



BANK OF FINLAND

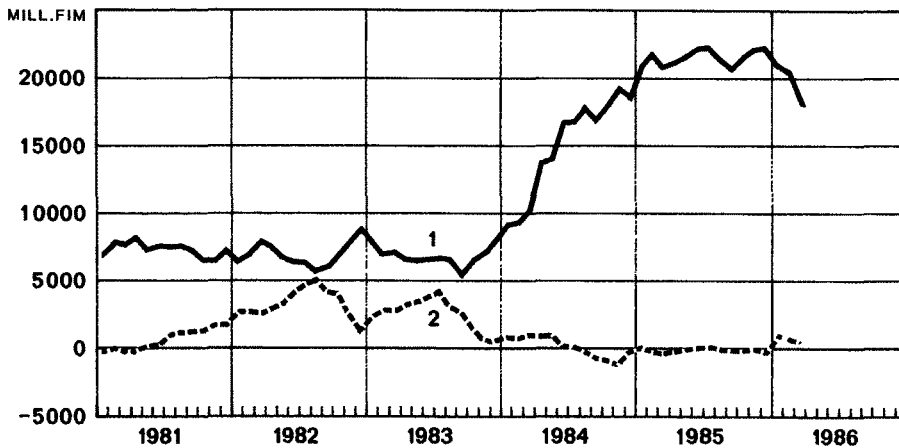
Monthly Bulletin

Recent monetary policy developments

The Finnish economy in 1985 and the
current outlook

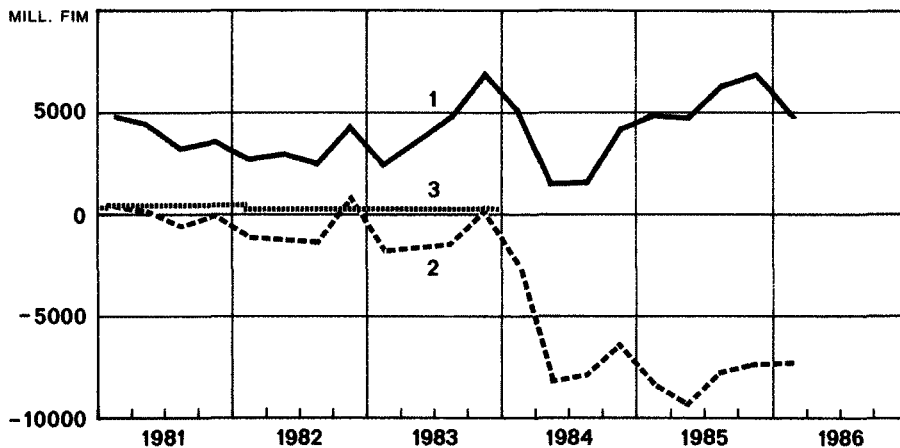
Monetary and foreign exchange policy
measures from April 1985 to March 1986

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



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

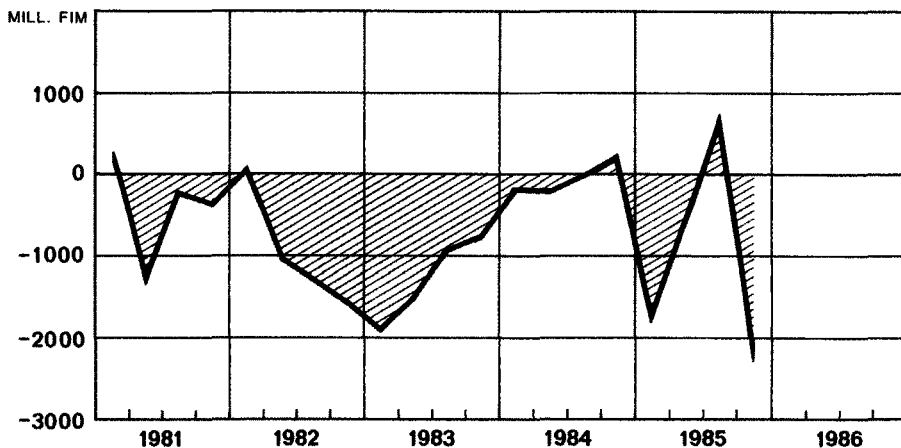
DEPOSIT BANKS' CENTRAL BANK POSITION, 1981-86



- 1. Gross central bank debt
- 2. Net central bank debt
- 3. Quotas

Quarterly average of daily amounts (1 and 2)

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



Seasonally adjusted quarterly figures

RECENT MONETARY POLICY DEVELOPMENTS

by **Sixten Korkman**, Head of Office
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The prospects for balanced and more rapid growth have recently been much improved in the OECD area by the fall in the oil price and the dollar. These developments are, on balance, favourable for Finland as well, but in the short run they will place heavy demands on the adjustment capacity of the economy. The forest industry is facing sharper competition from North American suppliers because of the fall in the dollar, and exports to the Soviet Union will have to be reduced as a consequence of lower oil prices. (Trade with Soviet Union is conducted on a bilateral basis and Finnish imports are dominated by crude oil and oil products.) In these circumstances a partial reorientation of Finnish foreign trade and an increase in exports to western markets are essential preconditions for growth to be sustained. The revival of demand in Europe will make this somewhat easier to achieve, but growth of exports also requires that price competitiveness be maintained or improved.

The adjustment problem referred to above has recently become an important consideration influencing monetary policy. It has added further significance to the endeavours to maintain and strengthen conditions conducive to a further moderation of wage and price behaviour. The fall in inflation has so far been mainly due to oil prices and the dollar. Henceforth, the deceleration in inflation will also have to be backed up by low domestic cost increases if it is not to be reversed.

The monetary policy measures undertaken so far this year include two reductions in the Bank of Finland base rate (discount rate), an easing in the cash reserve requirement and some lowering of the call money rate.

The base rate was lowered by 0.5 percentage point as from January 1 and by the same amount as from March 1. As a consequence, the base rate currently stands at 8 per cent.

The reductions in the base rate were motivated by lower inflation and some expected weakening in economic conditions. However, both the base rate and bank deposit and lending rates still remain relatively high in real terms. The Bank of Finland has indicated that a more pronounced cut in real interest rates would be possible if the outcome of incomes negotiations is consistent with falling inflation and maintenance of price competitiveness.

When lowering the base rate in January, the Bank of Finland also modified the rules restricting the setting of interest rates by banks. (For details, see p. 35). The measures undertaken amount to a further relaxation of interest rate regulation. As a result of the gradual liberalization of interest rates implemented in the past years interest rates on new loans are now determined by competition and market forces rather than by the base rate or interest rate regulation. Accordingly, the role of the base rate is, in present circumstances, somewhat less important than earlier. However, the base rate still determines the interest rates applied to normal tax exempt deposits (cf. the front article in the April 1986 issue of this bulletin), the interest rates on which are based on an interest rate agreement between banks. Also, the outstanding stock of bank loans is mainly at variable interest rates and is linked directly or through deposit rates to the base rate. Changes in the base rate thus continue to be important for developments in interest income and costs.

As part of the easing of monetary policy stance, the *cash reserve requirement* was successively lowered at the end of 1985 and in the opening months of this year from 5.6 to 4.7 per cent. However, the liquidity impact of the lower cash reserve requirement is not very important as banks have ready access to borrowing from the call money market. Moreover, the effect of the cash reserve system on

banks' profitability is relatively limited, since the rate of interest paid on cash reserve deposits is only 0.25 percentage point below the base rate.

The call money rate currently functions as an important determinant of short-term interest rates and the borrowing costs facing firms in credit markets. The Bank of Finland fixes the call money rate at levels decided upon and changed by the Bank's Board of Management. During the past year the call money rate has been gradually lowered and it now stands at some 11 per cent as compared to 14 per cent one year ago. The reduction in short-term interest rates has been associated with a partial reversal of the capital inflow experienced in 1984 and caused mainly by a very large interest rate differential in favour of markka-denominated assets. The call money rate remained practically unchanged in March and April, and other short-term rates have recently drifted upwards as earlier expectations of falling call money rates have subsided or even been reversed.

The call money market is operated by the Bank of Finland, and the interest rate used to be the same for borrowing and lending. Since January 1, however, the Bank of Finland has applied a somewhat higher interest rate to banks' borrowing than on their placements; the spread is at present 0.7 percentage point. The purpose of differentiating borrowing and lending rates in the call money market was to increase the banks' incentives to use interbank transactions to even out differences in their liquidity positions. Earlier, each bank tended automatically to cover a shortfall of liquidity by borrowing from the Bank of Finland in the call money market. Similarly, each bank disposed of excess funds by placing them with the Bank of Finland. Given the existence of a differential between lending and borrowing rates in the call money market, the banks are now induced to draw on the interbank market in their liquidity management before turning to the Bank of Finland. Of course, the call money market still reflects the liquidity position of the banking system as a whole, even though

surpluses and deficits of individual banks may be settled in the interbank market.

The introduction of a differential for call money rates determines only upper and lower limits for interest rates for overnight money in the interbank market. This constitutes a slight relaxation of the pegging of the call money rate, and it is to be seen as one of a number of actions aimed at furthering the development of a more active money market in Finland. The absence of a well-functioning secondary market is, however, mainly due to the lack of a homogeneous instrument in sufficient volumes. The market for forward exchange is the only market active and large enough to be of some importance for monetary policy. Certificates of deposits issued by banks and commercial paper issued by firms play only a limited role. The government has recently been auctioning 12-month debt certificates (similar to treasury bills), but the volumes remain insignificant. The public sector borrowing requirement is small by international standards, and a major part of it is covered by foreign borrowing and long-term (tax-exempt) bonds sold to households. Interestingly, the strength of the government financial position partly explains the relatively slow development of the Finnish money market.

From the point of view of monetary policy stance the outlook is somewhat ambiguous with respect to timing, if not to direction. A further deceleration in inflation seems likely and would contribute to a further reduction in nominal interest rates. It may also be felt desirable to encourage investment and domestic demand by means of some lowering of real interest rates. However, the economic prospects and their implications for policy are, at present, surrounded by many uncertainties. Moreover, it is imperative that monetary policy should remain firm enough to prevent the emergence of any destabilising expectations. All in all, there are good reasons at the moment for favouring the continuation of a cautious stance in monetary policy.

April 29, 1986

BANK OF FINLAND

Mill. FIM

	1985		1986			
	April 30	Dec. 31	April 8	April 15	April 23	April 30
Assets						
Gold and foreign currency claims	21 434	22 650	18 498	17 714	17 766	17 420
Gold	1 732	2 081	2 081	2 081	2 081	2 081
Special drawing rights	961	931	963	955	940	939
IMF reserve tranche	872	775	801	794	781	780
Convertible currencies	17 667	18 608	14 002	13 244	13 289	13 082
Tied currencies	202	255	651	640	675	538
Other foreign claims	2 822	2 645	2 623	2 623	2 623	2 623
Markka subscription to Finland's IMF quota	2 822	2 645	2 623	2 623	2 623	2 623
Claims on financial institutions	8 027	9 256	8 085	8 931	9 966	9 531
Banks' cheque accounts	71	—	—	—	—	—
Call money market advances	4 558	5 219	4 026	4 856	5 717	5 285
Till-money credits	1 435	1 925	1 842	1 826	1 989	1 984
Bonds	1 899	2 065	2 158	2 154	2 154	2 153
Other claims on financial institutions	64	47	59	95	106	109
Claims on the public sector	1 808	1 023	976	976	977	978
Government promissory notes	790	—	—	—	—	—
Bonds	149	118	70	70	71	71
Total coinage	856	891	902	902	903	904
Other claims on the public sector	13	14	4	4	3	3
Claims on corporations	4 858	4 679	4 790	4 932	4 948	4 961
Financing of exports	1 724	1 601	1 658	1 657	1 643	1 629
Financing of domestic deliveries	2 960	2 924	2 985	2 978	3 008	3 036
Bonds	92	81	75	75	75	75
Other claims on corporations	82	73	72	222	222	221
Other assets	144	146	147	147	146	148
Total	39 093	40 399	35 119	35 323	36 426	35 661
Liabilities						
Foreign currency liabilities	551	576	219	212	190	182
Convertible accounts	28	36	101	96	75	65
Tied currencies	523	540	118	116	115	117
Other foreign liabilities	3 739	3 494	3 475	3 468	3 454	3 453
IMF markka accounts	2 822	2 645	2 623	2 623	2 623	2 623
Allocations of special drawing rights	917	849	852	845	831	830
Notes and coin in circulation	7 173	8 072	7 649	7 832	7 840	8 094
Notes	6 464	7 304	6 894	7 074	7 082	7 330
Coin	709	768	755	758	758	764
Liabilities to financial institutions	15 536	12 153	10 686	10 491	11 816	10 771
Banks' cheque accounts	42	0	0	0	0	0
Call money market deposits	5 199	1 205	1 003	807	2 127	1 204
Cash reserve deposits	9 502	10 222	8 942	8 942	8 942	8 846
Capital import deposits	713	639	623	616	633	631
Other liabilities to financial institutions	80	87	118	126	114	90
Liabilities to the public sector	1 510	4 300	1 101	1 101	1 100	1 100
Cheque accounts	0	0	1	1	0	0
Government deposit account	1 000	4 300	1 100	1 100	1 100	1 100
Export deposits	99	—	—	—	—	—
Capital import deposits	411	—	—	—	—	—
Other liabilities to the public sector	0	0	0	0	0	0
Liabilities to corporations	3 417	4 267	4 452	4 745	4 742	4 809
Deposits for investment and ship purchase	2 523	3 841	3 844	3 844	3 843	3 904
Capital import deposits	891	424	599	892	890	896
Other liabilities to corporations	3	2	9	9	9	9
Other liabilities	15	14	19	15	14	15
Valuation account and reserves	832	1 639	1 634	1 575	1 386	1 353
SITRA's capital	400	400	400	400	400	400
Capital accounts	5 920	5 484	5 484	5 484	5 484	5 484
Primary capital	5 000	5 000	5 000	5 000	5 000	5 000
Reserve fund	764	764	484	484	484	484
Undisposed profits	126	—	—	—	—	—
Net earnings	30	-280	—	—	—	—
Total	39 093	40 399	35 119	35 323	36 426	35 661

