



BANK OF FINLAND

Monthly Bulletin

Exchange control in Finland — aims, development and present system

State borrowing and cash management

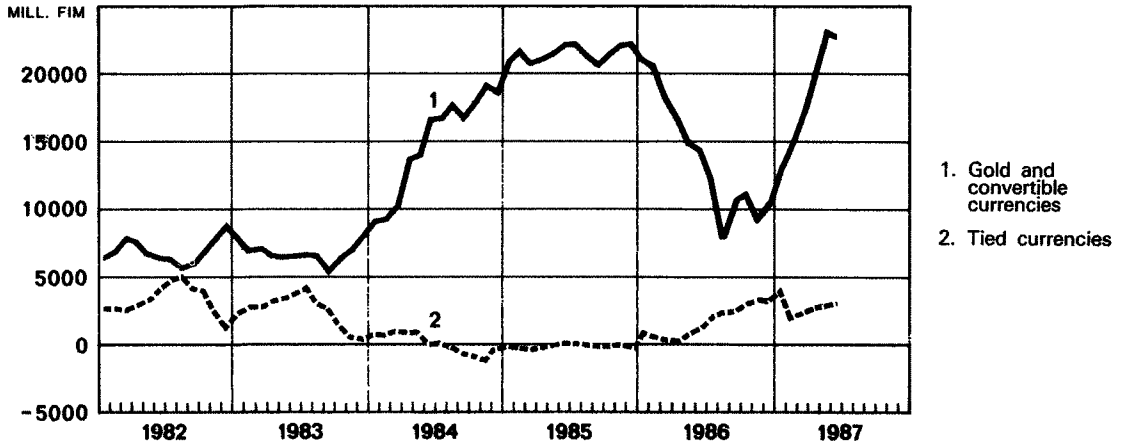
Monetary and foreign exchange policy measures from September 1986 to August 1987

Supplementary budget

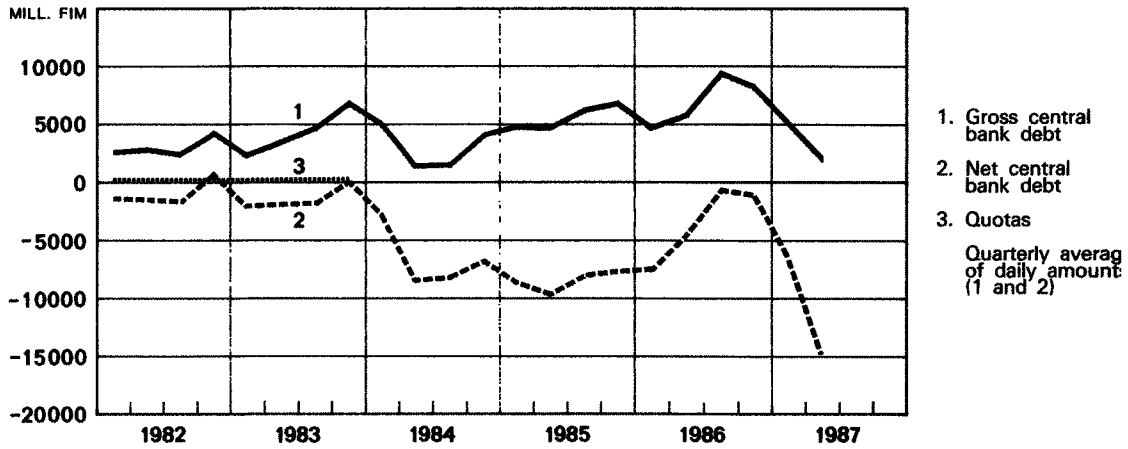
The Bank of Finland's investment inquiry of June 1987

Publications of the Bank of Finland

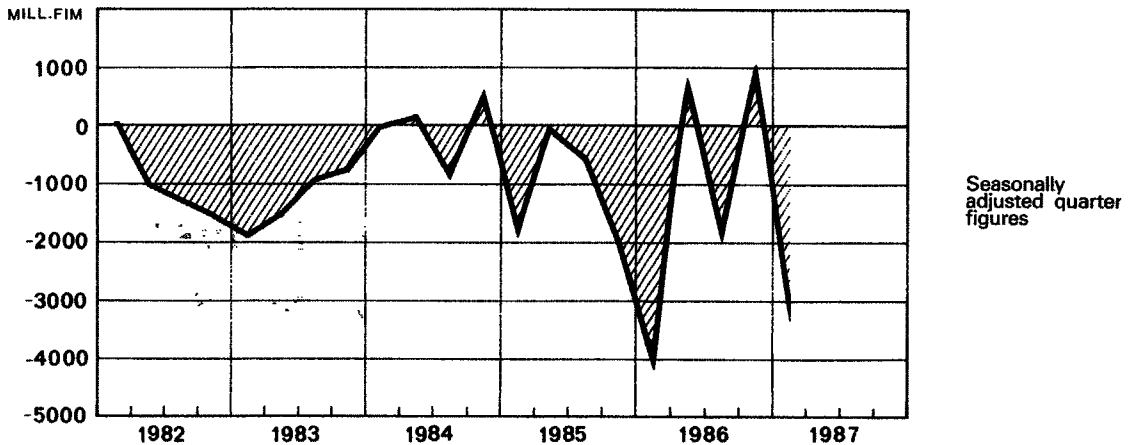
BANK OF FINLAND'S CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, 1982-87



DEPOSIT BANKS' CENTRAL BANK POSITION, 1982-87



BALANCE OF PAYMENTS CURRENT ACCOUNT SURPLUS/DEFICIT, 1982-87



EXCHANGE CONTROL IN FINLAND — AIMS, DEVELOPMENT AND PRESENT SYSTEM

by Peter Nyberg, Head of Office
Foreign Exchange Policy Department
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For most of the postwar period financial relations between Finland and the rest of the world were restricted by a comprehensive and fairly efficient system of exchange controls. In recent years, however, capital flows have become much more flexible. Today, the main function of the controls is not to isolate Finnish financial markets from those abroad, but rather to limit the volatility of (and to some extent perhaps also the potential for) financial flows, thereby allowing time for measured policy responses to monetary shocks.

Exchange control in Finland has gradually changed in response to both international and domestic developments. The present system of controls does not therefore necessarily represent a fully consistent whole. This article briefly discusses the changed aims of regulation, considers how control has evolved in response to market forces and policy problems in Finland, and describes the main features of the present controls.¹

CHANGED AIMS OF CONTROL

Exchange control in Finland traditionally sought to achieve monetary autonomy, to protect underdeveloped domestic financial markets, to influence growth through selectively restricting companies' access to finance and, occasionally, to limit external indebtedness. Most capital transactions were strictly controlled, leaving primarily leads and lags to react to changing financial incentives. Domestic financial markets were also regulated and

characterized by a chronic excess demand for credit, making financial institutions and markets vulnerable to any sudden increase in competition from abroad. Thus, capital import permits could be used for influencing the structure of investment and growth. The issue of permits was to some extent also dependent on exchange reserve targets.

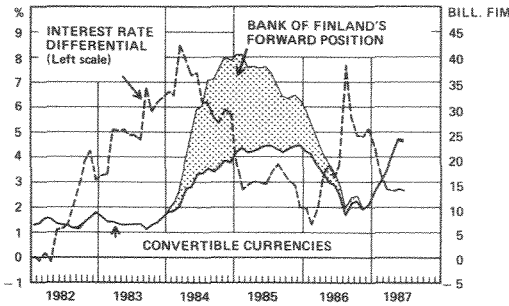
For reasons described below, exchange control has gradually lost much of its earlier effectiveness. The aims of control have therefore become correspondingly more modest. The primary aim is now to retain some monetary autonomy in the short term (while maintaining a basically stable exchange rate). This presupposes some effective restriction of especially volatile financial flows arising from, in particular, financial arbitrage by banks, portfolio investment and new risk management techniques. On the other hand, an additional aim is to enforce competition in the financial markets, thereby providing companies with finance and financial services at competitive rates. This requires that firms are given access to several alternative sources of finance, especially in the long-term end of the market. Finally, it is important that adjustment to growing competition should be expedient but gradual, so as to avoid rapid changes in bank solidity and market institutions. Consequently, control has, in part, been retained because markets are still less than perfectly competitive in the short term.

PRESSURES FOR DEREGULATION

Deregulation in Finland can ultimately be traced to developments in the international financial markets since the mid-1970s. Inceas-

¹ The most recent major revision of Finland's foreign exchange regulations is described in more detail in the back article of the January 1986 issue of the Bulletin.

CHART 1. RESERVE MOVEMENTS AND THE INTEREST RATE DIFFERENTIAL



1) 3-month Eurorate for the markka less Eurorates of 8 currencies weighted according to their relative shares in the Finnish currency basket.

ing risks caused by recurrent, major external disequilibria rendered financially viable the development of sophisticated risk management techniques, which were soon eagerly adopted by Finnish banks and companies as well. These new techniques required continuous arbitrage and risk transfer between different markets. Management of, for instance, exchange rate risk was dependent on access to forward or option cover. Unless severely restricted, such access also provided a convenient vehicle for international interest rate arbitrage. This greatly reduced the efficiency of existing controls.

The functioning of the Finnish financial markets has greatly improved in recent years. This has inevitably also led to arbitrage in the forward exchange market. The practice whereby forward rates were determined by the Bank of Finland gradually became untenable, and the Bank withdrew from the forward exchange market in 1980. Since then, forward rates have been determined by interest rate differentials, which, if sustained, induce sizeable capital flows.

This link has been further strengthened as the authorities have continued to pursue a stable exchange rate policy. A growing share of capital flows has thus taken place through unregulated channels (Table 1). Particularly the period 1984-86 was one of rapidly increasing monetary integration between Finland and the rest of the world (Chart 1).

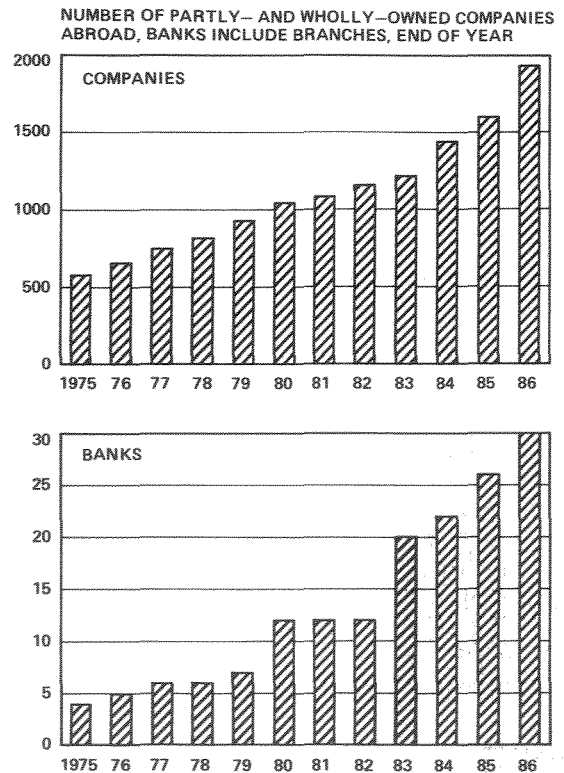
TABLE 1. NET CAPITAL IMPORTS (BILLION FIM, ANNUAL AVERAGE)

	Regulated ¹⁾	Unregulated
1975-1979	2.1	0.3
1980-1983	0.9	3.1
1984-1986	1.6	8.4

1) Regulated is here defined as capital imports requiring individual authorization by the Bank of Finland, while capital imports taking place under a general permit are classified as unregulated.

With the rapid internationalization of Finnish companies and, consequently, banks (Chart 2), there has been a further reduction in the effectiveness of exchange control. This growing foreign exposure has increased the need for more flexible channels for both risk management and financing at competitive terms. The need for greater competition in the domestic credit market was, in fact, an important reason for removing the controls on longer-term foreign borrowing in 1986 and 1987.

CHART 2. INTERNATIONALIZATION OF FINNISH BUSINESS



(continued on page 39)

BANK OF FINLAND

Mill. FIM

	1986		1987			
	July 31	Dec. 31	June 30	July 15	July 23	July 31
Assets						
Gold and foreign currency claims	14 734	14 088	26 131	25 983	26 810	26 812
Gold	2 081	2 081	2 081	2 081	2 081	2 081
Special drawing rights	981	983	969	967	966	969
IMF reserve tranche	812	794	787	785	785	787
Convertible currencies	8 648	6 795	19 064	19 058	19 800	20 043
Tied currencies	2 212	3 435	3 229	3 091	3 177	2 931
Other foreign claims	2 567	2 585	4 462	4 460	4 464	4 468
Markka subscription to Finland's IMF quota	2 567	2 585	2 483	2 483	2 483	2 483
Term credit	—	—	1 979	1 977	1 982	1 985
Claims on financial institutions	12 046	14 074	6 359	5 769	5 700	5 183
Banks' cheque accounts	—	—	—	—	—	—
Call money credits	7 936	6 818	185	104	97	305
Term assets	—	2 381	1 217	813	699	89
Till-money credits	1 844	2 305	2 370	2 307	2 353	2 234
Bonds	2 153	2 111	2 176	2 143	2 143	2 147
Other claims on financial institutions	113	459	411	402	409	409
Claims on the public sector	982	1 002	959	954	954	954
Bonds	74	59	9	4	4	4
Total coinage	908	935	950	950	950	950
Other claims on the public sector	0	8	—	—	—	—
Claims on corporations	4 834	4 844	3 987	3 989	3 981	3 957
Financing of exports	1 614	1 749	1 029	1 036	1 033	1 014
Financing of domestic deliveries	2 938	2 833	2 706	2 702	2 697	2 692
Bonds	73	65	58	58	58	58
Other claims on corporations	209	197	195	193	193	193
Other assets	148	149	124	123	123	104
Total	35 311	36 742	42 022	41 278	42 033	41 478
Liabilities						
Foreign currency liabilities	63	31	80	92	82	83
Convertible currencies	60	17	58	64	54	52
Tied currencies	3	14	22	28	28	32
Other foreign liabilities	3 426	3 423	3 295	3 293	3 293	3 295
IMF markka accounts	2 567	2 585	2 483	2 483	2 483	2 483
Allocations of special drawing rights	859	838	812	810	810	813
Notes and coin in circulation	8 086	8 667	9 011	9 068	9 046	9 029
Notes	7 304	7 856	8 187	8 241	8 216	8 198
Coin	782	811	823	827	830	831
Liabilities to financial institutions	9 838	9 729	17 384	16 460	17 017	16 361
Banks' cheque accounts	0	0	0	0	2	—
Call money deposits	612	131	95	1 391	1 892	148
Term liabilities	—	—	7 072	4 877	4 881	5 709
Cash reserve deposits	9 030	9 270	10 118	10 118	10 118	10 435
Capital import deposits	67	254	—	—	—	—
Other liabilities to financial institutions	129	74	99	75	124	70
Liabilities to the public sector	1 351	2 001	1	1	1	1
Cheque accounts	1	1	0	1	1	1
Government deposit account	1 350	2 000	—	—	—	—
Capital import deposits	—	—	—	—	—	—
Other liabilities to the public sector	0	0	0	0	0	0
Liabilities to corporations	4 951	5 019	4 957	5 060	5 043	5 057
Deposits for investment and ship purchase	4 735	4 671	4 747	4 824	4 812	4 830
Capital import deposits	207	336	208	208	208	212
Other liabilities to corporations	9	12	2	28	22	15
Other liabilities	19	23	30	31	33	34
Valuation account and reserves	1 693	1 920	1 335	1 344	1 590	1 689
SITRA's capital	400	400	400	400	400	400
Capital accounts	5 484	5 529	5 529	5 529	5 529	5 529
Primary capital	5 000	5 000	5 000	5 000	5 000	5 000
Reserve fund	484	485	529	529	529	529
Undisposed profits	—	—	—	—	—	—
Net earnings	—	44	—	—	—	—
Total	35 311	36 742	42 022	41 278	42 033	41 478

