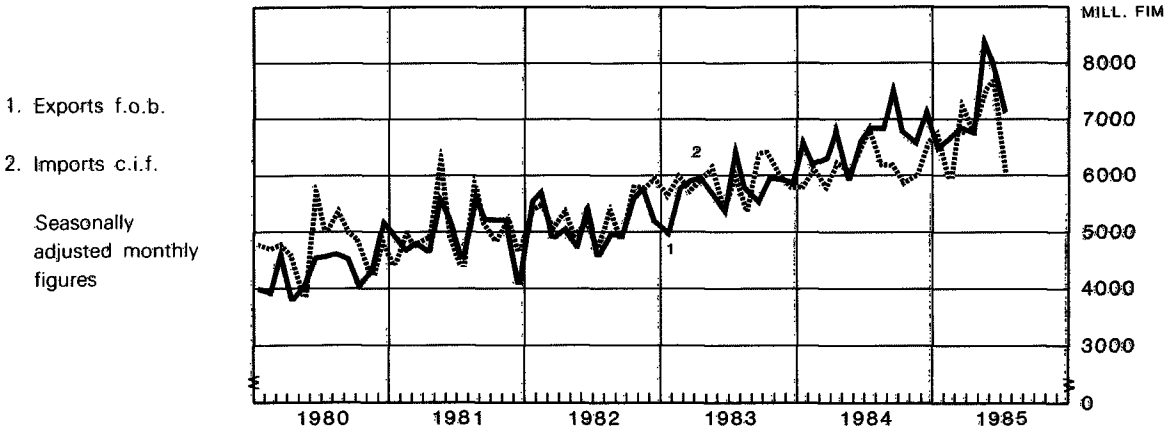
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### Senior officials

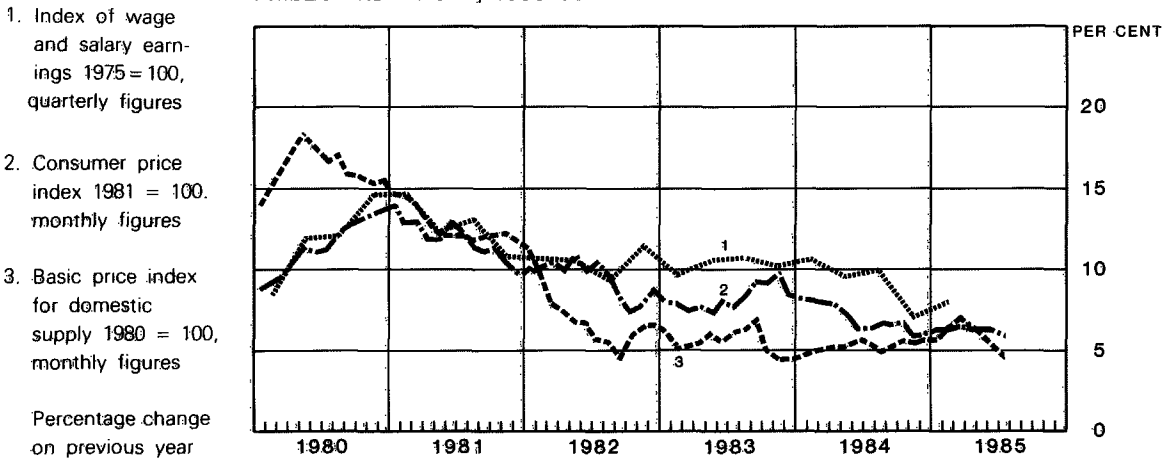
H.T. Hämäläinen                      Timo Männistö  
*Secretary to the Board  
of Management*                      *Internal Audit*  
Ossi Leppänen                          Urpo Levo  
*Accounting*                              *Administration*  
Reijo Mäkinen                          Raimo Hyvärinen  
*Cash*                                      *Domestic Financing*  
Stig G Björklund                      Anton Mäkelä  
*Payments*                                  *Personnel*  
Heikki Koskenkylä                      Erkki Vehkamäki  
*Research*                                  *Data Processing*  
Kari Puumanen                          Antti Heinonen  
*Economics*                                  *Information*  
Ralf Pauli                                  Kari Holopainen  
*Monetary Policy*                          *Bilateral Trade*  
J. Ojala                                      Johnny Åkerholm  
*Exchange Control*                          *Exchange Policy*  
Kari Pekonen                              Markus Fogelholm  
*Foreign Exchange*                          *Foreign Financing*

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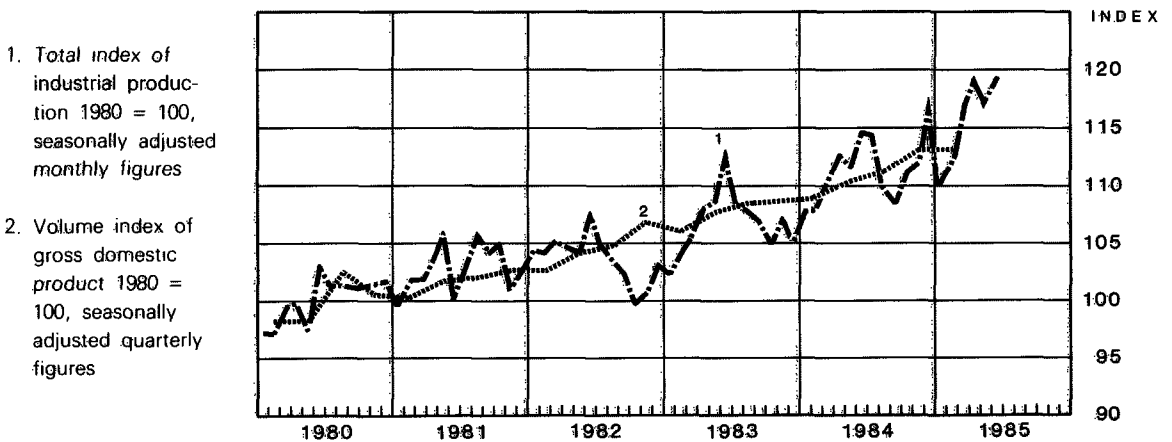
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### PRODUCTION, 1980-85



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