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

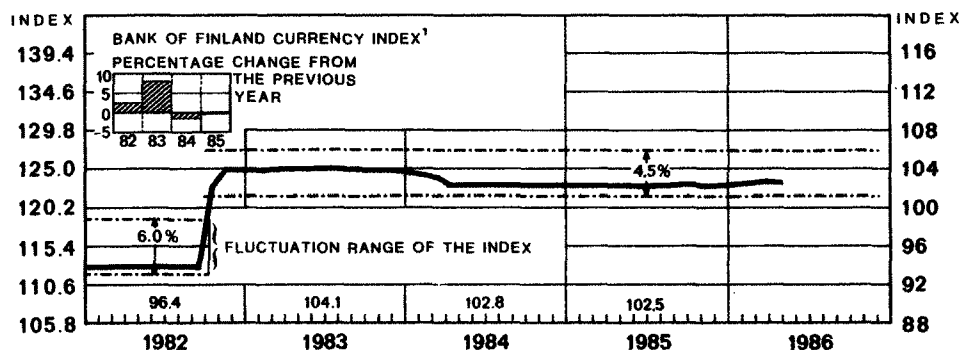
OFFICIAL FOREIGN EXCHANGE RESERVES

Mill. FIM

	Dec. 31, 1985	Jan. 31, 1986	Feb. 28, 1986	March 27, 1986	April 30, 1986
Gold	2 081	2 081	2 081	2 081	2 081
SDRs	931	930	916	959	939
IMF reserve tranche	775	786	751	797	780
Convertible currencies, net	18 572	17 353	16 865	14 581	13 017
Total convertible reserves, net	22 359	21 150	20 613	18 418	16 817
Tied currencies, net	-285	1 090	740	500	421
Total reserves, net	22 074	22 240	21 353	18 918	17 238

End of year or month	Domestic financial sector						Corporate sector				Notes and coin in circulation
	Till-money credits	Claims on cheque accounts, net	Demand for call money by deposit banks	Supply of call money by deposit banks	Cash reserve deposits	Other liabilities, net	Net claims (1+2+3-4-5-6)	Permanent special financing schemes	Liabilities, net	Net claims (8-9)	
	1	2	3	4	5	6	7	8	9	10	11
1982	889	163	3 126	1 470	3 132	-1 042	618	4 302	999	3 303	6 062
1983	942	443	5 785	610	5 039	-1 555	3 076	4 529	1 282	3 247	6 574
1984	1 563	383	5 018	2 216	8 696	-1 235	-2 713	4 646	2 614	2 032	7 442
1985	1 925	0	5 219	1 205	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1985											
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
Sept.	1 617	182	7 396	5 940	9 983	-1 352	-5 376	4 660	4 094	566	7 352
Oct.	1 567	-28	5 950	5 381	10 019	-1 384	-6 527	4 789	4 111	678	7 322
Nov.	1 450	-8	5 901	3 881	10 097	-1 992	-4 643	4 707	4 094	613	7 442
Dec.	1 925	0	5 219	1 205	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1986											
Jan.	1 558	0	1 852	1 734	9 828	-1 454	-6 698	4 654	4 434	220	7 455
Feb.	1 531	0	3 174	2 221	9 556	-1 530	-5 542	4 654	4 282	372	7 499
March	1 657	0	3 806	1 102	8 942	-1 494	-3 087	4 691	4 299	392	7 840
April	1 984	0	5 285	1 204	8 846	-1 541	-1 240	4 665	4 513	152	8 094

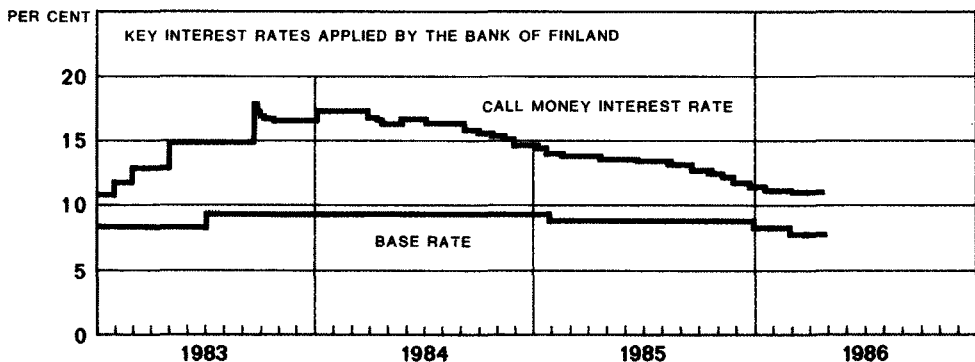
¹ The left-hand scale depicts movements in the external value of the markka under the index in use until December 31, 1983 (1974 = 100), and the right-hand scale movements in the external value of the markka under the revised index introduced on January 1, 1984 (1982 = 100).



MONETARY POLICY INDICATORS

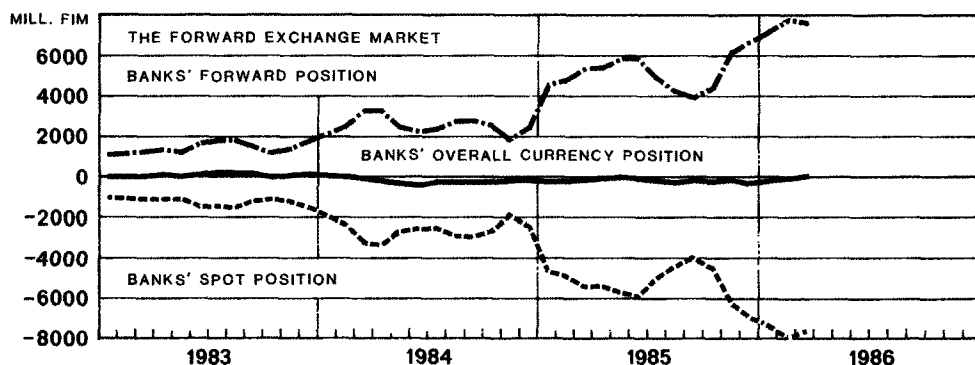
Average for period	Gross central bank debt of the deposit banks mill. FIM	Net central bank debt of the deposit banks mill. FIM	Cash reserve deposits of the deposit banks mill. FIM	Cash reserve requirement %	Call money credit extended by the Bank of Finland	Call money interest rate %	Average cost of gross central bank debt %	Base rate %	Average lending rate of the commercial banks ¹ %
	1	2	3	4	5	6	7	8	9
1981	4 095	-33	2 795	3.5	2 161	11.48	11.61	9.25	9.84
1982	3 201	-783	2 778	3.1	1 571	11.64	11.99	8.81	9.33
1983	4 539	-1 213	4 345	4.3	2 724	15.37	15.14	9.00	9.56
1984	3 176	-6 365	6 325	5.4	-39	16.53	16.53	9.50	10.49
1985	5 812	-8 293	9 578	5.6	1 285	13.37	13.37	9.04	10.41
1985									
Feb.	4 414	-9 319	8 815	5.6	-504	14.18	14.18	9.00	10.30
March	5 727	-8 143	9 262	5.6	1 119	14.00	14.00	9.00	10.36
April	5 483	-8 902	9 453	5.6	552	13.96	13.96	9.00	10.38
May	4 691	-9 268	9 504	5.6	236	13.80	13.80	9.00	10.37
June	4 337	-10 150	9 588	5.6	-562	13.77	13.77	9.00	10.37
July	5 444	-8 711	9 695	5.6	984	13.60	13.60	9.00	10.40
Aug.	6 153	-7 843	9 881	5.6	2 038	13.43	13.43	9.00	10.43
Sept.	7 771	-6 928	9 930	5.6	3 002	13.11	13.11	9.00	10.42
Oct.	7 516	-7 079	9 982	5.6	2 904	12.78	12.78	9.00	10.43
Nov.	6 407	-8 485	10 024	5.6	1 539	12.37	12.37	9.00	10.40
Dec.	7 084	-6 784	10 101	5.6	3 317	11.96	11.96	9.00	10.37
1986									
Jan.	5 280	-7 742	10 210	5.3	2 467	11.64	11.64	8.50	9.90
Feb.	4 242	-8 187	9 818	5.0	1 631	11.40	11.40	8.50	9.90
March	5 146	-5 927	9 457	4.7	3 530	11.21	11.21	8.00	9.49
April	5 034	-5 565	8 939	4.7	3 374	11.20	11.20	8.00	..

¹ End of period.



FORWARD EXCHANGE MARKETS IN FINLAND

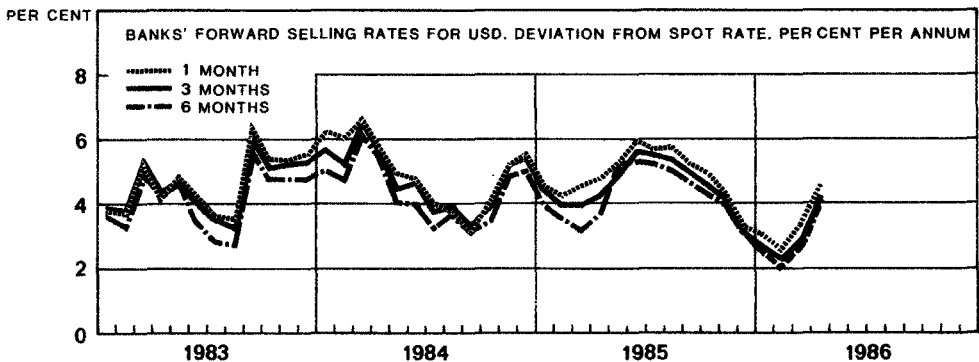
Period	Banks' forward positions in mill. FIM with						Banks' forward selling rates for USD		
	Domestic firms			Foreign banks Net	Bank of Finland Net	Overall Net	Deviation from spot rate, per cent per annum		
	Assets	Liabilities	Net				1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
1984	22 921	1 394	21 527	2 002	-19 962	3 746	5.6	5.5	5.1
1985	16 982	1 733	15 249	708	-9 005	6 876	3.3	3.2	3.1
1984									
Nov.	22 383	1 786	20 597	1 790	-20 139	2 460	5.3	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	-18 323	5 186	4.3	4.0	3.6
March	23 344	2 247	21 097	1 048	-16 848	5 575	4.6	4.0	3.3
April	22 987	2 219	20 769	1 640	-16 768	5 753	4.8	4.3	3.8
May	22 085	2 316	19 769	1 708	-15 704	5 865	5.3	4.9	4.5
June	21 221	2 259	18 962	1 941	-15 352	5 478	6.0	5.7	5.4
July	19 534	2 250	17 284	2 418	-14 224	5 558	5.7	5.6	5.3
Aug.	18 271	2 727	15 544	1 083	-12 493	4 163	5.8	5.4	5.1
Sept.	17 755	2 889	14 866	92	-11 101	3 811	5.3	5.0	4.7
Oct.	17 666	2 795	14 871	805	-9 813	5 986	5.0	4.6	4.3
Nov.	17 510	2 014	15 496	1 200	-10 032	6 702	4.3	4.1	4.0
Dec.	16 982	1 733	15 249	708	-9 005	6 876	3.3	3.2	3.1
1986									
Jan.	17 233	1 945	15 288	543	-8 349	7 457	3.1	2.7	2.6
Feb.	16 911	1 989	14 923	0	-7 015	7 952	2.7	2.4	2.1
March	16 365	2 095	14 270	11	-6 298	8 042	3.5	3.0	2.8



FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange. F!M

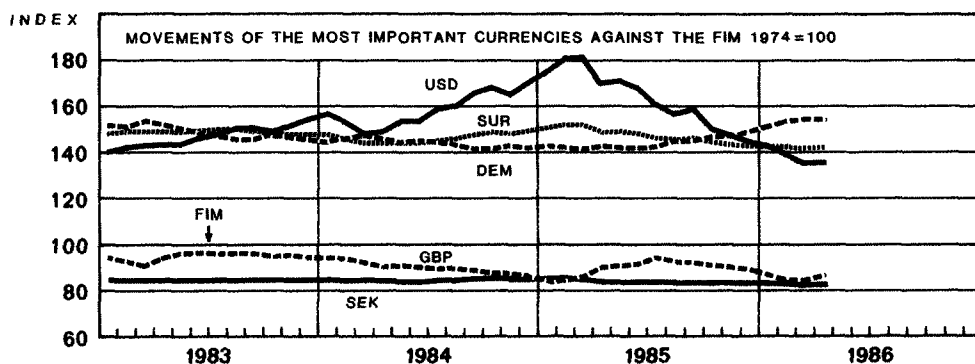
Period	New York 1 US \$ USD	Montreal 1 C \$ CAD	London 1 £ GBP	Dublin 1 Ir£ IEP	Stockholm 100 Skr SEK	Oslo 100 Nkr NOK	Copenhagen 100 Dkr DKK	Frankfurt 100 DM DEM	Amsterdam 100 Hfl NLG	Brussels 100 FB BEC	BEL
	1	2	3	4	5	6	7	8	9	10	11
1981	4.315	3.602	8.731	6.976	85.74	75.54	60.96	191.31	173.43	11.688	11.095
1982	4.820	3.913	8.423	6.854	77.03	74.84	57.93	198.76	180.66	10.584	9.859
1983	5.570	4.524	8.456	6.957	72.75	76.44	61.07	218.61	195.66	10.934	10.742
1984	6.010	4.645	8.023	6.533	72.77	73.84	58.16	211.65	187.72	10.428	10.274
1985	6.206	4.554	8.000	6.590	72.22	72.31	58.71	211.42	187.45	10.483	10.421
1985											
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
Sept.	6.025	4.404	8.232	6.611	71.89	72.39	58.60	212.50	188.92	10.510	10.431
Oct.	5.690	4.168	8.106	6.676	71.63	72.10	59.41	215.47	191.11	10.633	10.556
Nov.	5.579	4.060	8.042	6.668	71.60	71.66	59.53	215.40	191.26	10.654	10.608
Dec.	5.487	3.941	7.952	6.737	71.57	71.85	60.23	218.51	194.03	10.722	10.666
1986											
Jan.	5.419	3.860	7.747	6.772	71.49	71.90	60.64	222.15	197.11	10.875	10.733
Feb.	5.258	3.748	7.513	6.827	71.14	72.27	61.15	225.39	199.50	11.018	10.904
March	5.131	3.659	7.531	6.868	71.01	72.07	61.43	226.89	200.97	11.087	10.962
April	5.128	3.700	7.682	6.853	70.92	71.80	61.17	225.64	200.20	11.066	10.970



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 Cl Rbl SUR	1 special drawing right SDR	Currency index ¹
12	13	14	15	16	17	18	19	20	21	22
220.34	79.92	0.385	27.17	7.17	60.35	4.72	1.967	5.986	5.071 40	113.1
237.79	73.65	0.358	28.31	6.13	40.79	4.41	1.943	6.624	5.305 63	115.9
265.70	73.53	0.369	31.11	5.14	23.25	3.91	2.351	7.491	5.943 25	125.1
256.42	69.07	0.344	30.13	4.14	19.39	3.75	2.534	7.357	6.147 39	102.8
253.60	69.40	0.327	30.12	3.67	15.20	3.66	2.610	7.419	6.278 77	102.5
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
258.26	69.77	0.318	30.25	3.57	14.57	3.59	2.550	7.366	6.183 31	102.6
262.81	70.80	0.320	30.69	3.52	13.85	3.54	2.653	7.262	6.051 77	102.6
262.36	70.80	0.320	30.66	3.50	13.63	3.51	2.740	7.209	6.016 47	102.4
261.01	71.57	0.322	31.12	3.48	13.36	3.54	2.710	7.183	5.971 01	102.5
262.42	72.55	0.327	31.63	3.49	13.03	3.56	2.712	7.164	5.940 24	102.6
269.08	73.58	0.332	32.10	3.50	12.80	3.59	2.850	7.161	5.926 58	102.7
269.37	73.91	0.335	32.36	3.48	12.67	3.62	2.876	7.131	5.888 85	102.8
269.68	71.33	0.331	32.17	3.46	12.61	3.58	2.931	7.148	5.886 47	102.7

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



DEPOSITS BY THE PUBLIC

Mill. FIM

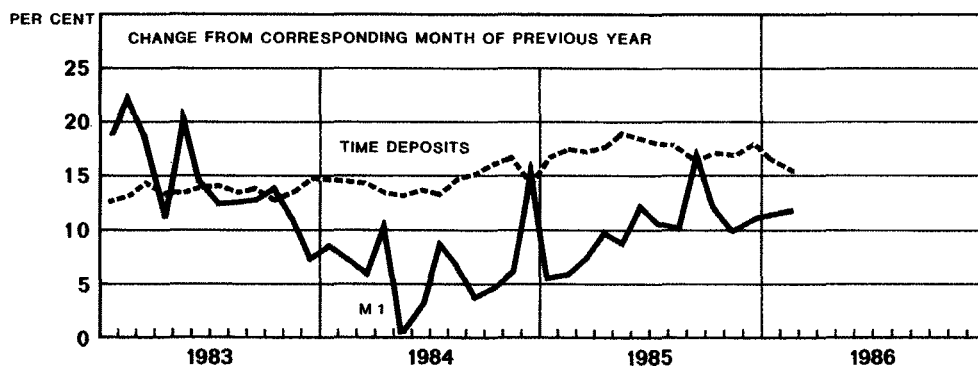
End of year and month	Demand deposits				Time deposits					Total (4+9)
	Commercial banks	Savings banks & Co-op. banks	Posti-pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	All deposit banks (5 to 8)	
	1	2	3	4	5	6	7	8	9	10
1982	7 155	3 874	3 049	14 078	29 465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

1985*

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	16 041	41 866	34 729	29 275	11 806	117 677	133 717
March	6 579	4 273	4 663	15 515	42 639	34 658	29 180	11 692	118 170	133 685
April	7 660	4 505	4 786	16 950	42 772	34 904	29 368	11 726	118 770	135 720
May	7 463	4 733	4 364	16 559	43 804	35 347	29 838	11 893	120 881	137 440
June	7 621	4 755	5 168	17 544	44 443	36 047	30 500	11 768	122 758	140 302
July	7 927	4 874	5 283	18 084	44 294	36 219	30 455	11 799	122 767	140 851
Aug.	7 222	4 917	5 739	17 878	44 796	36 551	30 741	12 083	124 171	142 049
Sept.	8 081	5 072	6 243	19 397	44 770	36 469	30 658	11 973	123 870	143 267
Oct.	8 281	5 194	5 547	19 022	45 896	36 825	30 892	12 366	125 979	145 001
Nov.	7 654	5 038	5 057	17 749	46 887	37 016	31 155	12 220	127 278	145 027
Dec.	9 382	5 988	5 027	20 397	49 240	38 167	32 133	12 671	132 210	152 607

1986*

Jan.	8 239	5 350	5 210	18 798	49 624	38 550	32 842	12 867	133 883	152 681
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ADVANCES TO THE PUBLIC – MONEY SUPPLY

Mill. FIM

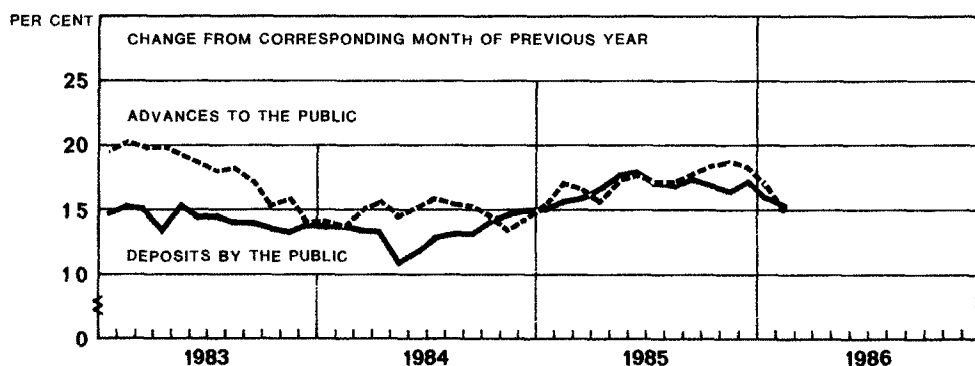
End of year and month	Advances granted by				Types of advances			Total (1 to 4) (5 to 7)	Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency		M ₁	M ₁ + Quasi-Money
	1	2	3	4	5	6	7		8	9
1982	48 620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

1985*

Jan.	68 756	33 087	31 445	15 369	120 263	6 014	22 380	148 658	23 357	143 069
Feb.	71 757	33 384	31 707	15 328	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	15 484	124 351	6 320	24 425	155 095	23 595	147 783
May	75 015	34 172	32 621	15 883	126 022	6 365	25 304	157 691	23 423	149 700
June	77 246	34 390	32 983	15 959	127 596	6 279	26 703	160 579	24 750	153 455
July	77 104	34 848	33 378	16 074	128 886	6 242	26 275	161 403	24 902	154 118
Aug.	77 677	35 276	33 824	16 082	130 846	6 333	25 680	162 859	24 783	155 013
Sept.	79 367	35 764	34 411	16 376	133 113	6 637	26 167	165 917	26 092	156 195
Oct.	80 304	36 141	34 826	16 442	134 924	6 333	26 456	167 712	25 607	158 054
Nov.	81 573	36 467	35 216	16 727	136 739	6 373	26 872	169 984	24 691	157 772
Dec.	81 669	36 991	35 751	16 745	140 139	6 313	24 704	171 155	27 694	166 652

1986*

Jan.	83 252	37 502	36 049	17 168	142 071	7 148	24 751	173 971	26 029	167 354
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STATE FINANCES

Mill. FIM

Revenue	Jan.-Nov.	
	1984	1985
Income and wealth tax (net)	21 207	24 149
Gross receipts	52 640	59 671
Refunds & local authorities	-31 434	-35 522
Other taxes on income and wealth	567	552
Employers' child allowance payments	223	669
Sales tax	19 736	22 419
Customs duties and import charges and levies	1 568	1 492
Excise duties	9 968	10 587
Excise duty on alcoholic bevs.	3 669	3 804
Excise duty on tobacco	1 479	1 523
Excise duty on liquid fuel	3 495	3 628
Other excise duties	1 325	1 633
Tax on autom. and motor-cycles	2 407	2 589
Stamp duties	2 059	2 422
Special diesel etc. vehicles tax	317	351
Other taxes and similar revenue	1 900	1 934
Total taxes	59 951	67 166
Miscellaneous revenue	4 909	5 247
Interest, dividends etc.	1 499	1 981
Surplus of state enterprises	1 808	1 925
Redemptions of loans granted	1 377	1 541
Total revenue	69 544	77 859
Foreign borrowing	4 633	3 374
Domestic borrowing	5 297	7 000
Total borrowing	9 930	10 374
Deficit (+) or surplus (-)	-160	-107
Total	79 314	88 125

Expenditure	Jan.-Nov.	
	1984	1985
Wages, salaries, pensions etc.	12 070	13 228
Repair and maintenance	1 501	1 682
Other consumption expenditure	6 621	7 734
Total consumption expenditure	20 192	22 644
State aid to local authorities	16 728	19 262
State aid to industries	8 483	8 797
of which: agric. price subsidies	3 934	4 598
Child allowances	2 340	2 473
Share in national pensions and sickness insurance schemes	2 138	2 041
Deficit of State enterprises	1 105	1 084
Other transfer expenditure	9 928	11 278
Total transfer expenditure	40 722	44 936
Machinery and equipment	1 643	1 826
Construction of buildings	1 164	1 018
Land and waterway construction	2 117	2 173
Total real investment	4 923	5 018
Interest on State debt	3 654	4 364
Other expenditure	18	26
Total other expenditure	3 672	4 390
Increase in inventories	-50	161
Lending	3 766	3 793
Other financial investment	639	790
Total expenditure	73 864	81 732
Redemption of foreign loans	1 840	1 334
Redemption of domestic loans	3 609	5 059
Total redemptions	5 449	6 393
Total	79 314	88 125

State debt	1983	1984	1985			
	Dec.	Dec.	Sept.	Oct.	Nov.	Dec.
Foreign debt	21 723	24 946	25 787	26 205	26 027	25 677
Long-term debt	16 383	19 057	20 196	20 603	20 902	20 872
Short-term credit	18	266	314	314	314	432
Domestic debt	16 401	19 323	20 510	20 917	21 216	21 304
Total State debt	38 124	44 269	46 297	47 122	47 243	46 981
Total debt mill. \$	6 506	6 855	7 684	8 282	8 468	8 562

FOREIGN TRADE

Mill. FIM

Period	Value, mill. FIM		
	Exports f.o.b	Imports c.i.f.	Surplus of exports (+) or imports (-)
	1	2	3
1981	60 308	61 269	-961
1982	63 026	64 751	-1 725
1983	69 692	71 528	-1 836
1984	80 904	74 682	+6 222
1985*	84 022	81 406	+2 616

1985*	Exports f.o.b	Imports c.i.f.	Surplus of exports (+) or imports (-)
Jan.	6 905	7 086	-181
Feb.	6 586	4 787	+1 799
March	6 616	6 945	-329
April	7 090	7 074	+16
May	8 569	7 153	+1 416
June	6 842	7 063	-221
July	7 107	6 734	+373
Aug.	6 659	5 788	+871
Sept.	6 901	7 020	-119
Oct.	7 467	8 155	-688
Nov.	6 727	6 636	+91
Dec.	6 552	6 965	-413