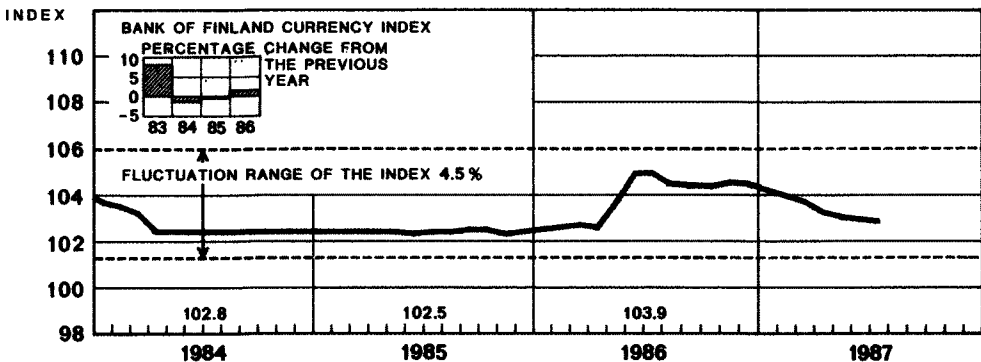
End of year or month	Foreign sector						Public sector			
	Gold, SDRs, IMF reserve tranche	Convertible currencies, net	Total convertible reserves (1+2)	Tied currencies, net	Other claims, net	Net claims (3 to 5)	Claims	Government deposit account	Other liabilities	Net liabilities (8-7+9)
	1	2	3	4	5	6	7	8	9	10
1983	2 360	5 835	8 195	550	-794	7 951	2 178	3 000	0	822
1984	3 527	15 303	18 830	-337	-917	17 576	1 951	4 200	77	2 326
1985	3 787	18 572	22 359	-285	-849	21 225	1 023	4 300	0	3 277
1986	3 858	6 778	10 636	3 421	-838	13 219	1 002	2 000	1	999
1986										
July	3 874	8 588	12 462	2 209	-859	13 812	982	1 350	1	369
Aug.	3 883	4 475	8 358	2 576	-846	10 088	984	1 500	1	517
Sept.	3 870	6 989	10 859	2 654	-849	12 664	1 004	890	0	-114
Oct.	3 865	7 490	11 355	3 225	-846	13 734	1 002	1 000	1	-1
Nov.	3 869	5 713	9 582	3 497	-844	12 235	1 008	800	1	-207
Dec.	3 858	6 778	10 636	3 421	-838	13 219	1 002	2 000	1	999
1987										
Jan.	3 818	9 344	13 162	4 127	-820	16 469	1 001	-	1	-1 000
Feb.	3 821	11 215	15 036	2 196	1 182	18 414	957	-	1	-956
March	3 813	13 468	17 281	2 537	1 168	20 986	959	-	1	-958
April	3 811	16 440	20 251	2 908	1 160	24 319	960	-	0	-960
May	3 815	19 442	23 257	3 036	1 165	27 458	959	-	1	-958
June	3 837	19 006	22 843	3 207	1 167	27 217	959	-	1	-958
July	3 837	19 991	23 828	2 899	1 173	27 900	954	-	1	-953

OFFICIAL FOREIGN EXCHANGE RESERVES

Mill. FIM

	Dec. 31, 1986	April 30, 1987	May 29, 1987	June 30, 1987	July 31, 1987
Gold	2 081	2 081	2 081	2 081	2 081
SDRs	983	961	967	969	969
IMF reserve tranche	794	769	767	787	787
Convertible currencies, net	6 778	16 440	19 442	19 006	19 991
Total convertible reserves, net	10 636	20 251	23 257	22 843	23 828
Tied currencies, net	3 421	2 908	3 036	3 207	2 899
Total reserves, net	14 057	23 159	26 293	26 050	26 727

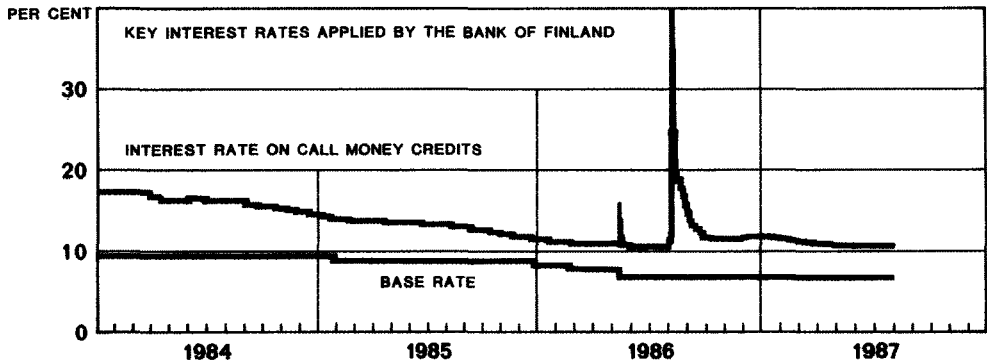
End of year or month	Domestic financial sector						Corporate sector				Notes and coin in circulation
	Till-money credits	Term liabilities of deposit banks	Term assets of deposit banks	Net demand for call money by deposit banks	Cash reserve deposits of deposit banks	Other liabilities, net	Net claims (1+2-3+4-5-6)	Permanent special financing schemes	Liabilities, net	Net claims (8-9)	
	1	2	3	4	5	6	7	8	9	10	11
1983	942	.	.	5 175	5 039	-1 998	3 076	4 529	1 282	3 247	6 574
1984	1 563	.	.	2 802	8 696	-1 618	-2 713	4 646	2 614	2 032	7 442
1985	1 925	.	.	4 014	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1986	2 305	2 381	.	6 687	9 270	-2 242	4 345	4 582	4 757	-175	8 667
1986											
July	1 844	.	.	7 324	9 030	-2 070	2 208	4 552	4 669	-117	8 086
Aug.	1 650	.	.	11 273	9 023	-2 119	6 019	4 550	4 718	-168	7 969
Sept.	1 847	.	.	7 875	8 954	-2 129	2 897	4 552	4 750	-198	7 903
Oct.	1 755	.	.	7 040	9 052	-2 557	2 300	4 650	4 863	-213	7 973
Nov.	1 709	.	.	8 250	9 180	-2 542	3 321	4 659	4 786	-127	8 024
Dec.	2 305	2 381	.	6 687	9 270	-2 242	4 345	4 582	4 757	-175	8 667
1987											
Jan.	2 231	4 266	.	-370	9 353	-2 268	-958	4 360	4 685	-325	8 851
Feb.	2 012	4 736	1 600	-1 313	9 356	-2 227	-3 294	4 259	4 609	-350	8 453
March	2 177	3 572	4 000	-369	9 597	-2 243	-5 974	4 073	4 516	-443	8 325
April	2 114	2 111	6 703	878	9 734	-2 287	-9 047	3 927	4 427	-500	8 704
May	2 139	1 690	7 402	-872	9 975	-2 290	-12 130	3 807	4 222	-415	8 865
June	2 370	1 217	7 072	90	10 118	-2 488	-11 025	3 735	4 704	-970	9 011
July	2 234	89	5 709	157	10 435	-2 486	-11 178	3 706	4 806	-1 100	9 029



MONETARY POLICY INDICATORS

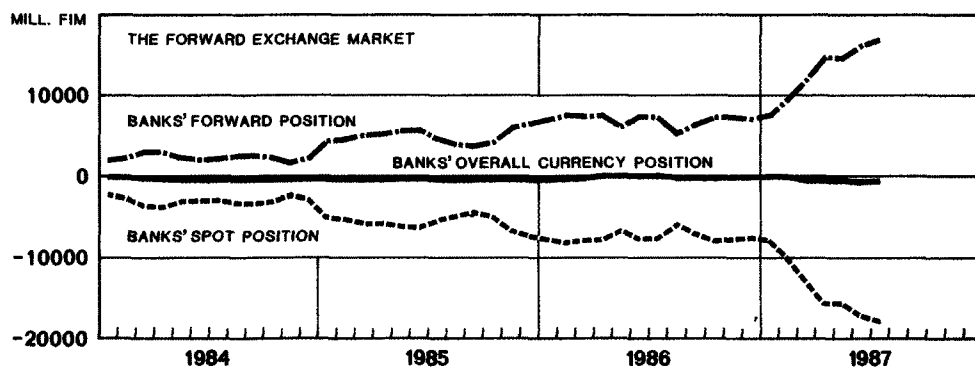
Average for period	Gross central bank debt of the deposit banks mill. FIM	Net central bank debt of the deposit banks mill. FIM	Cash reserve deposits of the deposit banks mill. FIM	Cash reserve requirement %	Call money credit extended by the Bank of Finland	Interest rate on call money credits %	3-month Helibor rate %	Base rate ¹ %	Average lending rate of the commercial banks ¹ %
	1	2	3	4	5	6	7	8	9
1982	3 201	-783	2 778	3.1	1 571	11.64	.	8.81	9.33
1983	4 539	-1 213	4 345	4.3	2 724	15.37	.	9.00	9.56
1984	3 176	-6 365	6 325	5.4	-39	16.53	.	9.50	10.49
1985	5 812	-8 293	9 578	5.6	1 285	13.37	.	9.04	10.41
1986	7 237	-3 208	9 189	4.8	5 861	13.43	.	7.42	9.08
1986									
May	6 645	-3 566	8 847	4.7	5 281	12.02	.	7.00	8.78
June	6 393	-3 409	8 863	4.7	5 454	10.83	.	7.00	8.82
July	7 556	-2 677	8 895	4.7	6 218	10.80	.	7.00	8.76
Aug.	11 014	1 239	9 030	4.7	10 269	24.17	.	7.00	8.79
Sept.	10 290	68	9 021	4.7	9 088	13.86	.	7.00	8.77
Oct.	7 846	-1 524	8 960	4.7	7 436	11.93	.	7.00	8.75
Nov.	7 616	-1 784	9 047	4.7	7 263	11.80	.	7.00	8.74
Dec.	9 785	580	9 183	4.7	8 321	11.97	.	7.00	8.81
1987									
Jan.	7 106	-2 248	9 275	4.7	3 594	11.99	.	7.00	8.81
Feb.	5 035	-6 671	9 353	4.7	-1 595	11.76	.	7.00	8.80
March	3 732	-9 717	9 362	4.7	-281	11.44	.	7.00	8.84
April	3 137	-13 160	9 602	4.7	-773	11.14	.	7.00	8.86
May	2 269	-14 575	9 758	4.7	42	11.00	9.89	7.00	8.87
June	1 707	-16 457	9 980	4.7	-285	11.00	9.69	7.00	8.91
July	895	-15 748	10 128	4.7	-912	11.00	9.63	7.00	..

¹ End of period for monthly figures.



FORWARD EXCHANGE MARKETS IN FINLAND

Period	Banks' forward positions in mill. FIM with						Banks' forward selling rates for USD		
	Domestic firms			Foreign banks	Bank of Finland	Overall	Deviation from spot rate, per cent per annum		
	Assets	Liabilities	Net	Net	Net	Net	1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
1985	16 982	1 733	15 249	708	-9 005	6 876	3.3	3.2	3.1
1986	11 446	1 319	10 127	-2 461	-92	7 591	6.6	6.7	6.7
1986									
Feb.	16 911	1 989	14 923	0	-7 015	7 952	2.7	2.4	2.1
March	16 365	2 095	14 270	11	-6 298	8 042	3.5	3.0	2.8
April	15 350	1 713	13 638	-854	-4 742	7 956	4.6	4.2	4.1
May	15 231	2 505	12 726	-1 642	-3 956	6 957	5.1	4.5	4.2
June	13 094	1 665	11 429	-575	-2 619	8 068	4.2	3.8	3.6
July	12 032	1 518	10 514	-1 170	-1 949	7 619	4.6	4.7	4.8
Aug.	12 351	2 393	9 958	-2 263	-1 559	6 006	12.5	7.8	7.1
Sept.	13 762	2 179	11 583	-1 981	-1 291	8 116	7.8	7.1	6.7
Oct.	13 147	2 047	11 100	-1 464	-996	8 388	6.6	6.5	6.3
Nov.	12 049	1 843	10 205	-2 224	-423	7 590	6.2	6.3	6.2
Dec.	11 446	1 319	10 127	-2 461	-92	7 591	6.6	6.7	6.7
1987									
Jan.	13 285	1 515	11 770	-2 248	-5	9 541	6.3	6.0	6.1
Feb.	14 389	1 385	13 003	-1 204	26	11 789	4.4	4.5	4.5
March	15 908	1 263	14 645	-490	18	14 262	4.0	3.9	3.8
April	17 739	1 145	16 594	-1 384	18	15 203	3.2	2.9	2.8
May	18 742	981	17 762	-1 465	-423	15 711	3.0	2.5	2.3
June	18 322	771	17 551	-163	-287	16 699	2.3	2.2	2.2



FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange, FIM

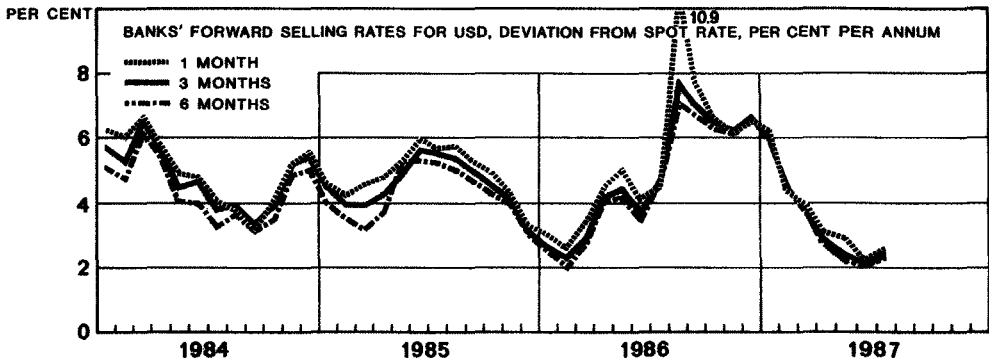
Period	New York 1 US \$ USD	Montreal 1 C \$ CAD	London 1 £ GBP	Dublin 1 Ir£ IEP	Stockholm 1 Skr SEK	Oslo 1 Nkr NOK	Copenhagen 1 Dkr DKK	Frankfurt 1 DM DEM	Amsterdam 1 Hfl NLG	Brussels 1 FB BEC BEL		Zurich 1 Sfr CHF
	1	2	3	4	5	6	7	8	9	10	11	12
1982	4.820	3.913	8.423	6.854	0.7703	0.7484	0.5793	1.9876	1.8066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

1986

June	5.195	3.745	7.840	7.055	0.7217	0.6834	0.6277	2.3254	2.0654	0.11389	0.11307	2.8220
July	5.074	3.681	7.671	7.067	0.7193	0.6803	0.6306	2.3578	2.0925	0.11460	0.11372	2.9080
Aug.	4.940	3.564	7.356	6.665	0.7141	0.6731	0.6372	2.3966	2.1256	0.11580	0.11465	2.9748
Sept.	4.918	3.552	7.256	6.632	0.7127	0.6717	0.6377	2.4114	2.1360	0.11646	0.11525	2.9772
Oct.	4.896	3.532	7.005	6.669	0.7126	0.6674	0.6489	2.4446	2.1631	0.11780	0.11692	2.9852
Nov.	4.959	3.583	7.072	6.685	0.7133	0.6599	0.6495	2.4500	2.1685	0.11795	0.11725	2.9435
Dec.	4.907	3.562	7.055	6.712	0.7111	0.6529	0.6523	2.4649	2.1809	0.11853	0.11760	2.9443

1987

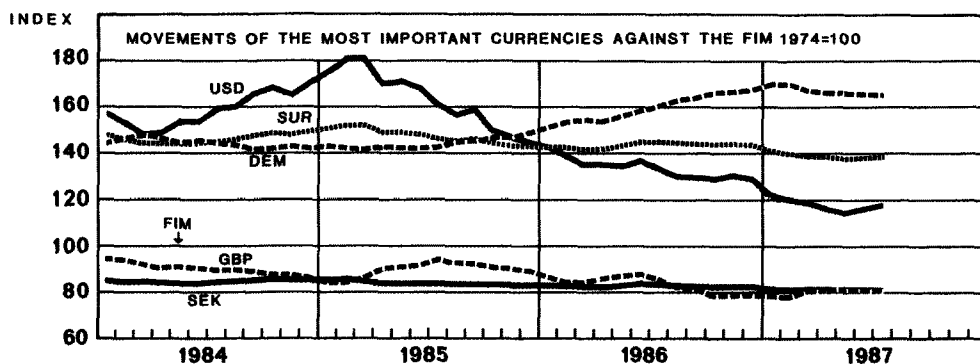
Jan.	4.641	3.413	6.998	6.689	0.7031	0.6485	0.6590	2.4988	2.2148	0.12042	0.11854	2.9774
Feb.	4.560	3.422	6.971	6.660	0.7021	0.6520	0.6619	2.4991	2.2140	0.12073	0.11934	2.9603
March	4.509	3.421	7.185	6.579	0.7040	0.6521	0.6537	2.4603	2.1785	0.11884	0.11821	2.9353
April	4.422	3.360	7.216	6.535	0.7014	0.6542	0.6480	2.4429	2.1652	0.11797	0.11747	2.9599
May	4.358	3.253	7.280	6.534	0.6979	0.6561	0.6486	2.4398	2.1648	0.11770	0.11709	2.9689
June	4.427	3.311	7.221	6.530	0.6990	0.6606	0.6469	2.4353	2.1620	0.11754	0.11726	2.9367
July	4.487	3.389	7.236	6.522	0.6981	0.6652	0.6409	2.4309	2.1589	0.11730	0.11688	2.9246



Average selling rates for foreign exchange, FIM

Paris 1 FF FRF	Rome 1 Lit ITL	Vienna 1 OS ATS	Lisbon 1 Esc PTE	Reykjavik 1 lkr ISK	Madrid 1 Ptas ESB	Tokyo 1 Y JPY	Moscow 1 Cl Rbl SUR	Melbourne 1 A \$ AUD	1 European currency unit XEU	1 special drawing right SDR	Currency index ¹
13	14	15	16	17	18	19	20	21	22	23	24
0.7365	0.00358	0.2831	0.0613	0.4079	0.0441	0.01943	6.624	..	..	5.305 63	115.9
0.7353	0.00369	0.3111	0.0514	0.2325	0.0391	0.02351	7.491	..	..	5.943 25	125.1
0.6907	0.00344	0.3013	0.0414	0.1939	0.0375	0.02534	7.357	..	..	6.147 39	102.8
0.6940	0.00327	0.3012	0.0367	0.1520	0.0366	0.02610	7.419	..	..	6.278 79	102.5
0.7355	0.00343	0.3339	0.0343	0.1259	0.0364	0.03028	7.228	..	..	5.944 32	103.9
0.7311	0.00340	0.3312	0.0347	0.1281	0.0365	0.03099	7.301	..	..	6.039 58	105.0
0.7342	0.00345	0.3355	0.0345	0.1258	0.0370	0.03201	7.313	..	..	6.024 88	105.0
0.7368	0.00350	0.3409	0.0341	0.1240	0.0369	0.03209	7.278	..	..	5.960 80	104.5
0.7379	0.00351	0.3431	0.0339	0.1238	0.0368	0.03182	7.255	..	..	5.943 98	104.5
0.7481	0.00355	0.3481	0.0337	0.1236	0.0369	0.03139	7.252	..	..	5.922 50	104.5
0.7506	0.00355	0.3483	0.0335	0.1243	0.0366	0.03049	7.263	..	..	5.933 16	104.6
0.7524	0.00357	0.3505	0.0333	0.1231	0.0366	0.03025	7.242	..	..	5.910 76	104.6
0.7512	0.00354	0.3553	0.0329	0.1190	0.0360	0.03004	7.107	3.084	5.156	5.795 56	104.3
0.7517	0.00353	0.3555	0.0325	0.1184	0.0356	0.02975	7.050	3.063	5.153	5.745 75	104.1
0.7407	0.00347	0.3503	0.0322	0.1176	0.0352	0.02980	7.003	3.119	5.103	5.713 28	103.8
0.7350	0.00343	0.3478	0.0319	0.1162	0.0350	0.03097	6.971	3.165	5.072	5.701 15	103.3
0.7316	0.00339	0.3474	0.0316	0.1155	0.0350	0.03106	6.935	3.136	5.063	5.673 51	103.1
0.7306	0.00337	0.3468	0.0315	0.1163	0.0352	0.03066	6.969	3.196	5.050	5.68539	103.0
0.7316	0.00337	0.3460	0.0314	0.1170	0.0355	0.02989	6.985	3.199	5.045	5.68463	103.0

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



DEPOSITS BY THE PUBLIC

Mill. FIM

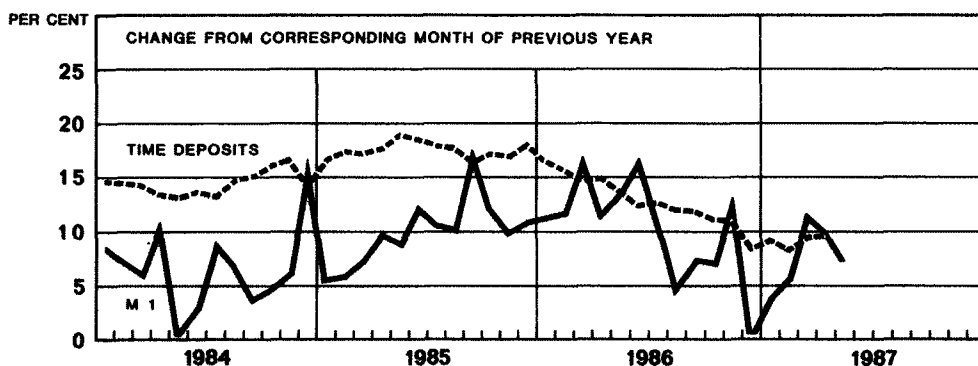
End of year and month	Demand deposits				Time deposits					Total (4 + 9)
	Commercial banks	Savings banks & Co-op. banks	Posti-pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	All deposit banks (5 to 8)	
	1	2	3	4	5	6	7	8	9	10
1983	7 056	4 567	3 676	15 300	34 302	29 273	24 175	9 938	97 689	112 988
1984	8 470	5 268	4 463	18 201	39 354	33 333	27 900	11 266	111 852	130 053
1985*	9 382	5 988	5 027	20 397	49 240	38 167	32 133	12 671	132 210	152 607
1986*	9 643	6 235	4 194	20 071	51 003	42 315	36 263	13 992	143 572	163 643

1986*

April	8 228	5 464	5 045	18 737	50 261	39 407	33 796	13 184	136 647	155 384
May	8 188	5 532	5 542	19 262	50 549	39 737	33 966	13 283	137 534	156 796
June	9 843	5 854	5 769	21 467	50 249	40 498	34 639	12 784	138 170	159 636
July	9 141	5 837	5 629	20 606	49 832	40 837	34 897	12 981	138 547	159 153
Aug.	7 368	5 661	5 873	18 902	49 962	41 026	35 073	13 209	139 270	158 172
Sept.	9 240	5 842	5 871	20 953	49 591	41 102	35 046	13 045	138 784	159 737
Oct.	9 505	5 890	4 899	20 294	49 922	41 403	35 283	13 603	140 211	160 505
Nov.	9 010	6 073	5 278	20 361	50 201	41 867	35 636	13 778	141 482	161 843
Dec.	9 643	6 235	4 194	20 071	51 003	42 315	36 263	13 992	143 572	163 643

1987*

Jan.	9 054	5 891	4 401	19 346	51 823	43 129	37 068	14 402	146 423	165 770
Feb.	8 874	5 839	4 613	19 326	51 697	43 997	37 750	14 340	147 784	167 111
March	10 518	6 111	4 503	21 132	52 127	43 924	37 684	14 222	147 956	169 088
April	9 844	6 408	5 127	21 378	52 912	44 510	38 123	14 570	150 115	171 493



ADVANCES TO THE PUBLIC – MONEY SUPPLY

Mill. FIM

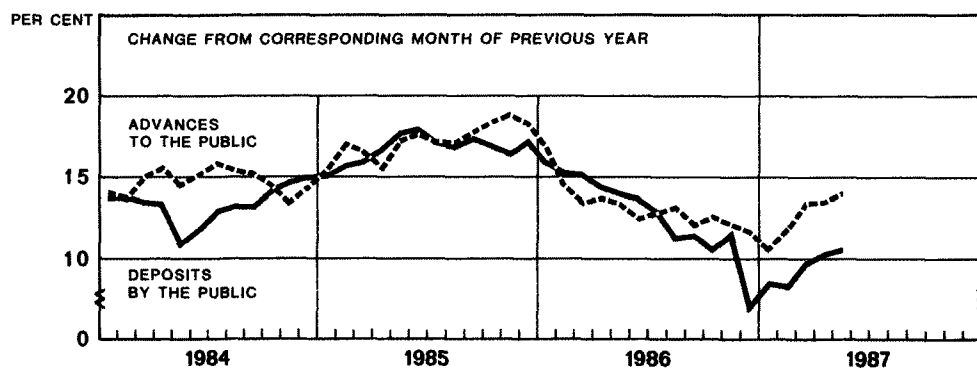
End of year and month	Advances granted by				Types of advances			Total (1 to 4) (5 to 7)	Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency		M ₁	M ₁ + Quasi-Money
	1	2	3	4	5	6	7		8	9	10
1983	56 162	29 276	27 322	13 471	104 627	4 350	17 253	126 231	21 427	121 906
1984	65 965	32 705	31 164	14 687	118 924	5 233	20 363	144 520	24 945	141 658
1985*	81 669	36 991	35 751	16 745	140 139	6 313	24 704	171 155	27 694	166 652
1986*	88 188	42 230	40 776	20 052	158 689	7 542	25 016	191 246	27 838	179 324