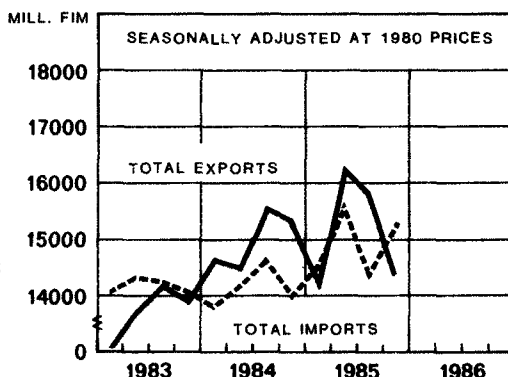
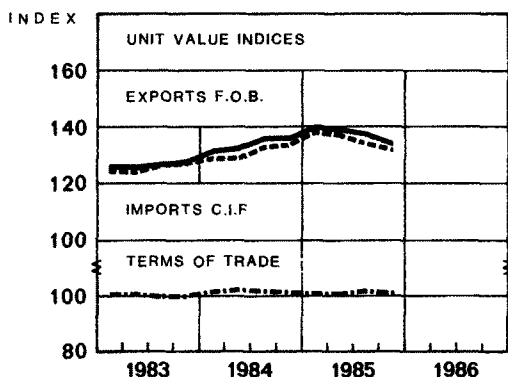
1986*	Exports f.o.b	Imports c.i.f.	Surplus of exports (+) or imports (-)
Jan.	6 798	7 471	-673

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

1983	Exports	Imports	Exports	Imports	Terms of trade
Oct.-Dec.	115	108	128	128	100

1984	Exports	Imports	Exports	Imports	Terms of trade
Jan.-March	114	90	132	129	102
Apr.-June	113	99	133	130	103
July-Sept.	108	99	137	133	102
Oct.-Dec.	121	101	137	134	102

1985*	Exports	Imports	Exports	Imports	Terms of trade
Jan.-March	108	93	140	138	101
Apr.-June	121	106	139	137	101
July-Sept.	114	100	138	134	102
Oct.-Dec.	117	113	134	132	102



FOREIGN TRADE BY MAIN GROUPS

Mill. FIM

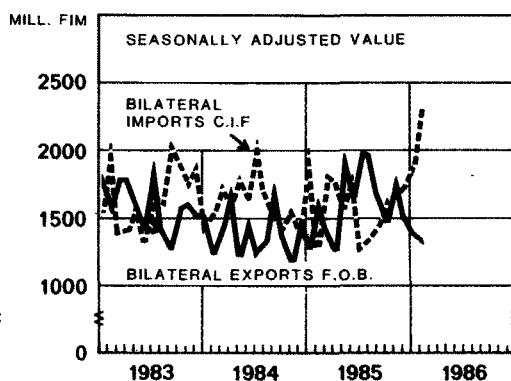
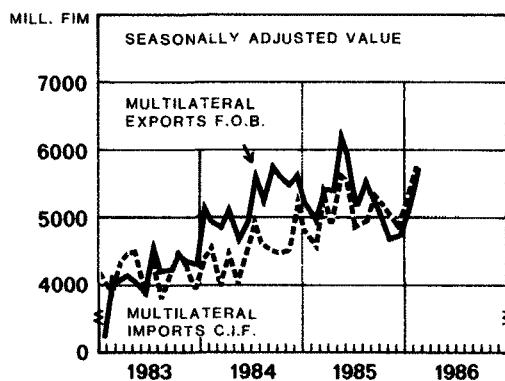
Period	Exports. f.o.b.					Imports. c.i.f.				
	Agricultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Raw materials and intermediate goods	Fuels and lubricants	Finished goods		Other goods
								Investment goods	Consumer goods	
1	2	3	4	5	6	7	8	9	10	
1981	2 036	6 852	17 127	14 858	19 435	39 156	5 115	8 877	8 015	106
1982	1 676	6 278	17 502	18 908	18 662	41 144	4 869	9 195	9 130	413
1983	1 723	6 944	19 327	20 211	21 487	44 757	5 006	10 860	10 572	333
1984	2 865	7 145	23 573	22 998	24 323	47 028	5 034	10 993	11 454	173
1985*	2 678	6 728	25 046	24 401	25 169	50 845	5 492	11 671	12 966	433

1985*

Jan.	282	622	2 050	1 834	2 117	4 740	274	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	2 113	4 252	248	1 082	1 214	149
April	287	590	2 221	1 885	2 107	4 377	436	1 049	1 203	9
May	292	620	2 352	2 869	2 436	4 776	395	928	1 047	7
June	212	680	1 855	2 008	2 088	4 528	601	1 020	911	4
July	152	504	2 215	2 265	1 972	4 185	637	885	997	30
Aug.	142	507	2 251	1 830	1 929	3 435	491	833	1 020	9
Sept.	155	503	2 094	2 022	2 127	4 435	458	937	1 184	6
Oct.	185	629	2 165	1 963	2 526	4 987	742	1 169	1 251	5
Nov.	155	588	1 888	2 175	1 921	3 892	556	1 074	1 105	9
Dec.	128	538	1 807	2 104	1 974	4 498	436	1 027	996	8

1986*

Jan.	274	490	1 855	2 202	1 977	4 871	475	1 038	1 080	7
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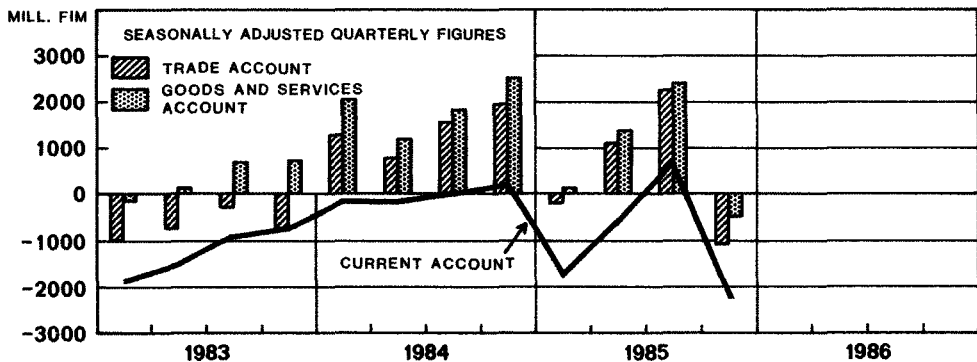
FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports, f.o.b.				Imports, c.i.f			
	January				January			
	1985*		1986*		1985*		1986*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
OECD countries in Europe	56.6	3 910	61.7	4 193	54.6	3 878	51.2	3 827
Austria	0.7	47	0.8	51	0.9	66	1.0	74
Belgium and Luxembourg	1.8	127	1.7	115	1.8	124	1.9	140
Denmark	4.5	309	5.8	397	1.9	137	2.1	160
France	5.2	359	4.5	305	3.2	229	3.0	222
Federal Republic of Germany	8.9	616	9.3	633	12.9	914	14.1	1 054
Italy	2.0	140	2.3	153	3.0	216	3.1	231
Netherlands	2.5	173	3.0	203	2.2	157	2.5	185
Norway	3.1	216	4.3	289	6.0	428	3.6	268
Portugal	0.2	15	0.3	19	0.6	41	0.8	58
Spain	0.8	54	0.7	47	0.9	62	1.4	103
Sweden	13.0	895	15.4	1 049	11.6	826	11.1	832
Switzerland	1.5	102	1.6	106	1.4	102	1.3	97
United Kingdom	10.9	753	10.7	729	7.4	522	4.9	364
Other	1.5	104	1.4	97	0.8	54	0.5	39
OECD countries outside Europe	12.0	825	9.3	632	10.6	753	12.1	901
Canada	1.7	114	1.2	79	0.7	52	0.5	38
Japan	1.7	116	1.4	94	5.0	354	5.5	412
United States	7.0	482	5.1	349	4.8	342	5.6	416
Other	1.6	113	1.6	110	0.1	5	0.5	35
CMEA countries	18.7	1 295	19.3	1 311	25.9	1 837	22.8	1 703
Czechoslovakia	0.4	30	0.3	20	0.5	34	0.5	36
German Democratic Republic	0.7	50	0.4	25	0.4	31	0.6	44
Poland	0.4	25	0.2	15	1.2	83	1.1	80
Soviet Union	16.3	1 129	17.5	1 187	22.8	1 616	20.1	1 500
Other	0.9	61	0.9	64	1.0	73	0.6	43
Latin America	0.8	56	1.3	86	2.2	155	1.9	144
Argentina	0.1	5	0.1	10	0.1	8	0.1	4
Brazil	0.0	3	0.2	14	0.7	47	0.6	44
Colombia	0.2	13	0.1	8	0.6	45	0.6	42
Other	0.5	35	0.8	54	0.8	55	0.7	54
Other	11.9	821	8.4	576	6.7	475	12.0	896
GRAND TOTAL	100.0	6 907	100.0	6 798	100.0	7 098	100.0	7 471
of which								
EFTA countries	18.8	1 297	22.1	1 505	20.8	1 479	17.1	1 276
EEC countries	36.9	2 548	39.1	2 655	32.9	2 333	34.1	2 547
OECD countries	68.5	4 735	71.0	4 825	65.2	4 631	63.3	4 729

BALANCE OF PAYMENTS

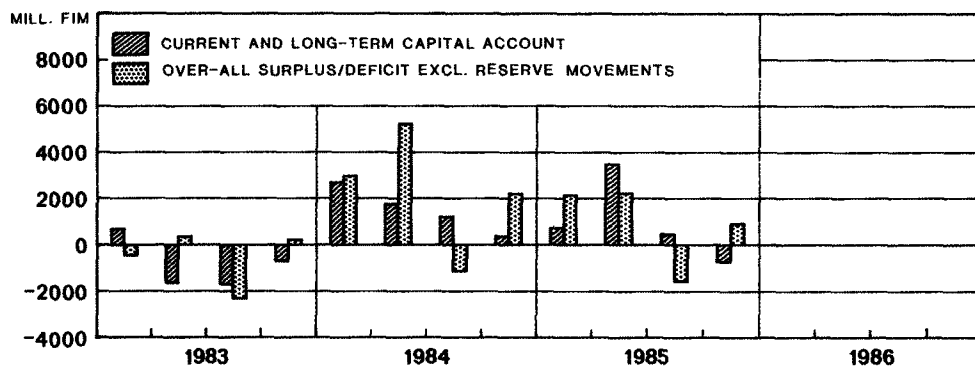
Period	Exports f.o.b.	Imports c.i.f.	Trade account (1-2)	Transport. net	Travel. net	Other services, net	Goods and services account (3 to 6)	Invest- ment income, net	Un- required transfers, net	Other. net	Current account (7 to 10)
	1	2	3	4	5	6	7	8	9	10	11
1982	62 867	65 147	-2 280	+2 856	-277	+1 732	+2 031	-5 447	-643	+161	-3 898
1983	69 368	72 139	-2 771	+3 200	-748	+1 610	+1 291	-5 817	-797	+96	-5 227
1984*	80 608	75 099	+5 508	+3 909	-1 212	-393	+7 812	-6 781	-1 037	-244	-250
1985*	83 900	81 900	+2 000	+3 800	-1 600	-500	+3 700	-6 200	-1 150	-350	-4 000
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	17 067	+2 612	+967	-370	-61	+3 148	-2 010	-272	-72	+794
Apr.-June	19 700	18 845	+855	+985	-326	-181	+1 332	-1 219	-190	-45	-121
July-Sept.	19 395	19 324	+71	+1 105	-123	-104	+949	-1 593	-267	-52	-963
Oct.-Dec.	21 834	19 863	+1 971	+853	-393	-47	+2 384	-1 959	-309	-76	+40
1985*											
Jan.-March	20 064	18 942	+1 123	+889	-490	-254	+1 268	-1 585	-349	-131	-798
Apr.-June	22 479	21 411	+1 068	+970	-444	-187	+1 406	-1 707	-289	-56	-646
July-Sept.	20 645	19 654	+991	+994	-247	-26	+1 712	-1 408	-222	-63	+19
Oct.-Dec.	20 712	21 893	-1 181	+948	-419	-34	-687	-1 500	-289	-100	-2 576



Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net	Long-term capital account (12 to 15)	Current and long-term capital account (11 + 16)	Prepayments and liabilities related to imports	Prepayments and receivables related to exports	Short-term capital of authorized banks, net	Miscellaneous, short-term capital items, incl. errors and omissions	Over-all surplus deficit excl. reserve movements (17 to 21)	Bank of Finland foreign exchange reserves
12	13	14	15	16	17	18	19	20	21	22	23
-10 213	-4 721	-1 239	-3 642	+611	-3 287	-914	-771	+1 493	+1 811	-126	+126
+10 112	-7 273	+423	-1 388	+1 874	-3 353	+3 273	-3 380	+1 266	+32	-2 162	+2 162
+14 087	-7 538	-1 682	+1 428	+6 295	+6 045	+695	+3 308	+2 086	-2 859	-9 275	-9 275
-13 009	-8 179	+1 354	+1 813	+7 997	+3 997	+2 000	-7 053	+4 800	0	+3 744	-3 744
+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	+161	+2 531	-308	+5 222	-5 222
+2 495	-1 185	-603	+1 475	+2 182	+1 219	+332	+6	-2 186	-511	-1 140	+1 140
+3 659	-2 115	-933	-276	+335	+375	+278	+2 005	-702	+251	+2 208	-2 208
-2 977	-1 738	+336	-49	+1 526	+728	+533	-1 027	+1 924	-6	+2 153	-2 153
+3 355	-2 709	+369	+3 111	+4 126	+3 480	+862	-1 693	+1 582	-2 003	+2 228	-2 228
+2 460	-1 621	+263	-627	-475	+494	-56	-965	-1 540	+501	-1 566	+1 566
+4 217	-2 111	+386	-622	+1 870	-706	+661	-3 368	-2 835	+1 509	+930	-930