1986*

April	83 121	38 497	37 076	17 829	145 838	7 269	23 416	176 523	26 370	170 568
May	84 423	38 968	37 488	18 026	148 109	7 074	23 722	178 905	26 622	171 161
June	84 856	39 447	37 967	18 532	149 623	7 634	23 545	180 802	28 879	173 879
July	85 332	39 927	38 490	18 504	151 405	7 369	23 480	182 253	27 670	173 524
Aug.	86 187	40 328	38 977	18 987	153 012	8 393	23 073	184 479	26 030	172 484
Sept.	86 148	40 864	39 542	19 607	154 570	7 771	23 819	186 160	28 064	174 220
Oct.	87 572	41 343	39 913	20 120	156 083	7 573	25 294	188 949	27 471	175 271
Nov.	88 261	41 642	40 213	20 571	157 222	7 644	25 820	190 686	27 915	176 682
Dec.	88 188	42 230	40 776	20 052	158 689	7 542	25 016	191 246	27 838	179 324

1987*

Jan.	88 786	42 644	40 929	20 238	160 024	7 455	25 118	192 597	27 075	181 194
Feb.	90 278	43 090	41 263	20 448	161 541	7 557	25 981	195 079	26 782	182 436
March	91 254	43 663	41 877	20 981	162 649	7 943	27 183	197 775	28 901	183 992
April	92 616	44 403	42 305	21 113	164 310	8 019	28 108	200 437	29 029	186 783



STATE FINANCES

Mill. FIM

Revenue	Jan.-March		Expenditure	Jan.-March	
	1986	1987		1986	1987
Income and wealth tax (net)	6 305	6 010	Wages, salaries, pensions etc.	3 575	3 886
Gross receipts	17 411	18 006	Repair and maintenance	350	337
Refunds & local authorities	-11 107	-11 995	Other consumption expenditure	2 480	2 695
Other taxes on income and wealth	92	118	Total consumption expenditure	6 406	6 918
Employers' child allowance payments	3	0	State aid to local authorities	5 324	6 013
Sales tax	6 041	7 420	State aid to industries	2 638	2 777
Customs duties and import charges and levies	334	436	of which: agric. price subsidies	1 074	1 581
Excise duties	2 306	2 431	Child allowances	8	682
Excise duty on alcoholic bevs.	796	952	Share in national pensions and sickness insurance schemes	443	704
Excise duty on tobacco	397	499	Deficit of State enterprises	323	393
Excise duty on liquid fuel	735	698	Other transfer expenditure	3 899	3 620
Other excise duties	377	282	Total transfer expenditure	12 635	14 188
Tax on autom. and motor-cycles	564	902	Machinery and equipment	517	730
Stamp duties	781	754	Construction of buildings	214	237
Special diesel etc. vehicles tax	87	116	Land and waterway construction	470	515
Other taxes and similar revenue	343	486	Total real investment	1 201	1 483
Total taxes	16 855	18 673	Interest on State debt	1 083	1 577
Miscellaneous revenue	1 469	2 016	Other expenditure	4	7
Interest, dividends etc.	206	335	Total other expenditure	1 087	1 585
Surplus of state enterprises	589	519	Increase in inventories	74	302
Redemptions of loans granted	155	213	Lending	591	968
Total revenue	19 274	21 755	Other financial investment	169	151
Foreign borrowing	1 182	2 828	Total expenditure	22 163	25 595
Domestic borrowing	2 862	2 815	Redemption of foreign loans	1 300	1 474
Total borrowing	4 044	5 642	Redemption of domestic loans	1 290	2 499
Deficit (+) or surplus (-)	1 435	2 170	Total redemptions	2 590	3 973
Total	24 753	29 568	Total	24 753	29 568

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

FOREIGN TRADE

Mill. FIM

Value, mill. FIM

Period	Value, mill. FIM		
	Exports f.o.b	Imports c.i.f.	Surplus of exports (+) or imports (-)
	1	2	3
1982	63 026	64 751	-1 725
1983	69 692	71 528	-1 836
1984	80 904	74 682	+6 222
1985	84 028	81 520	+2 508
1986*	82 579	77 601	+4 978

1986*

Sept.	7 760	7 683	+77
Oct.	7 935	6 600	+1 335
Nov.	7 602	6 754	+848
Dec.	7 474	6 835	+639

1987*

Jan.	6 712	6 706	+6
Feb.	6 374	5 731	+643
March	7 362	7 327	+35
April	7 286	6 501	+785
May	7 010	7 150	-140

Jan.-May

1986*	32 781	32 686	+95
1987*	34 745	33 415	+1 330

Indices of exports and imports
1980 = 100

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

1985

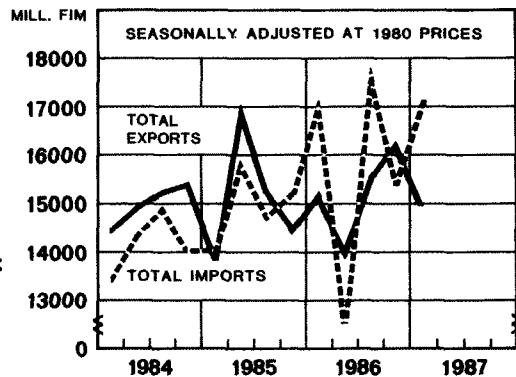
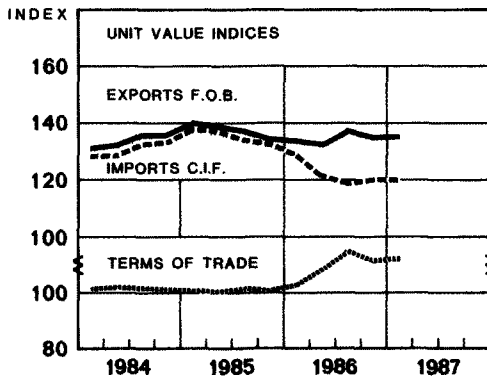
Jan.-March	108	93	141	139	101
Apr.-June	122	106	139	138	101
July-Sept.	113	100	138	135	102
Oct.-Dec.	117	113	135	133	102

1986*

Jan.-March	113	110	134	129	103
Apr.-June	104	90	133	122	109
July-Sept.	116	119	138	120	115
Oct.-Dec.	128	115	136	121	112

1987*

Jan.-March	114	113	136	120	113
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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	
1982	1 676	6 278	17 502	18 908	18 662	41 144	4 869	9 195	9 130	413
1983	1 723	6 944	19 327	20 211	21 487	44 757	5 006	10 860	10 572	333
1984	2 865	7 145	23 573	22 998	24 323	47 028	5 034	10 993	11 454	173
1985	2 678	6 728	25 030	24 412	25 179	50 944	5 502	11 675	12 967	432
1986*	2 478	6 947	24 600	26 115	22 439	45 413	3 949	12 898	15 069	273

1986*

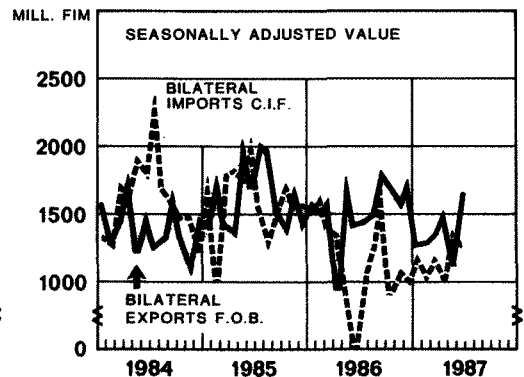
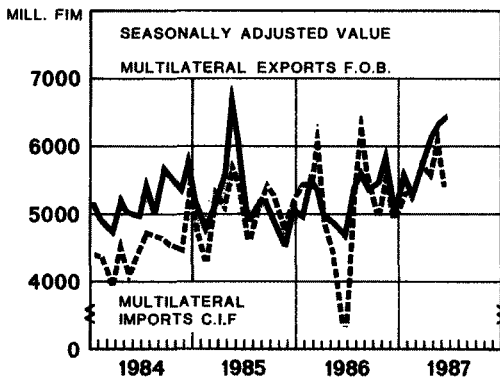
Sept.	125	607	2 245	2 726	2 057	4 569	412	1 203	1 483	16
Oct.	154	702	2 444	2 396	2 239	3 771	337	1 123	1 275	94
Nov.	163	755	2 190	2 443	2 051	3 866	314	1 197	1 368	10
Dec.	179	626	1 992	2 964	1 713	3 948	238	1 426	1 181	42

1987*

Jan.	213	584	2 037	2 075	1 803	3 921	304	1 079	1 255	146
Feb.	202	512	2 079	1 821	1 760	3 261	94	928	1 426	22
March	374	619	2 277	2 229	1 863	3 984	236	1 447	1 619	41
April	436	616	2 353	2 236	1 645	3 712	156	1 222	1 404	7
May	162	748	2 166	2 089	1 845	4 172	257	1 215	1 467	39

Jan.-May

1986*	1 217	2 568	9 337	10 285	9 374	19 620	1 633	4 993	6 361	78
1987*	1 388	3 079	10 912	10 451	8 915	19 050	1 048	5 892	7 171	255



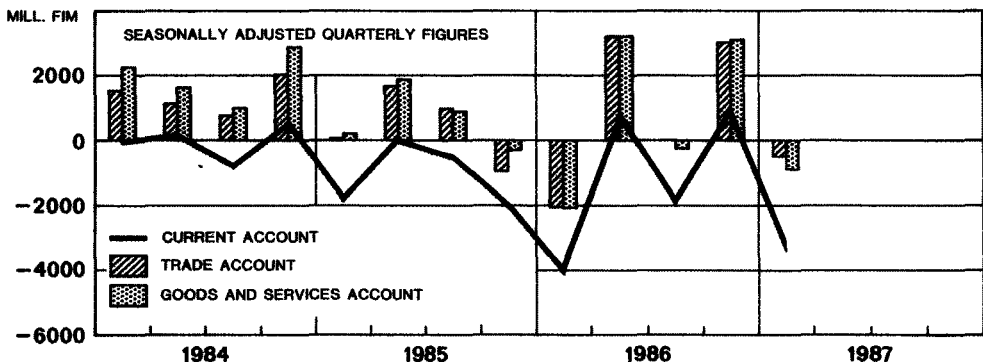
FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January-May				January-May			
	1986*		1987*		1986*		1987*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
OECD countries in Europe	63.0	20 645	66.0	22 914	60.9	19 902	63.6	21 249
Austria	0.9	290	1.1	374	1.3	412	1.3	433
Belgium and Luxembourg	1.8	576	1.8	612	2.2	727	2.7	898
Denmark	4.4	1 437	4.2	1 447	2.7	885	2.9	953
France	4.6	1 516	5.8	2 011	4.0	1 312	4.8	1 599
Federal Republic of Germany	10.0	3 272	10.7	3 728	16.9	5 537	17.8	5 937
Italy	2.1	702	2.6	898	4.1	1 354	4.4	1 487
Netherlands	3.7	1 214	3.9	1 369	3.0	965	3.0	1 018
Norway	4.7	1 540	4.9	1 706	2.5	823	2.2	730
Portugal	0.3	84	0.3	116	0.8	252	1.1	362
Spain	1.0	344	1.3	443	1.2	378	1.1	362
Sweden	15.6	5 100	14.5	5 048	13.3	4 346	13.0	4 354
Switzerland	1.7	552	1.9	674	1.8	606	2.0	658
United Kingdom	10.8	3 531	11.3	3 912	6.3	2 053	6.5	2 166
Other	1.5	487	1.7	576	0.8	252	0.9	292
OECD countries outside Europe	9.0	2 956	8.7	3 010	12.4	4 038	13.2	4 426
Canada	1.1	354	1.1	391	0.4	138	0.4	131
Japan	1.4	463	1.4	478	6.7	2 178	5.1	1 719
United States	5.3	1 733	5.2	1 796	4.9	1 604	7.4	2 481
Other	1.2	406	1.0	345	0.4	118	0.3	95
CMEA countries	20.1	6 584	16.6	5 778	18.5	6 060	15.7	5 249
Czechoslovakia	0.4	123	0.4	139	0.4	144	0.5	167
German Democratic Republic	0.3	103	0.4	149	0.5	178	0.5	164
Poland	0.3	89	0.3	98	1.4	444	0.7	234
Soviet Union	18.2	5 951	15.0	5 210	15.6	5 114	13.4	4 483
Other	1.0	318	0.5	182	0.6	180	0.6	200
Latin America	1.5	502	1.6	544	2.7	897	2.1	707
Argentina	0.1	23	0.1	30	0.1	39	0.1	34
Brazil	0.2	63	0.4	131	0.9	281	0.5	177
Colombia	0.1	35	0.1	33	0.8	255	0.4	143
Other	1.2	381	1.0	350	1.0	322	1.0	353
Other	6.4	2 094	7.2	2 498	5.5	1 789	5.3	1 784
GRAND TOTAL	100.0	32 781	100.0	34 745	100.0	32 686	100.0	33 415
of which								
EFTA countries	23.0	7 529	22.6	7 855	19.1	6 234	18.6	6 229
EEC countries	39.7	12 998	43.0	14 945	41.8	13 647	44.9	15 002
OECD countries	72.0	23 600	74.6	25 925	73.2	23 940	76.8	25 675