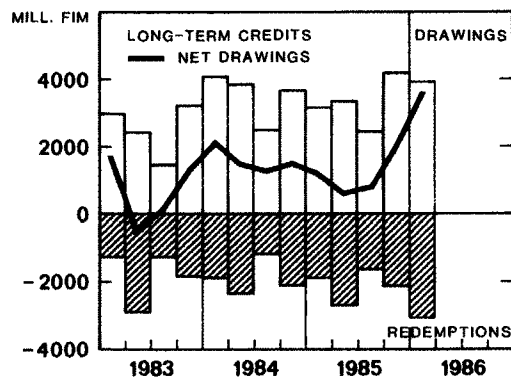
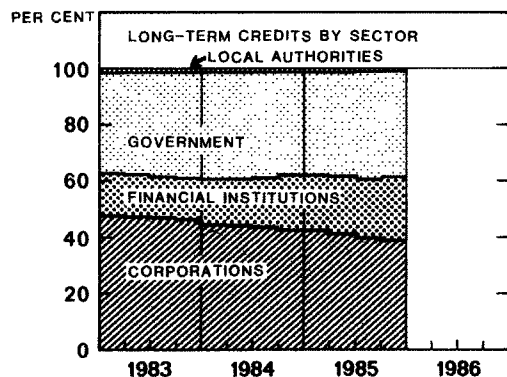
Assets: increase -, decrease +. Liabilities: increase +, decrease -

¹ Including allocations of special drawing rights totalling FIM 131 million.

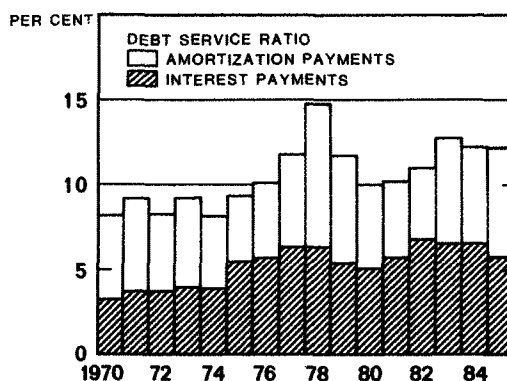
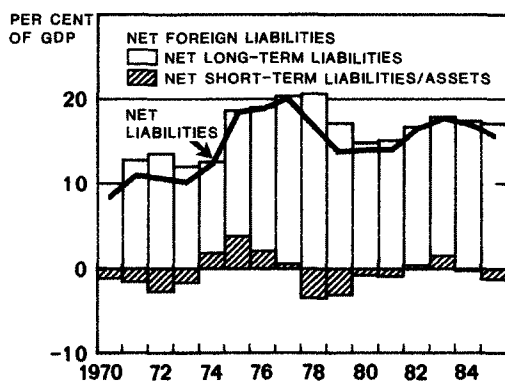


FINLAND'S FOREIGN ASSETS AND LIABILITIES

End of year and month	Long-term assets				Long-term liabilities						Net long-term liabilities (10-4)
	Export credits	Direct investment	Other	Total (1 to 3)	Financial loans	Import credits	Direct investment	Portfolio investment	Other	Total (5 to 9)	
	1	2	3	4	5	6	7	8	9	10	11
1982	6 628	4 626	3 796	15 050	47 547	4 608	2 223	..	752	55 130	40 080
1983	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1984*	8 920	8 689	1 915	19 524	63 958	3 865	2 646	2 013	805	73 287	53 763
1985*	6 566	10 553	2 787	19 906	64 598	2 927	3 010	6 277	1 065	77 877	57 971
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	8 034	9 824	2 195	20 053	65 273	3 350	2 763	6 317	873	78 576	58 523
Sept.	7 200	10 290	2 179	19 669	64 060	3 080	2 809	6 210	867	77 026	57 357
Dec.	6 566	10 553	2 787	19 906	64 598	2 927	3 010	6 277	1 065	77 877	57 971



Short-term assets				Short-term liabilities				Net short-term liabilities (19-15)	Net liabilities (11+20)	Debt service flow	Of which amortization payments flow
Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (12 to 14)	Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (16 to 18)				
12	13	14	15	16	17	18	19	20	21	22	23
12 737	22 899	13 858	49 494	5 348	31 331	13 782	50 461	967	41 047	9 069	3 464
11 842	29 263	15 915	57 020	5 705	39 443	16 180	61 328	4 308	49 116	11 591	5 621
22 912	43 319	12 491	78 722	4 562	55 695	17 922	78 179	-543	53 220	12 878	5 896
25 183	43 990	16 854	86 027	4 070	60 506	16 980	81 556	-4 471	53 500	13 293	6 951
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	44 984	13 492	83 261	4 535	59 101	18 298	81 935	-1 327	53 413	3 301	1 688
26 208	46 661	14 605	87 473	3 729	62 282	18 558	84 570	-2 904	55 619	3 894	2 110
24 770	44 927	14 477	84 174	4 240	58 729	17 207	80 176	-3 999	53 358	2 976	1 542
25 183	43 990	16 854	86 027	4 070	60 506	16 980	81 556	-4 471	53 500	3 122	1 611



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			
		2	3	4	5	6	7	8	9	10
1984	1 261	134.5	136.0	130.0	132.6	137.5	135.8	136.5	133.7	136.1
1985	1 324	140.5	143.1	132.8	137.5	145.8	142.4	144.3	144.4	142.8
1985										
Aug.	1 324	140.2	143.7	129.4	136.1	146.8	143.5	145.6	146.0	144.0
Sept.	1 326	140.8	143.6	132.3	137.0	146.7	143.9	145.8	146.2	144.2
Oct.	1 319	140.0	143.3	129.8	135.4	146.7	144.2	145.9	146.4	144.3
Nov.	1 314	139.5	143.1	128.7	134.5	146.8	144.6	146.1	146.0	144.7
Dec.	1 316	139.5	143.1	128.7	134.3	147.2	144.6	146.4	146.2	145.0
1986										
Jan.	1 312	139.0	143.2	126.2	133.2	147.4	144.9	148.4	150.8	146.1
Feb.	1 297	137.0	142.9	119.2	129.1	147.3	146.1	148.5	151.0	146.6
March	1 279	135.0	141.6	115.2	125.5	146.7	147.0	148.8	151.0	146.7

Period	Consumer prices 1981 = 100									
	Total	Food	Beverages and tobacco	Clothing and footwear	Rent, heating and lighting	Household goods and services	Health and medical services	Transport and communication	Education and recreation	Other goods and services
1984	127.1	129.1	132.5	119.5	124.5	123.0	145.2	125.4	126.4	130.8
1985	134.6	139.1	140.3	126.1	130.9	129.7	155.7	130.4	132.5	140.4
1985										
Aug.	135.6	141.4	139.7	126.4	132.6	130.4	157.1	129.8	133.1	141.7
Sept.	135.8	140.0	141.4	128.0	132.8	131.1	157.2	130.1	134.0	142.1
Oct.	136.0	140.0	141.4	129.7	132.9	131.8	158.3	129.7	134.4	142.2
Nov.	136.1	140.0	141.4	130.2	133.0	132.0	159.0	129.4	134.9	142.7
Dec.	136.2	139.8	141.4	130.3	133.0	132.1	159.0	130.1	135.0	142.8
1986										
Jan.	137.2	141.4	144.7	126.6	133.2	132.6	162.5	130.1	136.0	146.1
Feb.	137.8	142.1	144.7	128.4	133.7	133.3	162.6	130.9	136.1	147.2
March	138.1	143.2	144.7	130.8	133.6	133.6	162.6	129.9	136.2	147.4

WAGES

Index of wage and salary earnings 1980 = 100

Period	By industries				By institutional sectors			All salary earners	All wage earners	All employees
	Wage earners in			Employees in services	State employees	Municipal employees	Employees in private sector			
	Agriculture	Industry	Construction							
1	2	3	4	5	6	7	8	9	10	
1983	132.1	137.3	138.2	138.8	137.3	140.0	137.3	138.4	136.9	137.8
1984*	148.5	149.9	152.8	152.8	147.1	154.7	150.5	151.4	149.7	150.8
1985*	160.6	161.5	167.8	164.6	158.0	166.1	163.1	163.6	161.9	163.0
1984*										
Oct.-Dec.	154.6	152.7	158.0	155.2	149.2	156.5	154.2	154.3	153.4	154.0
1985*										
Jan.-March	150.6	157.0	164.3	160.3	154.2	162.5	157.4	158.3	157.2	157.9
Apr.-June	163.2	163.0	168.6	165.7	159.2	167.0	164.5	164.7	163.5	164.3
July-Sept.	161.9	162.2	168.3	165.9	159.1	167.3	164.3	165.0	162.6	164.1
Oct.-Dec.	166.6	163.7	170.1	166.5	159.4	167.6	166.3	166.2	164.5	165.6

PRODUCTION

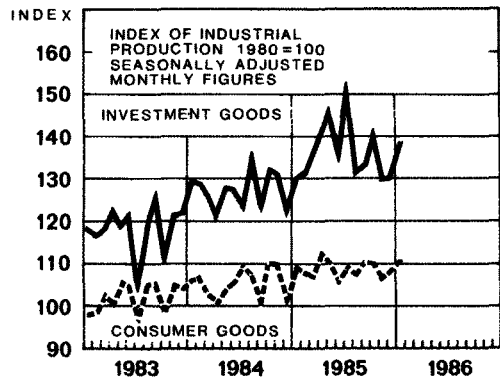
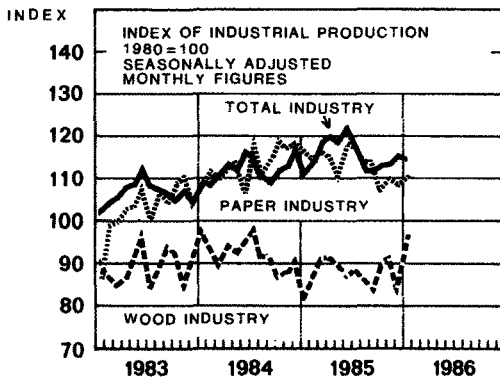
Volume indices of production 1980 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communication	Commerce	Public sector services	Others
1983										
Oct.-Dec.	117	116	88	101	148	104	121	117	114	121
1984*										
Jan.-March	104	110	76	89	82	93	103	98	114	113
Apr.-June	109	114	84	90	84	104	109	108	114	121
July-Sept.	110	102	203	45	114	104	107	110	115	119
Oct.-Dec.	121	123	96	118	141	106	121	119	117	127
1985*										
Jan.-March	108	111	76	101	82	91	107	100	117	117
Apr.-June	114	120	81	107	86	106	112	112	117	127
July-Sept.	112	106	186	37	111	106	112	113	118	125
Oct.-Dec.	124	123	89	107	143	107	127	124	120	133

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	
					5	6	7	8	9	10	
1	2	3	4	5	6	7	8	9	10	11	
1983	107.1	119.0	102.6	107.1	108.9	89.9	103.5	106.2	115.0	114.5	107.1
1984*	112.4	127.8	106.0	112.5	110.1	92.4	114.3	110.8	109.2	121.6	112.7
1985*	115.8	137.0	109.0	115.0	109.4	87.8	113.9	115.0	112.9	130.1	116.2
1985*											
Jan.	118.9	134.0	115.8	117.4	103.3	78.7	119.0	109.7	109.2	130.0	111.8
Feb.	110.4	128.9	106.2	108.9	89.9	77.1	110.3	109.6	88.2	121.8	114.3
March	122.3	149.6	113.6	121.5	105.5	98.0	123.3	125.7	113.1	138.2	118.9
April	120.1	147.7	112.0	119.0	106.7	107.6	105.4	129.8	103.9	138.8	121.2
May	128.7	175.4	117.5	125.6	114.1	115.9	108.2	126.8	125.3	160.3	119.2
June	115.2	153.1	103.3	114.0	102.8	93.7	106.7	108.2	115.5	138.0	122.8
July	80.9	66.7	71.7	87.7	102.5	40.2	127.5	76.7	71.6	67.8	118.5
Aug.	115.1	127.6	108.5	115.8	112.5	81.9	119.7	121.1	132.3	123.4	112.3
Sept.	118.2	134.0	111.9	118.1	107.8	94.5	112.9	121.7	137.1	132.2	112.1
Oct.	129.4	157.5	124.5	126.5	136.6	108.1	113.0	126.2	138.5	150.4	113.5
Nov.	123.1	142.9	120.0	120.7	128.0	95.4	117.7	116.0	121.1	139.0	113.8
Dec.	106.8	126.8	102.5	105.1	103.0	62.0	103.6	108.3	99.1	121.4	115.8
1986*											
Jan.	122.0	143.3	118.1	119.8	103.7	92.1	112.0	120.8	103.8	139.0	115.0



LABOUR – TIMBER FELLINGS – INTERNAL TRADE

Period	Population of working age, 1 000 persons	Total labour force, 1 000 persons	Employed, 1 000 persons	Un-employed, 1 000 persons	Unemployment, % of total labour force	Commercial timber fellings, 1 000 solid cu. m	Retail sales volume index 1980 = 100	Wholesale volume index 1980 = 100
	1	2	3	4	5	6	7	8
1984*	3 700	2 572	2 414	159	6.2	41 288	109	109
1985*	3 710	2 600	2 437	163	6.3	43 349	114	109
1985*								
Jan.	3 706	2 531	2 360	171	6.8	4 241	102	99
Feb.	3 707	2 534	2 363	171	6.7	4 581	98	96
March	3 706	2 528	2 355	173	6.8	6 031	108	109
April	3 707	2 565	2 394	171	6.6	5 882	110	111
May	3 709	2 611	2 461	150	5.7	4 598	121	115
June	3 708	2 761	2 594	167	6.1	2 407	115	102
July	3 708	2 780	2 621	159	5.7	1 121	120	95
Aug.	3 712	2 631	2 481	150	5.7	1 212	117	108
Sept.	3 714	2 563	2 405	158	6.2	1 951	111	113
Oct.	3 714	2 556	2 396	160	6.3	2 962	118	124
Nov.	3 714	2 580	2 409	171	6.6	3 768	116	117
Dec.	3 714	2 563	2 406	157	6.1	4 729	134	119
1986*								
Jan.	3 714	2 553	2 360	193	7.6	4 232
Feb.	3 715	2 541	2 346	195	7.7	4 596

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	19.67	6.44	18.34	3.64	47.37	18.43	5.91	16.33	3.54	51.44
1984*	49.69	19.93	5.65	17.45	3.14	44.24	17.65	5.13	15.76	2.83	52.13
1984*											
July-Sept.	12.91	4.85	1.28	4.68	1.04	9.70	3.66	1.67	2.74	0.90	55.86
Oct.-Dec.	10.28	3.44	0.81	4.65	0.72	14.40	5.84	1.96	5.00	0.65	52.13
1985*											
Jan.-March	9.15	3.44	1.10	3.17	0.86	8.46	3.77	0.55	2.87	0.73	48.36
Apr.-June	17.09	7.24	3.08	4.80	0.75	9.82	3.96	0.70	3.39	1.02	52.99
July-Sept.	11.82	4.37	1.60	4.00	0.93	9.27	3.51	1.63	2.78	0.71	56.74
Oct.-Dec.	9.45	2.86	0.89	4.24	0.86	15.03	5.38	1.77	6.15	0.78	50.24

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

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

STATE FINANCES

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

FOREIGN TRADE

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

BALANCE OF PAYMENTS

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

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

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

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

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

FOREIGN ASSETS AND LIABILITIES

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

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

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

Columns 22 and 23 during the year and the quarter.

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

PRICE INDICES

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

WAGES - PRODUCTION

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

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

LABOUR - TIMBER FELLINGS - INTERNAL TRADE - CONSTRUCTION OF BUILDINGS

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

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

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

SOME PARTICULARS ABOUT FINLAND

FORM OF GOVERNMENT

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

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

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

INTERNATIONAL ORGANIZATIONS

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

LAND

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

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

POPULATION

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

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

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

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

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

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

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

TRADE AND TRANSPORT

NATIONAL INCOME (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 2 419 (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 (1983). The growing stock comprised of 1 660 million m³ (solid volume with bark) of which 45 % was pine and 37 % spruce the remaining 18 % being broad-leaved trees chiefly birch. Of the growing stock 666 million m³ was up to the standard required for logs. 51 % of these being pine. The annual growth was 68 million m³ and the total drain calculated on the basis of roundwood consumption was 49.4 million m³.

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

INDUSTRY (1983). Gross value of industrial production FIM 222 602 mill., number of workers 398 066, salaried employees 146 503, motive power 8.3 mill. kW. Index of industrial production 107 (for 1983 (1980=100)).

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

MERCHANT FLEET (Dec. 31, 1985): Passenger vessels 161 (246 112 gross reg. tons), tankers 36 (784 471 gross reg. tons), dry cargo vessels 139 (597 967 gross reg. tons), other vessels 103 (21 137 gross reg. tons), total 439 (1 649 687 gross reg. tons).

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

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

FINANCE AND BANKING

CURRENCY. Since 1860, Finland has had its own monetary system. From 1877 until 1914 the country was on the gold standard, and returned to it in 1926. In 1931, the Central Bank's duty to redeem bank notes in gold was suspended and at the end of 1962 was entirely cancelled. The monetary unit is the markka (plural: markkaa), which is divided into 100 penniä (singular: penni). The abbreviation used for the markka is FIM. The last par value of the markka was set on Oct. 12, 1967 and was 0.21159 grams of fine gold per markka (equivalent, at the time, to 4.20 markkaa per U.S. dollar). Since Nov. 1, 1977 the external value of the markka has been officially expressed in terms of a currency index. This index is tradeweighted and as from Jan. 1, 1984 indicates the average change in the convertible currencies which are important in Finnish foreign trade. The present currency weights are SEK 19.8, DEM 19.0, GBP 15.1, USD 9.9, other currencies 36.20. The permissible range of fluctuation is about 2.25 per cent on either side of the theoretical arithmetic mean. The fluctuation limits are 106.0 and 101.3.

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

OTHER CREDIT INSTITUTIONS (Dec. 31, 1984). There are two big and eight small commercial banks with in all 942 offices, 263 savings banks, 370 co-operative banks, five mortgage banks, 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 (March 1, 1986). The Bank of Finland's base rate is 8 %. The interest rates for domestic lending other than bank financing by the Bank of Finland vary between 5 % and 10 %. Other credit institutions: time deposits 3 %; 6 month deposits 5 %; 12 month deposits 6 ½ %; 24 month deposits 7 % and sight deposits %.

THE FINNISH ECONOMY IN 1985 AND THE CURRENT OUTLOOK

by **Tapio Peura**, M.Sc. (Econ.)
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In 1985, the Finnish economy experienced a continuation of moderate, well-balanced growth, with total output increasing by 3 per cent for the fourth year in succession. During the latter half of the year, however, the growth of GDP slowed down considerably as a result of a weakening in exports to western markets. On the domestic demand side, both consumption and investment recovered and, together with a shift towards products with a higher import content, this led to an increase in the volume of imports. As a result, the current account moved into a small deficit after having been in broad balance in the previous year.

The rate of inflation eased appreciably in the course of 1985, and by March of this year the 12-month change in consumer prices was down to 3.8 per cent. A major factor contributing to the slowdown was the sharp decline in foreign trade prices which started in the spring of 1985. There was also a reduction in the growth of domestic costs last year, although labour costs still increased at faster rate than in Finland's competitor countries. In keeping with the objective of combatting inflation, the overall stance of economic policy was kept fairly restrictive throughout the year.

Recent changes in the international environment pose severe adjustment problems for the Finnish economy. The collapse of oil prices means a sharp reduction in the value of Finland's imports from the Soviet Union, which, owing to the bilateral nature of the trade, will lead to a contraction in Finnish exports to that country. Exchange rate movements between major currencies are inducing changes in Finland's competitive position in western markets, at a time when overall demand in the region is expected to recover. Thus, total exports in 1986 are projected to remain at the level of the

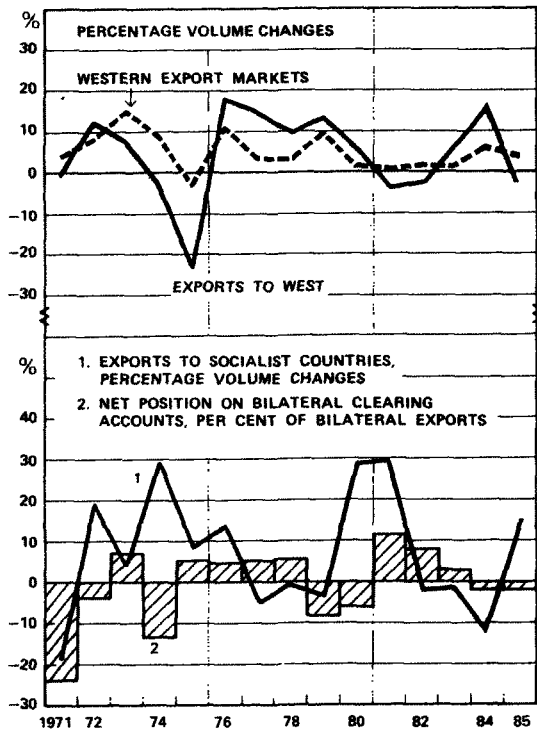
previous year. Only private consumption and public expenditure are expected to contribute positively to the growth of total output, which is forecast to decelerate to below the trend of the past few years.

RECENT DEVELOPMENTS IN THE INTERNATIONAL ENVIRONMENT

The international environment of the Finnish economy has undergone drastic changes during the past 12 months. Reflecting largely developments in the United States, the growth of output in the industrial countries slowed down in the course of 1985, thereby contributing to a weakening in the expansion of world trade. Growth in Finland's export markets amounted to less than 5 per cent (Chart 1). The depreciation of the US dollar has led to a realignment in competitive positions in world markets. Although the Finnish markka has remained stable in relation to a trade-weighted basket of currencies, changes against individual currencies have been substantial. By mid-April of this year, the markka had risen by some 25 per cent against the dollar since the turnaround in the dollar in February 1985, whereas it had fallen by some 8 per cent vis-à-vis the Deutsche Mark over the same period. These currency movements have tended to exacerbate the competitive position of the forest industry while enhancing that of other industries.

Although the collapse of oil prices is likely to boost demand in Finland's western export markets, it will also cause major adjustment problems for the Finnish economy. The most important of these is the need to cut back Finland's bilateral exports to the Soviet Union

CHART 1. GROWTH OF MARKETS AND EXPORTS



to correspond to the reduced import energy bill.

On the other hand, lower oil prices, together with the fall in value of the dollar and a concomitant lowering of interest rates, are likely to lead to a pick-up in demand in the OECD area. This will also have positive effects on Finnish exports. However, these conflicting pressures will give rise to some uncertainty in the business climate.

MAIN FEATURES OF ECONOMIC POLICIES

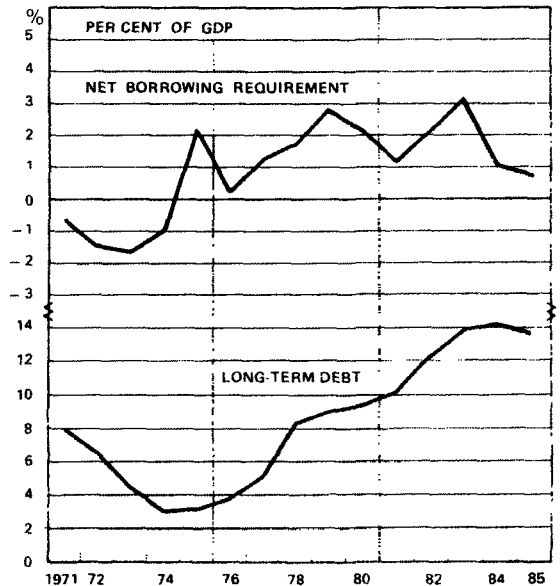
After the expansionary economic policies pursued during the international recession of 1981-82, both fiscal and monetary policy swung over to a more restrictive stance. The aim of the tightening was to preserve the relatively good balance which had been achieved in the economy in the previous years. The most serious threat to the continuation of balanced growth was felt to be inflation, which, in spite of moderating, was still running

faster than in competitor countries on average. It was feared that this would endanger Finland's international competitiveness over the longer term. Another reason was the desire to balance central government finances. The overall policy stance was kept relatively tight last year.

FISCAL POLICY AND PUBLIC FINANCE

The growth prospects for 1985 were good when the budget proposal for that year was drawn up. Accordingly, fiscal policy focused on curbing inflation and strengthening central government finances prior to the onset of the next recession. One indication of the tightening of fiscal stance was the rise in the net tax ratio - partly due to technical reasons relating to the reform of the unemployment security system - by around one percentage point to over 23 per cent. The state's net financing requirement decreased to 0.8 per cent of GDP as against 1.1 per cent in the previous year. Consequently, central government indebtedness in relation to GDP decreased somewhat, amounting to about 14 per cent at the end of 1985 (Chart 2).

CHART 2. CENTRAL GOVERNMENT FINANCES



Monetary policy was also kept relatively tight throughout last year in keeping with the aim of combatting inflation. Although both the base rate and especially the call money rate were lowered in the course of the year, real rates of interest nevertheless remained at historically high levels owing to the slowdown in inflation. Measures to promote gradual deregulation of financial markets were continued by alleviating the control of average bank lending rates and by abolishing the upper limit on lending rates at the end of the year.

The Bank of Finland gradually lowered domestic interest rates during the year in line with the easing of inflation and the downward trend of interest rates abroad. The base rate was cut by 0.5 percentage point to 9 per cent at the beginning of February 1985. Similarly, the call money rate was successively lowered from 14.8 to 11.7 per cent in the course of the year, thereby contributing to a marked decrease in domestic interest rate differentials (Charts 3 and 4).