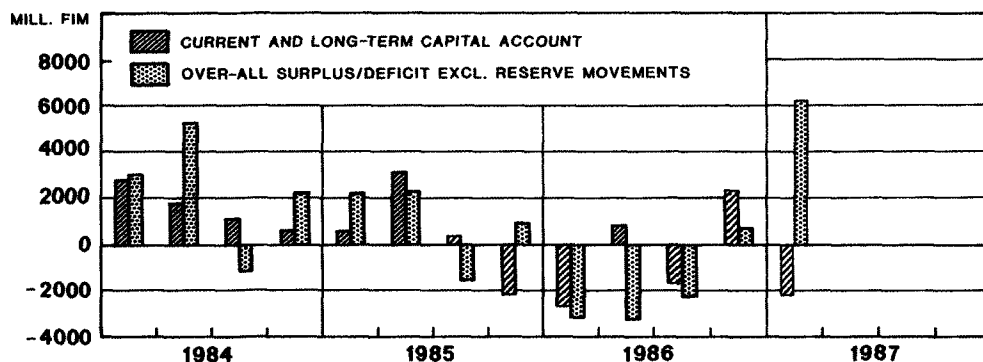
BALANCE OF PAYMENTS

Period	Exports f.o.b.	Imports c.i.f.	Trade account (1-2)	Transport, net	Travel, net	Other services, net	Goods and services account (3 to 6)	Invest- ment income, net	Un- requited transfers, net	Other, net	Current account (7 to 10)
	1	2	3	4	5	6	7	8	9	10	11
1983	69 368	72 139	-2 771	+3 200	-748	+1 610	+1 291	-5 817	-797	+96	-5 227
1984	80 608	75 127	+5 480	+4 008	-1 211	-306	+7 971	-6 786	-1 050	-238	-103
1985*	83 731	82 025	+1 706	+3 662	-1 771	-558	+3 038	-6 247	-1 096	-395	-4 700
1986*	82 194	78 030	+4 165	+2 939	-2 419	-297	+4 388	-6 954	-1 553	-382	-4 500
1984											
Apr.-June	19 700	18 852	+849	+1 009	-326	-174	+1 357	-1 225	-202	-39	-108
July-Sept.	19 395	19 330	+65	+1 144	-123	-265	+820	-1 593	-279	-46	-1 098
Oct.-Dec.	21 834	19 877	+1 958	+837	-392	+194	+2 597	-1 958	-285	-93	+261
1985*											
Jan.-March	20 048	18 982	+1 066	+935	-529	-220	+1 252	-1 781	-349	-146	-1 025
Apr.-June	22 423	21 436	+987	+1 016	-473	-294	+1 237	-1 696	-270	-73	-802
July-Sept.	20 598	19 681	+917	+904	-295	-193	+1 334	-1 255	-219	-77	-217
Oct.-Dec.	20 661	21 926	-1 265	+807	-475	+149	-784	-1 515	-259	-99	-2 657
1986*											
Jan.-March	19 945	20 874	-930	+785	-600	-233	-977	-1 681	-494	-110	-3 263
Apr.-June	18 214	15 976	+2 238	+713	-645	-51	+2 255	-2 064	-326	-86	-220
July-Sept.	21 134	20 890	+244	+827	-513	-117	+440	-1 445	-308	-56	-1 369
Oct.-Dec.	22 902	20 289	+2 612	+615	-661	+105	+2 670	-1 763	-425	-130	+352
1987*											
Jan.-March	20 394	19 905	+489	+650	-811	-213	+116	-1 914	-616	-136	-2 550



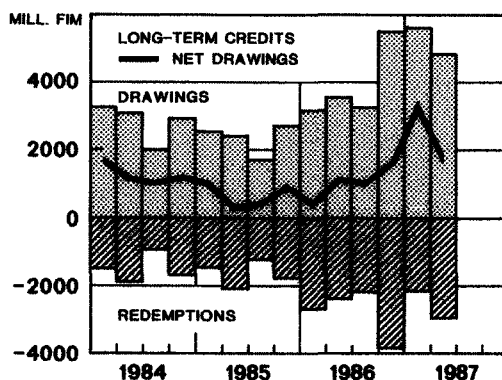
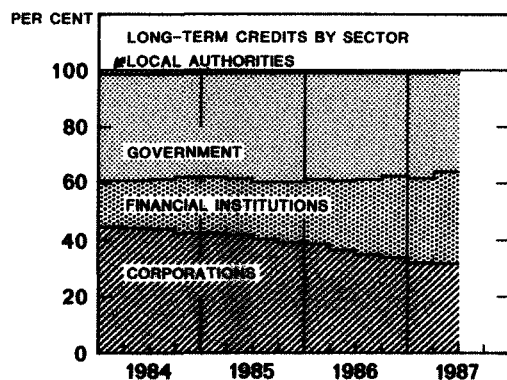
Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net	Long-term capital account (12 to 15)	Current and long-term capital account (11 + 16)	Prepayments and liabilities related to imports	Prepayments and receivables related to exports	Short-term capital of authorized banks, net	Miscellaneous, short-term capital items, incl. errors and omissions	Over-all surplus deficit excl. reserve movements (17 to 21)	Bank of Finland foreign exchange reserves
12	13	14	15	16	17	18	19	20	21	22	23
+10 112	-7 273	+423	-1 388	+1 874	-3 353	+3 273	-3 380	+1 266	+32	-2 162	+2 162
+14 087	-7 538	-1 682	+1 428	+6 295	+6 192	+760	+2 995	+2 086	-2 758	+9 275	-9 275
+11 870	-8 255	+1 339	+1 840	+6 794	+2 094	+544	-3 177	+5 267	-984	+3 744	-3 744
+19 319	-13 930	+382	-2 427	+3 344	-1 156	-18	-307	-10 754	+4 305	-7 930	+7 930
+3 858	-2 351	+89	+276	+1 872	+1 764	+1 083	+121	+2 531	-276	+5 222	-5 222
+2 495	-1 185	-603	+1 475	+2 182	-1 084	+426	-128	-2 186	-336	-1 140	+1 140
+3 659	-2 115	-933	-276	+335	+596	+300	+1 718	-702	+295	+2 208	-2 208
+3 173	-1 855	+336	-31	+1 623	+598	+573	-1 122	+2 208	-105	+2 153	-2 153
+3 023	-2 632	+354	+3 139	+3 884	-3 082	+841	-1 460	+1 911	-2 146	+2 228	-2 228
+2 139	-1 557	+263	-626	+219	+2	-47	-270	-1 400	+149	-1 566	+1 566
+3 535	-2 211	+386	-642	+1 068	-1 589	-823	-324	+2 548	+1 118	+930	-930
+3 955	-3 377	+241	-236	+583	-2 680	+1 822	-564	-3 085	+1 345	-3 162	+3 162
+4 434	-2 991	-111	-316	+1 016	+795	-1 172	-657	-2 589	+386	-3 236	+3 236
+4 065	-2 745	+110	-1 679	-249	-1 618	+1 044	+475	-3 349	+1 235	-2 213	+2 213
+6 865	-4 817	+142	-195	+1 995	+2 347	-1 712	+440	-1 731	+1 338	+681	-681
+6 990	-2 736	-257	-3 588	+409	-2 141	+1 678	+826	+5 200	+673	+6 235	-6 235

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

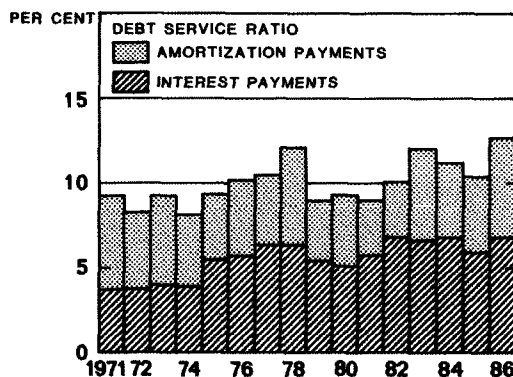
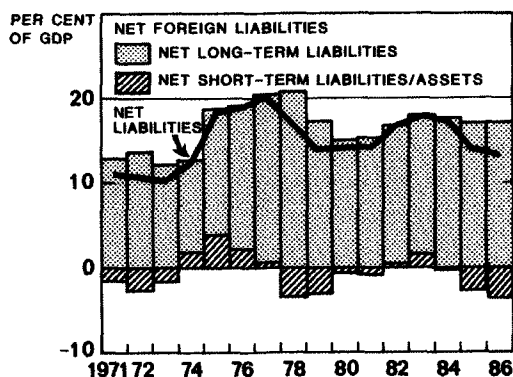


FINLAND'S FOREIGN ASSETS AND LIABILITIES

End of year and month	Long-term assets				Long-term liabilities					Net long-term liabilities (10-4)	
	Export credits	Direct investment	Other	Total (1 to 3)	Financial loans	Import credits	Direct investment	Portfolio investment	Other		Total (5 to 9)
	1	2	3	4	5	6	7	8	9		10	11
1983	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1984	8 920	8 689	1 915	19 524	63 958	3 865	2 905	2 013	805	73 546	54 022
1985*	6 539	10 524	2 774	19 837	63 228	2 893	3 274	6 313	895	76 603	56 766
1986*	5 647	13 735	3 225	22 607	68 466	2 072	4 875	6 959	953	83 325	60 718
1984											
June	6 827	7 435	3 230	17 492	57 198	3 937	2 393	1 640	729	65 897	48 405
Sept.	7 767	7 834	1 839	17 440	60 497	3 951	2 410	1 957	834	69 649	52 209
Dec.	8 920	8 689	1 915	19 524	63 958	3 865	2 905	2 013	805	73 546	54 022
1985*											
March	8 473	9 942	2 061	20 476	64 484	3 651	2 899	2 900	778	74 712	54 236
June	8 027	10 379	2 177	20 583	64 801	3 318	3 058	6 317	873	78 367	57 784
Sept.	7 194	10 484	2 167	19 845	63 385	3 064	3 104	6 210	867	76 630	56 785
Dec.	6 539	10 524	2 774	19 837	63 228	2 893	3 274	6 313	895	76 603	56 766
1986*											
March	6 103	10 702	2 712	19 517	63 570	2 803	3 356	6 407	820	76 956	57 439
June	6 158	11 685	2 784	20 627	66 600	2 546	3 419	7 117	832	80 514	59 887
Sept.	5 865	12 609	3 119	21 593	67 670	2 487	3 685	6 911	906	81 659	60 066
Dec.	5 647	13 735	3 225	22 607	68 466	2 072	4 875	6 959	953	83 325	60 718
1987*											
March	5 654	14 295	5 597	25 546	70 325	1 986	4 974	6 572	1 683	85 540	59 994



Short-term assets				Short-term liabilities				Net short-term liabilities (19-15)	Net liabilities (11+20)	Debt service flow	Of which amortization payments, flow
Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (12 to 14)	Bank of Finland	Authorized banks and other foreign exchange holders	Corporate sector	Total (16 to 18)				
12	13	14	15	16	17	18	19	20	21	22	23
11 842	29 263	15 915	57 020	5 705	39 443	16 181	61 328	4 308	49 116	11 505	5 535
22 912	43 319	12 804	79 035	4 562	55 695	17 988	78 245	-790	53 232	11 594	4 613
25 183	38 775	18 155	82 113	4 070	51 374	16 103	71 547	-10 565	46 201	11 276	4 808
16 613	54 598	17 881	89 093	3 455	56 881	16 119	76 454	-12 638	48 080	13 356	6 185
20 705	31 935	14 978	67 618	3 775	47 084	16 836	67 694	76	48 481	2 451	1 178
21 064	34 621	14 727	70 411	4 815	47 882	17 431	70 128	-283	51 926	2 223	596
22 912	43 319	12 804	79 035	4 562	55 695	17 988	78 245	-790	53 232	3 387	1 377
24 785	44 984	15 869	85 638	4 535	59 386	18 402	82 323	-3 316	50 920	3 397	1 561
26 208	46 661	18 635	91 504	3 729	62 896	18 772	85 397	-6 106	51 678	2 791	1 039
24 770	44 927	18 183	87 880	4 240	59 370	17 880	81 490	-6 390	50 395	2 320	1 011
25 183	38 775	18 155	82 113	4 070	51 374	16 103	71 547	-10 565	46 201	2 768	1 197
21 647	40 424	18 037	80 109	3 659	50 424	18 682	72 765	-7 343	50 096	3 858	2 126
18 470	45 237	18 213	81 921	3 499	52 647	16 965	73 111	-8 809	51 078	3 288	1 176
16 168	51 541	17 881	85 591	3 565	55 602	18 234	77 401	-8 190	51 876	2 312	837
16 613	54 598	17 881	89 093	3 455	56 881	16 119	76 454	-12 638	48 080	3 897	2 046
22 417	46 066	16 710	85 193	3 456	53 548	18 944	75 947	-9 245	50 749	3 699	1 769



PRICE INDICES

Period	Wholesale price index 1949 = 100	Basic price index for domestic supply 1980 = 100						Building costs 1980 = 100		
		Total	Origin		Purpose			Total	Wages in building trade	Building materials
			Domestic goods	Imported goods	Raw materials	Consumer goods	Investment goods			
	1	2	3	4	5	6	7	8	9	10
1985	1 324	140.5	143.1	132.8	137.5	145.8	142.4	144.3	144.4	142.8
1986	1 264	133.2	139.8	113.1	122.3	145.7	148.0	150.5	153.9	148.2
1986										
Nov.	1 252	131.7	138.7	110.3	119.1	145.1	149.4	152.3	156.2	150.1
Dec.	1 256	131.9	138.8	110.9	119.5	144.9	149.8	152.3	156.2	150.2
1987										
Jan.	1 269	132.9	139.9	111.7	121.0	145.6	149.9	154.0	158.9	151.4
Feb.	1 271	133.2	140.3	111.8	120.9	146.2	151.0	154.3	158.9	151.8
March	1 274	133.3	140.6	111.0	120.6	146.6	151.4	155.8	165.2	151.4
April	1 277	133.7	141.2	110.9	120.7	146.9	152.7	156.9	165.5	153.3
May	1 276	133.9	141.5	110.8	120.7	146.9	153.8	157.2	165.5	153.6
June	1 278	134.1	141.6	111.3	120.7	147.3	154.4	157.5	165.5	153.9

Period	Consumer prices 1981 = 100									
	Total	Food	Beverages and tobacco	Clothing and footwear	Rent, heating and lighting	Household goods and services	Health and medical services	Transport and communication	Education and recreation	Other goods and services
	1	2	3	4	5	6	7	8	9	10
1985	134.6	139.1	140.3	126.1	130.9	129.7	155.7	130.4	132.5	140.4
1986	139.4	144.2	146.4	131.6	134.5	135.0	164.1	130.7	139.9	149.0
1986										
Nov.	140.6	145.0	147.6	135.0	134.3	136.9	167.1	131.1	143.3	151.0
Dec.	140.8	144.5	147.5	135.2	134.3	137.0	167.1	132.4	143.3	151.1
1987										
Jan.	142.2	145.1	152.9	130.9	134.6	137.7	170.3	135.0	146.3	154.3
Feb.	142.7	145.4	152.9	132.7	134.6	138.0	171.6	135.8	146.5	155.1
March	143.4	146.3	155.2	134.6	134.6	138.7	171.6	137.2	146.8	155.1
April	144.0	147.2	155.5	135.3	134.7	139.4	172.8	138.0	147.8	155.3
May	144.3	146.3	155.7	135.7	135.5	140.0	172.8	138.2	148.2	156.4
June	144.6	146.7	155.7	135.8	135.5	140.1	175.3	139.3	148.2	156.7

WAGES

Index of wage and salary earnings 1980 = 100

Period	By industries			By institutional sectors			All salary earners	All wage earners	All employees	
	Wage earners in			Employees in services	State employees	Municipal employees				Employees in private sector
	Agriculture	Industry	Construction							
1	2	3	4	5	6	7	8	9	10	
1984	148.5	149.9	152.8	152.8	147.1	154.7	150.5	151.4	149.7	150.8
1985	160.6	161.2	168.8	165.1	158.8	166.7	163.5	164.2	162.2	163.5
1986*	176.3	171.0	179.0	178.2	170.2	180.1	174.5	176.6	172.0	174.9
1986*										
Jan.-March	177.2	166.7	175.4	173.9	167.0	176.1	169.5	171.8	167.9	170.4
Apr.-June	174.7	172.1	174.3	178.4	170.8	180.2	174.4	176.9	171.7	175.0
July-Sept.	172.2	171.4	178.8	179.4	171.4	181.2	175.3	177.8	172.2	175.8
Oct-Dec.	180.9	173.7	187.4	181.0	171.5	182.9	178.7	179.9	176.0	178.5
1987*										
Jan.-March	184.7	176.8	190.7	185.2	178.2	186.6	181.4	183.7	178.9	182.0

PRODUCTION

Volume indices of production 1985 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communication	Commerce	Public sector services	Others
1985										
Jan.-March	93	97	71	114	78	86	95	87	99	94
Apr.-June	99	105	75	122	81	103	99	98	99	101
July-Sept.	98	92	172	42	105	105	97	101	100	99
Oct-Dec.	109	107	83	122	136	107	109	113	101	106
1986*										
Jan.-March	94	94	69	106	78	88	97	90	102	98
Apr.-June	100	105	75	100	70	107	98	104	99	106
July-Sept.	103	94	178	43	110	107	102	107	103	105
Oct-Dec.	112	111	84	115	139	107	114	114	104	112
1987*										
Jan.-March	99	100	69	106	76	88	101	95	105	102

PRODUCTION

Index of industrial production 1980 = 100

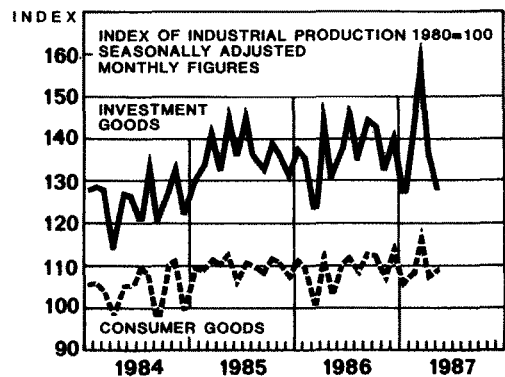
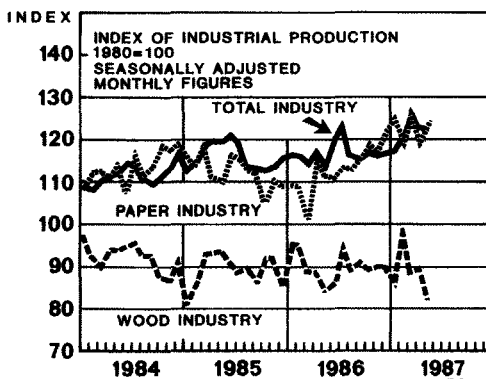
Period	Special indices of manufacturing										Total adjusted for seasonal variations
	Total	Investment goods	Consumer goods	Other producer goods	Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
	1	2	3	4	5	6	7	8	9	10	11
1984	111.8	126.8	105.6	111.9	109.3	92.4	114.3	111.5	108.4	120.0	112.1
1985*	116.1	137.8	110.3	114.7	111.3	89.4	113.1	115.1	109.7	129.9	116.5
1986*	117.1	138.7	110.3	116.2	109.8	90.3	113.6	118.7	103.6	132.9	117.3

1986*

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

1987*

Jan.	120.0	132.9	115.7	119.4	99.2	80.8	127.0	118.7	93.9	127.7	117.8
Feb.	115.1	142.9	107.4	113.5	89.6	89.3	115.3	109.5	89.4	131.1	121.4
March	130.8	165.5	119.7	129.7	100.7	99.2	128.2	131.3	106.5	154.6	127.1
April	120.8	145.8	113.1	119.7	107.5	106.5	114.3	122.5	104.5	138.7	123.2
May	124.3	154.2	114.7	123.3	103.7	96.3	124.4	125.7	113.7	145.8	122.9



LABOUR – TIMBER FELLINGS – INTERNAL TRADE

Period	Population of working age, 1 000 persons	Total labour force, 1 000 persons	Employed, 1 000 persons	Un-employed, 1 000 persons	Unemployment, % of total labour force	Commercial timber fellings, 1 000 solid cu. m	Retail sales volume index 1980 = 100	Wholesale volume index 1980 = 100
	1	2	3	4	5	6	7	8
1985*	3 710	2 600	2 437	163	6.3	43 349	114	110
1986*	3 716	2 612	2 431	182	7.0	38 832	117	115
1986*								
April	3 716	2 551	2 365	186	7.3	4 534	118	123
May	3 718	2 609	2 438	171	6.5	3 292	122	120
June	3 717	2 788	2 598	190	6.8	2 472	119	111
July	3 717	2 790	2 600	190	6.8	1 124	126	104
Aug.	3 718	2 647	2 481	166	6.3	1 194	116	114
Sept.	3 715	2 600	2 428	172	6.6	2 143	116	126
Oct.	3 716	2 576	2 394	182	7.1	3 100	119	130
Nov.	3 717	2 567	2 392	175	6.8	3 626	110	115
Dec.	3 718	2 572	2 399	173	6.7	3 981	137	126
1987*								
Jan.	3 719	2 510	2 337	173	6.9	3 173	114	103
Feb.	3 718	2 487	2 346	141	5.7	4 912	104	106
March	3 718	2 520	2 376	144	5.7	5 678	112	125
April	3 720	2 518	2 384	134	5.3	5 692	122	126
May	3 720	2 535	2 411	124	4.9	3 888	..	..

CONSTRUCTION OF BUILDINGS

Period	Building permits granted					Buildings completed					Building-works under construction
	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	Total	Residential buildings	Farm buildings	Industrial and business buildings	Public buildings	
Million cubic metres											
	1	2	3	4	5	6	7	8	9	10	11
1985*	48.17	18.17	6.70	16.53	3.41	44.74	17.40	4.94	15.97	3.35	49.64
1986*	47.77	16.84	6.19	17.18	3.97	39.43	14.92	4.97	13.25	3.44	54.20
1985*											
Oct.-Dec.	9.69	2.98	0.90	4.32	0.88	15.84	5.67	1.89	6.44	0.82	49.64
1986*											
Jan.-March	9.24	2.96	1.19	4.06	0.50	8.15	3.53	0.56	2.89	0.67	46.75
Apr.-June	16.94	6.83	2.97	4.89	0.95	5.33	2.26	0.70	1.62	0.39	55.46
July-Sept.	12.77	4.35	1.27	4.79	1.28	11.63	3.89	1.83	3.82	1.27	57.01
Oct.-Dec.	8.82	2.70	0.76	3.44	1.24	14.32	5.24	1.88	4.92	1.11	52.40
1987*											
Jan.-March	8.58	2.85	0.97	3.42	0.90	7.46	3.20	0.67	2.66	0.52	49.21

EXPLANATIONS RELATING TO THE STATISTICAL SECTION

BANK OF FINLAND

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

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

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

MONETARY POLICY INDICATORS

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

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

Net central bank debt of the deposit banks = Gross central bank debt of the deposit banks - The commercial banks' and Postipankki's call money and term deposits and their holdings of CDs issued by the Bank of Finland. - All deposit banks' cash reserve deposits at the Bank of Finland.

Cash reserve deposits of the deposit banks equal the total amount of cash reserve deposits at the Bank of Finland made by the deposit banks under the Cash Reserve Agreement of September 7, 1984. The deposit banks consist of the commercial banks, co-operative banks, savings banks and Postipankki.

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

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

As from the beginning of 1986, the call money interest rate was differentiated into two separate rates of interest, the rate on call money credits and a lower one, the rate on call money deposits. As from the beginning of 1986, the figures on page 6 and the chart illustrating the call money rate have been prepared on the basis of the rate on call money credits.

FORWARD EXCHANGE MARKETS IN FINLAND

Page 7. The figures for columns 1-6 are calculated by the Bank of Finland on the basis of monthly reports from the banks on their outstanding forward exchange positions at the end of each month. The figures for columns 7-9 are based on monthly averages of daily representative quotations, as reported by the banks to the Bank of Finland.

The banks' foreign currency positions shown in the chart at the bottom of page 7 are monthly averages of daily spot and forward positions vis-à-vis the markka as reported by the commercial banks to the Bank of Finland. The spot position includes all foreign currency-denominated assets and liabilities of the banks, excluding their outstanding forward contracts.

FOREIGN EXCHANGE RATES

Pages 8-9. *Exchange rates* are annual and monthly averages of the Bank of Finland's daily quotations. From the beginning of 1987, all quotations are expressed as FIM per one unit of foreign currency. The Australian dollar (AUD) and the European Currency Unit (XEU) have been added to the list of quoted currencies. The *currency index* is shown as annual and monthly averages of daily index numbers. The chart at the bottom of page 8 shows the banks' forward selling rates for the US dollar as deviations from the spot rate.

DEPOSITS BY THE PUBLIC - ADVANCES TO THE PUBLIC - MONEY SUPPLY

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

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

Page 11. *Advances to the public*. The central government and the financial institutions are not included in the public.

Postipankki's advances do not include loans granted by the State Investment Fund (INRA). Domestic credits in foreign currency are mainly granted by the commercial banks and the rest by Postipankki. *Money Supply 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, excluding early repayments of loans due to the restructuring of debt, repatriations of equity capital (included under direct investment), as from the beginning of 1986 repurchases of shares (included under portfolio investment), and repayments of the Bank of Finland's reserve and oil credits.

Columns 22 and 23 during the year and the quarter.

Chart Debt service ratio: Debt service as a per cent of current account earnings.

PRICE INDICES

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

WAGES - PRODUCTION

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

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

LABOUR - TIMBER FELLINGS - INTERNAL TRADE - CONSTRUCTION OF BUILDINGS

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

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

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

SOME PARTICULARS ABOUT FINLAND

FORM OF GOVERNMENT

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

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

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

INTERNATIONAL ORGANIZATIONS

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

LAND

THE AREA is 338 000 square kilometres (Great Britain's area is 244 000 sq. km and Italy's area 301 000 sq. km). Of the total, inland waters form 9.4%. Of the land area (1980) 2.5 mill. ha (8.2%) are cultivated and 19.7 mill. ha (64.5%) 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 (1985): 4.9 million. Sweden 8.4, Switzerland 6.5, Denmark 5.1, and Norway 4.2 million.

DENSITY OF POPULATION (1985): In South Finland 47.9, in East and Central Finland 14.3, in North Finland 4.2 and in the whole country an average of 16.1 inhabitants to the square kilometre.

DISTRIBUTION BY AREA (1985): 40% of the population inhabit the rural areas, 60% towns. The largest towns are: Helsinki (Helsingfors), the capital, 485 795 inhabitants, Tampere (Tammerfors) 169 026, Turku (Åbo) 161 398.

EMPLOYMENT (1986): Agriculture and forestry 11%, industry and construction 32%, commerce 15%, transport and communication 8%, financing, insurance, real estate and business services 6%, community and personal services 28%.

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

EDUCATION (1987): Practically all persons over 15 years of age are literate. There are 8 universities (the oldest founded in 1640) and 12 colleges of university standard.

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

TRADE AND TRANSPORT

NATIONAL INCOME (1986), in million FIM: Gross domestic product at factor cost by industrial origin: agriculture and fishing 13 993 (4%), forestry 9 943 (3%), manufacturing 85 036 (27%), construction 24 386 (8%), trade, restaurants and hotels 36 949 (12%), transport and communication 25 105 (8%), banking and insurance 14 851 (5%), ownership of dwellings 20 904 (6%), other services 84 562 (27%), total 315 729. Index of real domestic product 102 (1985 = 100).

FOREST RESOURCES (1984). The growing stock comprised of 1 660 million m³ (solid volume with bark) of which 45% was pine and 37% spruce the remaining 18% being broad-leaved trees chiefly birch. Of the growing stock 656 million m³ was up to the standard required for logs, 51% of these being pine. The annual growth was 68 million m³ and the total drain calculated on the basis of roundwood consumption was 52.3 million m³.

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

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

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

MERCHANT FLEET (June 30, 1987): Passenger vessels 167 (253 136 gross reg. tons), tankers 30 (487 476 gross reg. tons), dry cargo vessels 113 (324 455 gross reg. tons), other vessels 113 (70 659 gross reg. tons), total 423 (1 135 726 gross reg. tons).