With the continued deceleration in consumer price inflation and clear signs of a weakening in economic activity, there have been further

CHART 3. MONETARY POLICY INDICATORS

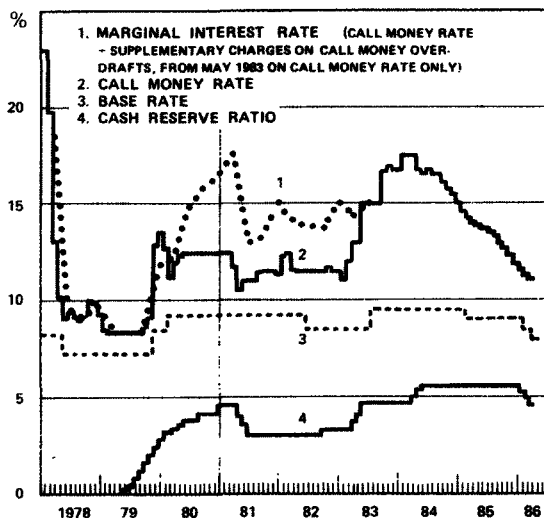
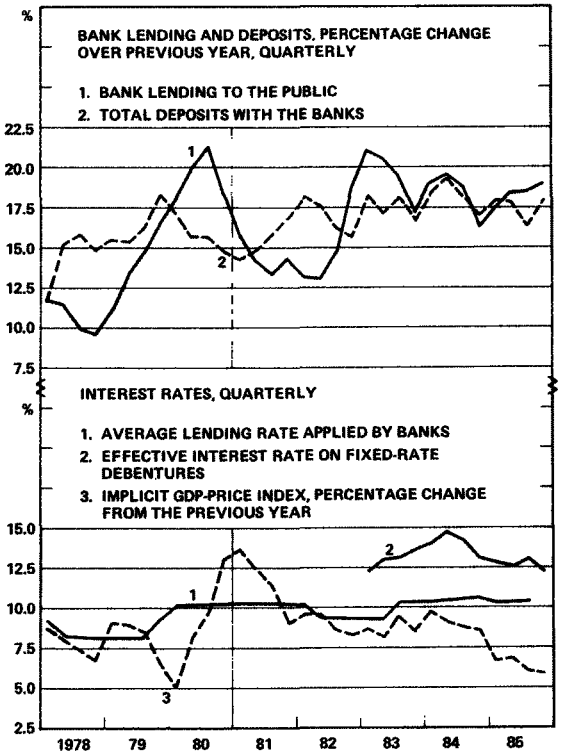


CHART 4. FINANCIAL MARKET INDICATORS



cuts in interest rates in recent months. The base rate was lowered by 0.5 percentage point from the beginning of January this year and again from the beginning of March to 8 per cent, and the call money rate was down to 11.2 per cent by early March. The banks' cash reserve requirement was kept unchanged up to November 1985, but was lowered slightly in December 1985 and again in the opening months of the current year. The Bank of Finland kept the external value of the markka stable throughout 1985, as measured by the official currency index. The narrowing of the interest rate differential between Finland and abroad affected mainly short-term capital movements. For the year as a whole, there was a modest net outflow of short-term capital in contrast to a substantial inflow the previous year.

The easing of monetary policy was accompanied by a reduction in forward market intervention by the Bank of Finland. As a result, banks resorted to short-term capital

imports to cover their forward positions. The Bank of Finland's outstanding forward purchase commitments declined significantly.

DEVELOPMENTS IN THE CORPORATE AND HOUSEHOLD SECTORS

The growth of Finland's western export markets slackened in 1985. Particularly demand for forest industry products weakened significantly as a result of the slowdown in the growth rate of the US economy. In addition, the fall in the dollar weakened the competitive position of Finnish exporters vis-à-vis North American producers. Further exacerbating the situation was an increase in oversupply in pulp markets with the coming on stream of new capacity. The weakened market situation led to a turndown in both export volumes and prices of forest industry products in the latter half of the year. All in all, after having grown vigorously the year before, Finnish exports to western markets decreased by 2.5 per cent in 1985. Part of the slowdown was to be expected, however, given the exceptionally high level of deliveries of ships and oil products in 1984.

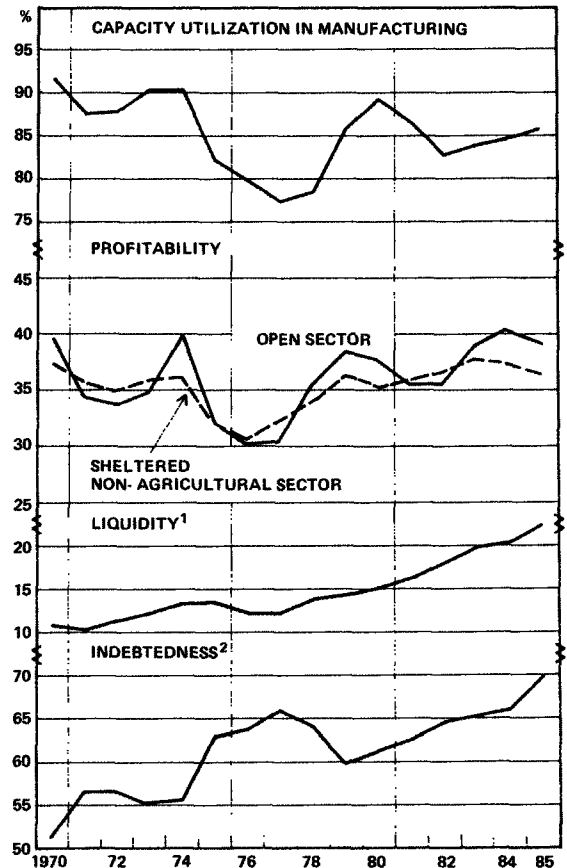
In recent years, divergent movements in bilateral and multilateral exports have served to dampen fluctuations in the volume of total exports. This was also the case in 1985. Thus, while exports to western markets decreased, exports to the CMEA countries rose by 16 per cent. Since, moreover, exports of services suffered a further decline, exports of goods and services remained at about the level of the previous year.

As total exports stagnated, domestic demand assumed greater importance in sustaining output and employment. Corporate sector investment activity revived as a delayed response to the good export and profitability performance of the previous year. Even so, the growth of fixed investment remained modest by historical standards as several factors combined to check the expansion of investment activity. The cost of new long-term finance remained relatively high in real terms throughout the

year. Owing to high unregulated market interest rates there were more incentives for financial investment. In addition, tax incentives made the accumulation of investment reserves attractive.

Preliminary estimates of the volume of both private and total fixed investment in 1985 point to an increase of 3 per cent. In manufacturing fixed investment increased by almost 10 per cent. Growth was strong in all major branches of manufacturing reflecting both the maintenance of relatively high capacity utilization rates and good profitability performance (Chart 5). In the rest of the corporate sector investment maintained the level of the previous year, whereas residential construction declined slightly.

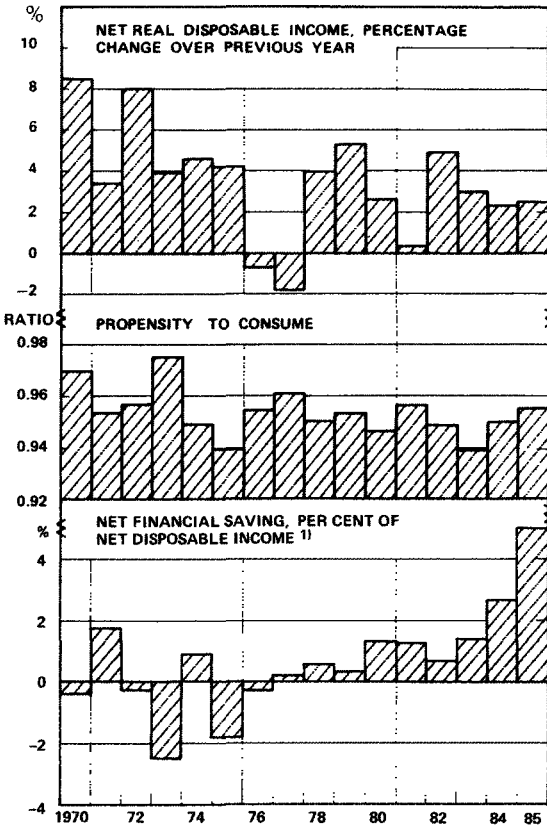
CHART 5. CORPORATE SECTOR INDICATORS



1 FINANCIAL ASSETS AS A PERCENTAGE OF GDP
2 TOTAL GROSS DEBT AS A PERCENTAGE OF GDP

Real wages increased fairly rapidly last year, but the growth of household real disposable income was weakened to some extent by the rise in the net tax ratio. There was a slight increase in the propensity to consume and the volume of private consumption continued to grow at the same rate as in the previous year, that is, by around 3 per cent (Chart 6). In keeping with earlier trends, the growth of household spending was strongest in consumer durables, particularly passenger cars. On the other hand, the rise in real rates of interest and the moderation of inflation expectations increased the attractiveness of financial saving.

CHART 6. HOUSEHOLD SECTOR INDICATORS



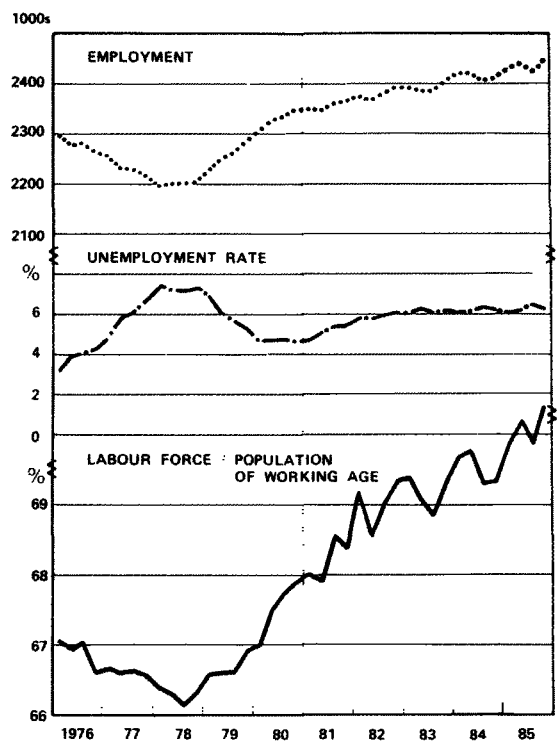
1) ON THE BASIS OF FLOW-OF-FUNDS STATISTICS

INTERNAL AND EXTERNAL BALANCE

EMPLOYMENT

Total employment rose by a further 1 per cent in 1985. This was entirely due to growing

CHART 7. LABOUR MARKET



labour demand in the service sector. In spite of faster-than-average growth of output in labour-intensive industries, overall manufacturing employment declined somewhat. Employment in construction and the primary sector continued to fall.

Labour supply increased by about one per cent and the unemployment rate rose marginally to 6.3 per cent, equivalent to about 163 000 persons (Chart 7). Contributing to the growth of labour supply was a rise in the labour force participation rate and the continuation of the return of migrants.

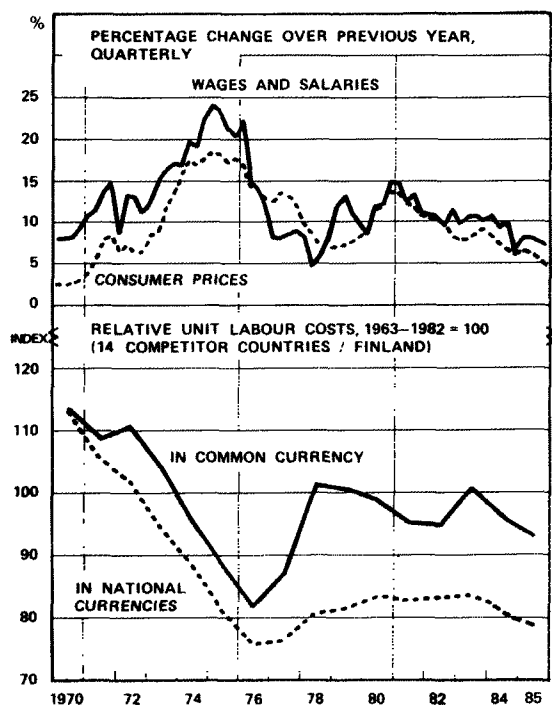
INFLATION

Reflecting the weakness of world commodity prices and the downturn in the value of the US dollar, external inflationary pressures diminished markedly last year. Foreign trade prices began to fall in the spring of 1985. Import prices declined further during the first quarter of this year, accentuated by the fall in oil

prices, whereas export prices showed signs of stabilizing. In March of this year, import prices were some 17 per cent and export prices some 6 per cent lower than a year ago.

Owing to domestic factors, Finland's inflation rate in 1985 was still somewhat higher than the international average. The rise in nominal earnings decelerated only slightly from the previous year. Negotiated wage rates were raised in accordance with the terms of the two-year incomes agreement in force since early 1984, in addition to which wage drift remained steady at around the same level experienced so far in the 1980s. Average earnings of the whole economy increased by 8 per cent in 1985 (Chart 8).