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

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

FINANCE AND BANKING

CURRENCY Since 1860, Finland has had its own monetary system. From 1877 until 1914 the country was on the gold standard, and returned to it in 1926. In 1931, the Central Bank's duty to redeem bank notes in gold was suspended and at the end of 1962 was entirely cancelled. The monetary unit is the markka (plural: markkaa), which is divided into 100 penniä (singular: penni). The abbreviation used for the markka is FIM. The last par value of the markka was set on Oct. 12, 1967 and was 0.21159 grams of fine gold per markka (equivalent, at the time, to 4.20 markkaa per U.S. dollar). Since Nov. 1, 1977 the external value of the markka has been officially expressed in terms of a currency index. This index is tradeweighted and as from Jan. 1, 1984 indicates the average change in the convertible currencies which are important in Finnish foreign trade. The present currency weights are SEK 20.3, DEM 19.3, GBP 14.3, USD 9.0, other currencies 37.1. The permissible range of fluctuation is about 2.25 per cent on either side of the theoretical arithmetic mean. The fluctuation limits are 106.0 and 101.3.

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

OTHER CREDIT INSTITUTIONS (Dec. 31, 1985). There are two big and eight small commercial banks with in all 967 offices, 254 savings banks, 370 co-operative banks, six mortgage banks, Postipankki and three development credit institutions. The co-operative stores accept deposits from their members. The Social Insurance Institution and 48 private insurance companies also grant credits.

RATES OF INTEREST (May 19, 1986). The Bank of Finland's base rate is 7%. The interest rates for domestic lending other than bank financing by the Bank of Finland vary between 4½% and 9½%. Other credit institutions: time deposits 2%%; 6 month deposits 4%; 12 month deposits 5%%; 24 month deposits 7%.

STATE BORROWING AND CASH MANAGEMENT

by Pekka Laajanen, Cabinet Councillor
and Pekka Saarinen, Budget Councillor
Ministry of Finance

THE STATE BUDGET AND THE EXCHEQUER

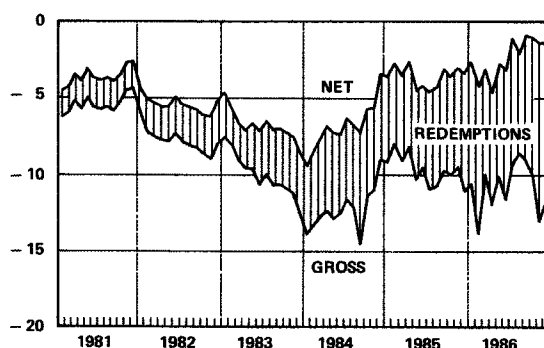
REVENUE, EXPENDITURE AND THE BORROWING REQUIREMENT

The projected economic outlook and the desired fiscal policy impact of the state budget serve as the point of departure for planning the central government's annual borrowing requirement and borrowing. The main indicators of the budget balance and its fiscal policy effects are the concept of revenue surplus, i.e. the difference between budgeted receipts and expenditure before financial transactions, and the net borrowing requirement. The gross borrowing requirement is the difference between budgeted expenditure and revenue other than borrowing.

In 1986, central government cash receipts (including gross borrowing) totalled FIM 108.7 billion and cash expenditure (including redemptions of state debt) FIM 105.8 billion. In relation to GDP, cash receipts amounted to 30.4 per cent and cash outlays to 29.6 per cent. While the central government gross borrowing requirement in 1986 amounted to FIM 11.8 billion, the net borrowing requirement was only FIM 1.3 billion, or 0.4 per cent of GDP (Chart 1).

In 1986, the Government submitted a bill to Parliament which proposed that the existing practice of budgeting borrowing and redemptions of state debt in gross terms should be replaced by budgeting in net terms. Parliament has recently approved the bill and the new system will be introduced in connection with the budget proposal for 1988. Under the new system, the Government will be empowered to

CHART 1. CENTRAL GOVERNMENT GROSS AND NET BORROWING REQUIREMENT, BILLION FIM¹



1) 12-month moving total

undertake whatever net borrowing is necessary to balance the proposed budget. Until now, the Government has had to obtain authorization for the entire amount of gross borrowing. The new practice will make budgeting and the planning of borrowing more flexible.

COVERING THE BORROWING REQUIREMENT AND DECISION-MAKING

The budget proposal does not contain detailed plans on the relative shares of foreign and domestic borrowing, the final decision being left to the Government. Once Parliament has authorized the Government to borrow, the practical loan arrangements are chiefly the task of the Ministry of Finance. The Government, or the Ministry of Finance acting within its mandate, decides upon the raising of loans on a case-by-case basis.

Recently, the aim has been to cover an increasingly large proportion of the borrowing requirement domestically. This objective is

stated in the introduction to the budget proposal for 1986. This change of emphasis is partly due to the development of the domestic financial market towards better balance in the last few years and partly to efforts to reduce the size of the state's foreign debt, which has risen to quite large proportions. At the end of 1986, foreign debt accounted for 51.9 per cent of total central government debt.

CASH REQUIREMENTS AND THE SIZE OF THE EXCHEQUER

The size of the exchequer is partly determined by legislation. Under the Finnish constitution, annual budgets must balance in the sense that total revenue (including borrowing) must equal total expenditure (including financial transactions). This applies to both the Government's budget proposal and the final budget approved by Parliament; annual supplementary budgets have to balance in the same way. Consequently, state revenue entered into the final accounts for the fiscal year should cover the corresponding expenditure. According to law, the accounts may show a deficit only as a result of inaccurate estimates in the budgeting of revenue and expenditure.

It would thus appear that the only reason the state needs to hold cash funds is to even out fluctuations in the exchequer and as a contingency against uncertainties caused by estimation errors. The impact of these factors on cash requirements and the size of the exchequer is, however, fairly limited. Rather, the main reason for holding cash funds has to do with the method of budgeting employed in Finland. As a rule, central government revenue is entered into the budget and the accounts on a cash basis, i.e. according to annual accrual. By contrast, only part of expenditure is entered on a cash basis.

A significant proportion of the expenditure items covering several fiscal periods are budgeted as transferable allocations. These are entered into the accounts as outlays during the fiscal year, even though their payment on a

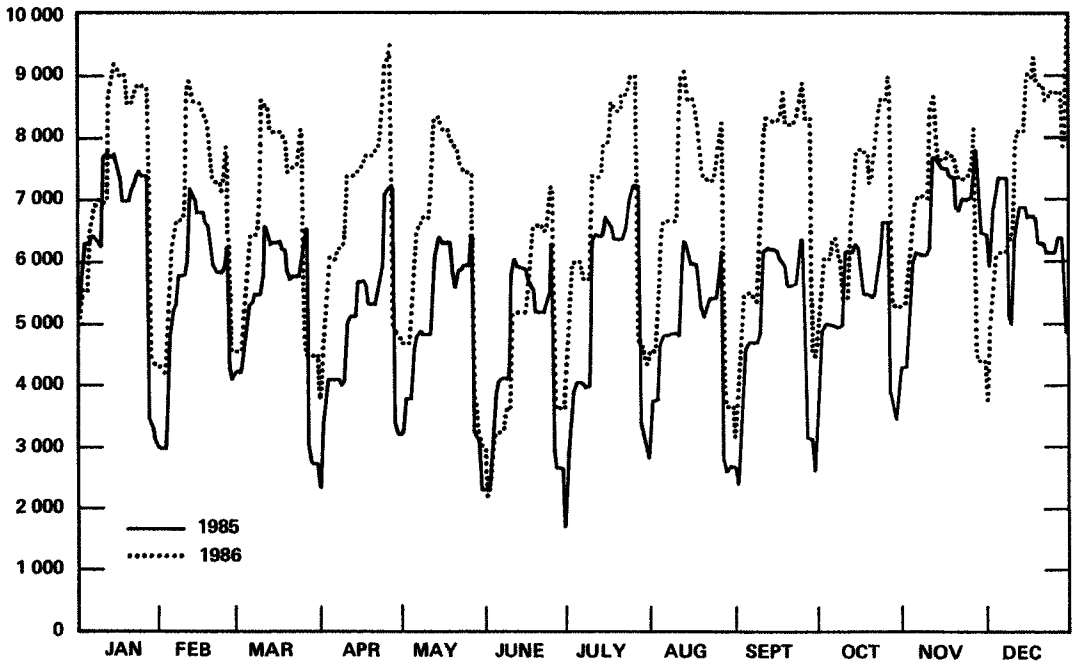
cash basis may be spread over the fiscal year and the following three years. Since, however, the budget must balance, transferable allocations must also be covered annually by revenue which is normally entered into the budget and the accounts on a cash basis. Transferable allocations totalling FIM 7.7 billion budgeted in 1986 and preceding years are payable in 1987. Because budgets are required to balance annually, financing equivalent to this amount of transferable expenditure has had to be obtained in advance. Consequently, at the end of 1986, the exchequer also included funds corresponding to the outstanding stock of the transferable items mentioned above.

PAYMENTS AND FLUCTUATIONS IN THE EXCHEQUER

The state's accounting offices hold postal giro accounts with Postipankki (Post Office Bank) for the collection of revenue. The funds in these accounts are transferred automatically on a daily basis to the State Treasury Office's account with Postipankki. The accounting offices also keep postal giro accounts for payments, and amounts corresponding to daily payments are transferred to these from the State Treasury Office's account. The Treasury's account with Postipankki can be regarded as the exchequer, and the daily balances on this account reflect the state's actual payment transactions.

Also flowing through the exchequer are revenues which ultimately do not belong to the central government, as the state functions as the tax collection authority for the entire public sector. All direct taxes are paid to the state on a preliminary basis each month. On the basis of these payments, the state then credits other tax recipients with their relevant shares. In 1986, payments into the exchequer amounted to FIM 179 billion and payments from the exchequer to FIM 174 billion. The average monthly fluctuation in the exchequer was FIM 5 070 million and the annual fluctuation FIM

CHART 2. CENTRAL GOVERNMENT CASH FUNDS IN 1985 AND 1986, MILLION FIM



7 796 million. The daily average of state cash funds in 1986 was FIM 6 765 million (Chart 2).

STATE FINANCES AND CHANGING FINANCIAL MARKETS

Finnish financial markets are undergoing fundamental change, the most important feature of which is the enhanced role of interest rates. Interest rates and interest rate expectations are expected to balance the supply of and demand for finance. Monetary policy has a direct impact on the money market. However, as the long and short-term markets are interactive, the effects of monetary control also extend to the capital market.

As part of this process of change, the Bank of Finland has gradually dismantled its regulatory system based on interest rate and capital controls.

The interest rate consciousness of agents operating in the financial markets has increased. As a result of the slowdown in

inflation and the enhanced role of market forces, real interest rates are now clearly positive. Although the cost of borrowing has increased, the availability of finance is no longer a restrictive factor in the same way that it was before. As markets have changed, the importance of cash management has also increased, in both the business sector and the public sector. In addition to maintaining adequate liquidity, the need to maximize returns on invested cash funds has come to the fore.

The changes in the financial markets are affecting the management of central government finances in many ways, particularly where the planning of state borrowing and cash management is concerned.

With deregulation and growth of the domestic financial markets, government borrowing in the domestic market can no longer be regarded as crowding out private borrowing, as was perhaps the case formerly. There is now room enough for both. This is also partly due to the expansion and liberalization of international markets as well as to relatively attractive rates

of interest on foreign loans. These factors have increased the interest of companies in raising foreign loans and improved their opportunities to borrow abroad.

Even though the liberalization and expansion of markets as such may offer ample room for manoeuvre, government borrowing operations must be designed so as to be consistent with overall monetary and fiscal policies. Thus, for example, in deciding whether to place debt at home or abroad, account is taken not only of the debt servicing costs but also of such factors as the impact of borrowing on the level of foreign exchange reserves. In this respect, cooperation with the Bank of Finland is important.

Changes in the financial markets have also led to greater interest rate awareness in the state's financial investment, and the strategy for investing cash funds has changed. It is logical that the state should operate in the financial markets on the same terms as other economic agents. In practice this means that it should be possible for state cash funds to be placed in the market so as to yield the highest possible return, without, however, endangering the state's liquidity position.

THE STATE'S DOMESTIC BORROWING

The extent of central government borrowing is controlled by budgeted expenditure and revenue, not by the size of the exchequer. Regardless of the available amount of cash funds, budgeted borrowing must be arranged within the budget year. Apart from a certain time-related elasticity during the year, the system allows hardly any flexibility with regard to the amount of borrowing following developments in the money market. On the other hand, it should be remembered that the domestic borrowing of the central government is not greatly dependent on bank relations and short-term market fluctuations. This is due to the instruments used — principally the fact that most of the domestic borrowing is based on bonds sold to the general public.

Domestic borrowing instruments can be divided into long-term and short-term papers. Long-term borrowing here means conventional borrowing from the public in the form of 10 and 5 year tax-free bonds as well as borrowing from institutional investors, i.e. insurance and employment pensions institutions. Long-term bank loans have been raised only exceptionally. Short-term borrowing is here denoted by Treasury notes. The maturity is one year as the present budget laws do not yet allow the use of shorter notes to cover the budget deficit.

LONG-TERM BORROWING

Tax-free bonds issued to the public are the most important instrument of state borrowing. Since the late 1970s, the issuing of bonds has been based on annual agreements between the government and the banks on the total amount to be issued, the issue dates, the size of issues and the fixed rates of interest. The banks have undertaken to buy for their own portfolios those bonds that have not been sold by the end of the subscription period, and in return the state pays the banks a fee agreed upon in advance. In 1987, some 40 per cent of the state borrowing requirement will be covered by public bond issues amounting to FIM 6 900 million.

FIM 880 million will be borrowed from the insurance and employment pensions institutions. The funds will be borrowed against 10-year notes at a fixed rate of interest.

SHORT-TERM BORROWING

The rest of the state's domestic borrowing is made against Treasury notes. In 1987, issues of these instruments will amount to an estimated FIM 2 200 million. The state has issued notes since 1982. The issuing of these loans was initially based on agreements with the banks concerning the amount of each loan, its division between the banks, the maturity and the rate of interest. In the beginning the notes were not negotiable; instead the banks bought them for their own portfolios. The form of the notes was also inconvenient from the second-

ary market standpoint due to the inclusion of interest rate coupons.

Restrictions on the sale of the notes were gradually lifted and the coupons were dropped so that the subscriber's return consisted of the difference between the nominal value and the subscription rate. The most recent development has been to discontinue the negotiations with the banks, and — since the autumn of 1985 — to base the issuing of these notes on tender offers. These 'auctions', arranged by the Ministry of Finance, have been held monthly, the bidders being banks and banking houses.