CHART 8. INFLATION AND PRICE COMPETITIVENESS



Consumer prices increased by 5.9 per cent on average in 1985, roughly one percentage point less than in the previous year. The fall in import prices has been a major factor behind the slowdown in consumer price inflation, and in March of this year the 12-month rise in the consumer price index was down to 3.8 per

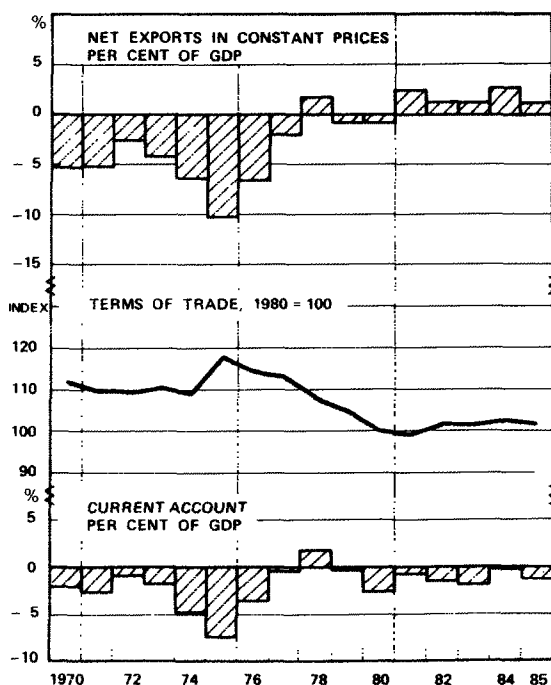
cent, about the average for industrial countries. Moreover, domestic wholesale prices and producer prices were about 4 per cent lower in March than a year earlier, pointing to a further easing of inflationary pressures in the months ahead.

The rise in manufacturing unit labour costs last year still exceeded that in Finland's main competitor countries, and largely as a result of this the price competitiveness of the Finnish manufacturing sector, measured in a common currency, weakened by 2 1/2 per cent in 1985.

EXTERNAL BALANCE

Finland's external balance remained fairly stable throughout the first half of the 1980s in spite of a higher relative level of activity compared with abroad. Towards the end of 1985, however, the current account began to deteriorate after having been practically in balance in the previous year. The slight weakening in the external balance was mainly attributable to poor export performance in western markets and a fall in net earnings from the

CHART 9. EXTERNAL BALANCE



trade in services. Furthermore, steady growth of domestic demand led to an increase in the volume of imports.

All in all, the current account shifted into a modest deficit of FIM 4 billion in 1985. In relation to GDP, the deficit was some 1 per cent (Chart 9). The slight increase in foreign indebtedness caused by the current account deficit was offset by a decrease in the markka-value of the debt due to the fall in the US dollar. Consequently, the level of Finland's net foreign debt remained broadly unchanged, and in relation to GDP even showed a further decline to some 16 per cent.

THE CURRENT OUTLOOK

The collapse of oil prices and the fall in the value of US dollar will have a major impact on developments in the Finnish economy in the years ahead. While these factors are likely to give a sizeable boost to demand in western export markets, they will cause serious adjustment problems for the Finnish economy. The most conspicuous of these will be a sharp reduction in exports to the Soviet Union and a deterioration in the competitive position of the forest industry in western markets.

According to present estimates, cheaper oil and other energy imports, together with the fall in the dollar, are likely to reduce the value of Finland's imports from the Soviet Union by a quarter in the current year. Under the bilateral trading arrangements between the two countries, this means that in the coming years Finland will have to adjust her exports to correspond to the reduced level of imports, so as to ensure that trade is balanced in the medium term. Some decline in Finnish exports to the Soviet Union is already likely in the current year, but the major part of the adjustment is estimated to take place over the next few years. This implies that, in spite of a revival in western exports, the growth of total exports will remain low in the years ahead.

Finland's exports to western markets are expected to recover along with the strength-

ening of demand in the region. However, owing to the continued depressed market situation for forest industry products, the growth of exports in the current year is likely to fall short of the growth of markets, although the pattern should be reversed next year. All in all, total exports are not expected to increase at all this year and to grow only slightly in 1987.

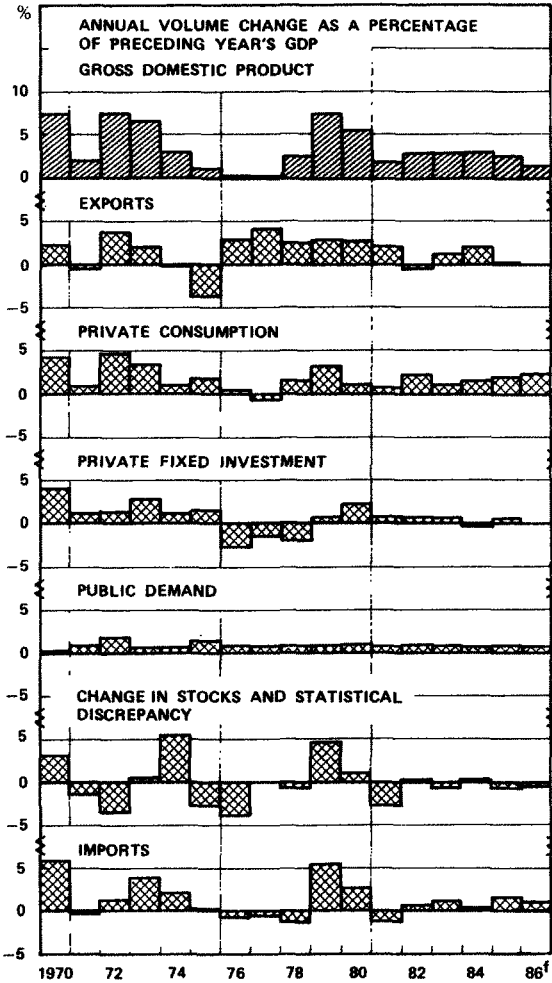
Some minor changes are anticipated in economic policies this year. After the restrictive phase of the past couple of years, fiscal policy was reoriented in a slightly expansionary direction in the budget for the current year. According to recent estimates, the net tax ratio will decline by 0.5 percentage point, remaining, however, above the level of 1984. The state's net borrowing requirement is projected to increase by the same amount to the equivalent of 1.3 per cent of GDP.

A key objective of monetary policy is to support a further lowering of inflation in conformity with international developments and to prevent the emergence of destabilising capital flows in the face of a cyclical weakening in the current account. Reflecting this aim, the Bank of Finland has lowered interest rates during the first few months of the year in line with the moderation of inflation. Developments in the external accounts will, however, call for cautiousness in this respect.

Given the uncertainties engendered by the fall in oil prices and the poor overall outlook for exports, private fixed capital formation is expected to remain at its present level over the next eighteen months or so. The absence of commodity price pressures, coupled with high real rates of interest, are likely to continue to curb stockbuilding. Thus, the contribution of stockbuilding to the growth of GDP is expected to remain weak.

The growth of household real disposable income is projected to accelerate markedly. Contributing to this development will be a sizeable increase in real earnings stemming from the improvement in the terms of trade and expansive fiscal policy. Since only a slight

CHART 10. CONTRIBUTION TO THE GROWTH OF GROSS DOMESTIC PRODUCT IN 1970-86



fall in the propensity to consume is anticipated, private consumption is forecast to grow by 4 per cent in 1986. High real interest rates, together with demographic factors, will continue to curb housing investment.

The growth of earnings will essentially be steered by the two-year comprehensive incomes settlement concluded during the spring. Negotiated wage increases are estimated to be of the order of 2 1/2 per cent both this year and next. Taking into account carry-over effects from the previous year and wage drift, average earnings are estimated to rise by approximately 6 per cent this year and by 5 per cent in 1987. Given weakened foreign trade prices, the increase in consumer prices is expected to decelerate throughout the current year. The annual rise in consumer prices this year is forecast to be about 3 per cent.

All in all, the adjustment of the Finnish economy to lower oil prices and a weaker dollar will mean a slowdown in economic growth to below the average expected for industrial countries for the next two years. Forecasts point to GDP growth of the order of 1 1/2 - 2 per cent both this year and next (Chart 10). Private consumption and public demand are likely to provide the main contributions to growth, while total exports are not expected to revive until towards the end of 1987.

MONETARY AND FOREIGN EXCHANGE POLICY MEASURES FROM APRIL 1985 TO MARCH 1986

1985

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 31, 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 1, 1985.

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

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

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

October

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

November

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

December

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

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

1986

January

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

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

Regulation of average lending rates. The Bank of Finland revises its regulation of the banks'

average lending rate. With effect from the beginning of 1986, the average interest rate at the end of each calendar month may at most be the Bank of Finland's base rate plus 1.75 percentage points. If the average interest rate on the banks' total markka-denominated deposits exceeds the Bank of Finland's base rate by more than 1.25 percentage points, the banks' average lending rate may at most equal the average deposit rate for the month in question plus 0.5 percentage point.

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

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

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

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

intermediaries in securities transactions between residents and non-residents.

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

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

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

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

February

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

March

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

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

Investment reserves. On March 20, the Council of State decides to release, as from October 1, 1985, investment reserves made by companies for accounting periods ending in 1984 for use elsewhere than in the Greater Helsinki area. The utilization period is to expire on December 31, 1987.

BANK OF FINLAND

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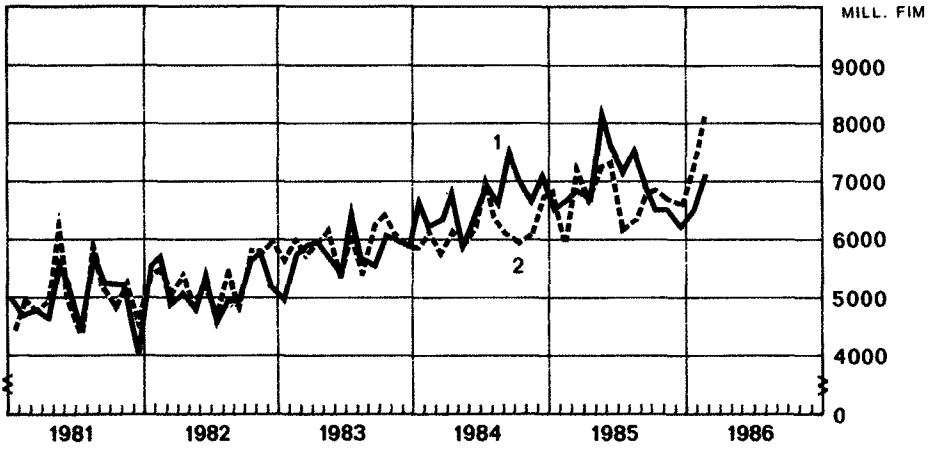
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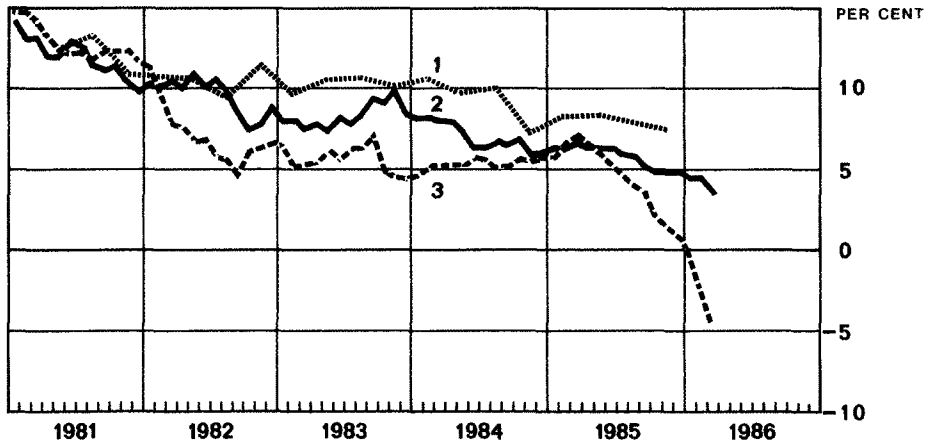
FOREIGN TRADE, 1981-86

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



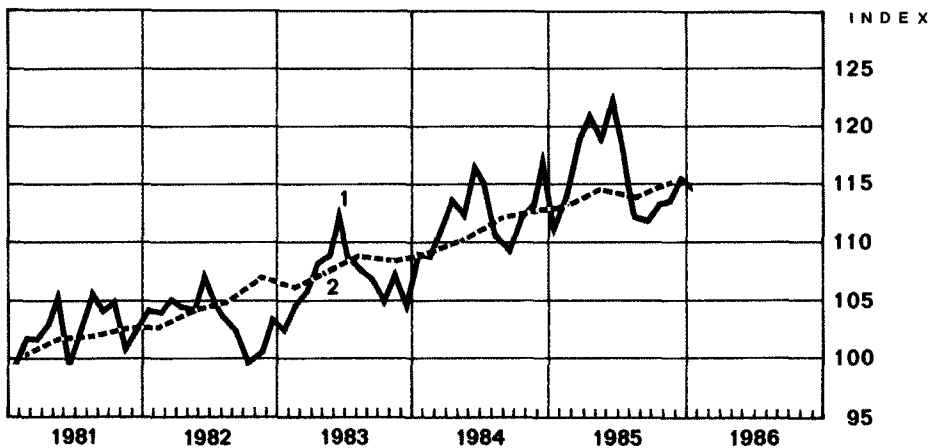
PRICES AND WAGES, 1981-86

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



PRODUCTION, 1981-86

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



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