The money market in Finland has developed without the support of Treasury notes. Certificates of deposit issued by the banks have been the main vehicle in the development of a short-term market for negotiable instruments. In contrast to the situation in, for example, Sweden, the use of Treasury notes has been modest; the amount of outstanding Treasury notes has fluctuated either side of FIM 2 000 million mark. It is evident that an amount of this size is of no great importance to the development of the market and that it cannot be used to implement monetary policy to any mentionable degree. As a consequence of this, the Bank of Finland has used certificates of deposit issued by the banks and the Bank of Finland in its market operations.¹

On the other hand, increasing the stock of Treasury notes for this purpose only would not be expedient if the increased stock of notes were to become a substitute for long-term borrowing at lower cost. It is also thought that an increased volume of notes would make the state more dependent on the current situation in the money market, thus increasing the risks involved in the cost of financing. State expenditure is tied to the budget and cannot be made dependent on changes on the money market. Another problem would be that the

average maturity of the state debt, short though it already is, would be shorter still.

In spite of the reservations expressed above, the development seems to be heading towards increased borrowing in the form of Treasury notes. This will make government borrowing and cash management more flexible. Furthermore, it will broaden the base of the short-term money market instruments and thus improve the functioning of the market. Due to the neutrality of Treasury notes a growing stock of them will enhance the potential of the central bank's market operations.

It does not seem likely that there will be any considerable increase in the stock of Treasury notes in the near future. The bulk of state borrowing will be achieved through the issue of tax-free bonds to the public at least up to the end of 1988, which is as long as the present acts governing the tax exemption of ordinary bank deposits and certain bonds remain in force. After that the situation may change considerably depending on the tax treatment of deposits and bonds as from the beginning of 1989.

Even partial taxation of bonds issued to the public might well reduce the bond issues so that the difference would have to be made up with issues of Treasury notes. At the present rate of interest, however, a change of this kind would not have too great an impact on the total cost of borrowing.

The above-mentioned amendment to the Accounts Act changing the budgeting of the state debt from gross to net budgeting will make it possible to use notes with a maturity of less than one year to cover the budget deficit. Treasury notes with maturities of perhaps 3 and 6 months could be introduced as from the beginning of 1988. This would imply a diversification of the borrowing instruments as well as a more efficient linkage between borrowing and market movements. New instruments are without doubt needed if borrowing against notes is to be increased to any great extent in 1989.

¹On the development of the Bank of Finland's open market operations, see the front article in the May 1987 issue of the Bulletin.

INVESTING EXCHEQUER FUNDS

THE IMPACT OF THE CHANGED MARKET

The Ministry of Finance decides how government funds are to be invested. The Ministry may delegate investment decisions to the State Treasury Office under certain terms and conditions.

Before 1986, government funds were mainly deposited as call money deposits with the Bank of Finland or on the government deposit account with the Bank. Since the beginning of 1986, however, when different rates started to be quoted for call money deposits and advances, and when the interbank market started to expand, exchequer funds were channelled into the latter market as the rate of interest paid was higher.

From the beginning of December 1986, the Bank of Finland made a further increase in the differential between the lending and borrowing rates on the call money market and started to extend three-month loans to the banks at fixed rates of interest. In February 1987, the Bank of Finland also started to accept 3-month deposits at fixed rates of interest. However, the exchequer funds had to be kept on overnight deposit at call money rate because the decree governing the investment of these funds required them to be placed in such a way that they could immediately be converted into cash with no capital loss. In the spring 1987, the decree was amended to enable the government to invest cash funds in the short-term market, too.

At present, all exchequer funds in domestic currency are invested by Postipankki according to directives issued by the Ministry of Finance. When the above-mentioned amendment to the decree became effective, a government investment portfolio was opened at Postipankki. The day-to-day size of the portfolio varies according to the balance of the State Treasury Office's account with Postipankki, i.e. ac-

ording to the fluctuations of the government cash funds. The structure of the portfolio is such that it also contains periodic investments as currently decided by the Ministry of Finance.

The Government may also invest cash funds in foreign currencies. According to a decision of the Ministry of Finance, such investments may comprise only currencies received through foreign borrowing. The invested funds must be available for the payment of interest, amortization and other expenses on foreign state loans in the currency concerned. Furthermore, a foreign currency deposit must reduce the overall exchange rate risk involved in servicing the government's foreign debt as estimated on the basis of the currency basket, and the interest paid on the deposit may only be lower than that paid on a domestic FIM-deposit of the same maturity by an amount agreed upon in advance. The purpose of investments in foreign currencies is mainly fine tuning within a calendar year. The main cover against exchange rate risks is to manage foreign borrowing in such a way that the currency distribution of the state foreign debt corresponds as closely as possible with the currency basket composition of the Bank of Finland.

DEVELOPMENT PROSPECTS

As regards the investment of FIM-denominated cash funds, the present question concerns the extent to which the Government itself could handle investment operations. The purpose of shifting the day-to-day management of cash funds from Postipankki to the Government is to provide a finger on the pulse of the money market and interest rate development. The Ministry of Finance has formed a working group to investigate the matter. The intention is to continue operations in markets that are generally approved and for which mutually acceptable principles have been established as a result of negotiations with the Bank of Finland.

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

1986

September

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

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

Cash reserve requirement. As an exception to the cash reserve agreement concluded with the banks, the Bank of Finland decides to pay interest on cash reserve deposits for the period September–December 1986 at a rate which is 3 percentage points below the Bank of Finland call money lending rate, however, not less than 1/4 percentage point below the Bank of Finland base rate.

October

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

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

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

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

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

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

November

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

Lending rates. On November 28, 1986, the Bank of Finland decides that henceforth lending rates applied in short- (up to 1 year) and medium-term (between 1 and 5 years) loan

agreements may be linked to a reference rate which reflects the cost of unregulated short-term funding. The introduction of a reference rate requires the prior approval of the Bank of Finland.

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

December

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

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

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

Credits for the financing of domestic suppliers' deliveries. The rate of interest applied to

credits for the financing of domestic suppliers' deliveries is raised by one percentage point to the equivalent of the base rate plus 2.0 percentage points as from December 10, 1986. The Bank of Finland's share in the financing of domestic suppliers' deliveries is raised from 30 per cent to 40 per cent for the period from December 10, 1986 to December 31, 1987. At the same time, it is decided to again permit the use of credits for the financing of domestic suppliers' deliveries in the financing of sawmill investments.

1987

January

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

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

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

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

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

February

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

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

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

March

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

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

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

interest is to be charged on credit exceeding the limit.

April

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

May

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

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

June

Revisions to the Foreign Exchange Regulations. The Bank of Finland decides on certain revisions to the Foreign Exchange Regulations that enter into force on June 15, 1987.

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

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

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

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

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

July

Call money market. With the effect from July 1, 1987, the Bank of Finland supplements the conditions governing borrowing by commercial banks in the Bank of Finland's call money market (see March 1987) by stipulating that the upper limit on the right of an individual bank to resort to call money credits is, in all cases, not less than FIM 10 million.

August

Revision of foreign exchange regulations. The Bank of Finland decides to extend the right of enterprises, previously granted only to manufacturing and shipping companies, to raise foreign loans with a maturity of at least five years for the financing of their operations. As from August 1, 1987, this right also applies to other companies and cooperative societies carrying on business activity, with the exception of financial and insurance institutions and housing and real estate companies.

ITEMS

Supplementary budget. The first supplementary budget for 1987 was approved by Parliament in June. It provides for a net increase in central government expenditure of almost FIM 2.3 billion on the ordinary budget for 1987. This brings total budgeted state outlays for the current year to slightly over FIM 113 billion equivalent to about 29.5 per cent of forecast GDP.

The largest single item of expenditure in the supplementary budget, just over FIM 1.3 billion, is for the early repayment of foreign loans. The loans in question are to be refinanced on more favourable terms, giving rise to estimated net savings of about FIM 46 million. There is also a provision for some minor early repayments of domestic debt, with a net value of about FIM 70 million. To enable these loans to be refinanced and to balance the budget, Parliament has increased the central government's powers to borrow by FIM 1 415 million.

The rest of the additional outlays amounts to close on FIM 870 million. State support for housing in respect of financing, construction and repairs is set to increase by nearly FIM 300 million. The effects will be partly postponed until next year. Another major item consists of certain financial rearrangements such as the buying back of shares of state-owned firms, mainly from the Bank of Finland. This accounts for about FIM 230 million.

The net increase in revenue (other than new loans) is estimated to be about FIM 860 million. Revenue from turnover tax is estimated to exceed the budgeted amount by FIM 600 million, owing to a larger-than-forecast increase in nominal domestic demand.

The Bank of Finland's investment inquiry of June 1987. According to the Bank of Finland's survey of industry's investment intentions carried out in June, the growth of both

the volume of fixed investment and expenditure on research and development will accelerate appreciably in the current year. Companies' plans point to an increase of more than 10 per cent in the volume of fixed investment. Even more rapid growth is expected in manufacturing, where especially companies in the paper industry and the chemical industry plan to implement a large number of projects this year. By contrast, companies in the energy sector anticipate a decline in their investment.

Investment is growing at the same rate among both large and small companies. Investment by state-owned companies continues to grow at a faster pace than that by private companies, but the difference in growth rates evident in the past two years will diminish considerably in the current year. According to the inquiry, investment by industrial companies in the private sector is likely to increase by almost 10 per cent this year.

Companies also report a large number of planned investments for 1988, although, as expected, less than for 1987.

Industry's expectations concerning industrial production are fairly positive. Companies expect a clear rise in their capacity utilization rates during the current year and a further rise next year.

Industrial investment in 1986. The volume of fixed capital formation in industry¹ in 1986 was the same as in the previous year. In manufacturing, investment increased slightly. Investment increased most in the metal and engineering industries and in the manufacture of non-metallic mineral products. Acquisitions of fixed assets declined in the forest industry,

¹In addition to manufacturing industries, industry includes mining and quarrying, and electricity, gas and water supply.

mining and quarrying and the industry group other manufacturing industries and printing and publishing. According to the latest data, industrial investment in 1986 grew slightly less than indicated by the results of the previous inquiry. The estimate has changed most as regards investments in the energy sector.

Construction activity in industry increased by 7 per cent last year, with especially brisk growth in other construction. By contrast, investment in machinery and equipment declined by 3 per cent.

Investment by state-owned companies again grew at a more rapid rate than that by private industrial companies. Examined by size category, however, it was small companies that recorded clearly the fastest growth in their investments.

Industrial investment in 1987. Investment activity is forecast to pick up this year in most sectors of manufacturing, with the strongest growth in the pulp and paper industry and the chemical industry. Investment in mining and quarrying and energy supply is forecast to decline. Companies' plans point to an increase of 13 per cent in the volume of investment in total industry and almost 20 per cent in manufacturing. However, owing to normal delays and the postponement of certain projects, the growth of investment could turn out to be less than planned. Notwithstanding this, the growth of investment in manufacturing is estimated to reach close to 15 per cent.

The emphasis in industrial investment is on machinery and equipment, the volume of which is estimated to increase by almost a quarter. By contrast, construction activity is forecast to decline.

State-owned companies expect their investment growth to accelerate again this year after levelling off in the previous year. Investment by private industrial companies is forecast to increase by nearly 10 per cent. Investment growth rates will be broadly similar among all size categories of companies.

Planned investment for 1988. At this stage, companies' planned investment for 1988 is still clearly less than planned investment for 1987. In manufacturing, investment prospects are fairly similar in different sectors. Investment in mining and quarrying and energy supply is forecast to rise after two years of decline.

Analyzed by types of investment, the prospects for 1988 are brightest for investments in other construction, which will pick up along with investments in the energy sector. Building investment is forecast to diminish further. Planned investment in machinery and equipment for 1988 is also less than for the current year.

As a rule, investment for the following year has been underestimated in the investment inquiry carried out in June. In recent years, estimates by companies have, on average, been more than 10 per cent lower than the actual level of investment.

Expenditure on research and development. According to the inquiry, expenditure on research and development in manufacturing will exceed FIM 3 billion this year. The growth of outlays on research and development has accelerated after slowing down last year, but will nevertheless fall short of the growth in fixed investment. Planned outlays by the metal and engineering industries account for half of manufacturing's total expenditure on research and development. The relative share of the chemical industry is estimated to expand to almost a quarter, this year.

Capacity utilization. Manufacturing companies expect their capacity utilization rates to be running at just over 86 per cent, on average, in the second half of this year, up by one percentage point from the average capacity utilization rate in the first half of the year. Capacity utilization rates are expected to rise further in the course of next year. In the forest industries and the metal and engineering industries, capacity utilization will reach almost the same level attained during the cyclical boom at the turn of the decade.

TABLE 1. ANNUAL CHANGES IN THE VOLUME OF INDUSTRIAL FIXED INVESTMENT IN 1986-1988, BY INDUSTRIAL SECTOR, PER CENT

	Planned		
	1986	1987	1988
Forest industries	-10	25	-16
Metal and engineering industries	14	1	-25
Other manufacturing	2	28	-17
TOTAL MANUFACTURING	1	19	-19
Electricity, gas and water	0	-4	2
TOTAL INDUSTRY	0	13	-12

TABLE 2. ANNUAL CHANGES IN THE VOLUME OF INDUSTRIAL FIXED INVESTMENT IN 1986-1988, BY TYPE OF INVESTMENT, PER CENT

	Planned		
	1986	1987	1988
Construction	7	-6	-14
Machinery and equipment	-3	22	-12

TABLE 3. EXPENDITURE ON RESEARCH AND DEVELOPMENT IN MANUFACTURING IN 1986-1987, MILLION FIM

	Planned			
	1986 Mill.FIM	Change %	1987 Mill.FIM	Change %
Forest industries	242	-5	257	6
Metal and engineering industries	1 651	9	1 695	3
Other manufacturing	1 009	13	1 298	29
TOTAL MANUFACTURING	2 902	9	3 249	12

Publications of the Bank of Finland. The Bank of Finland Year Book for 1986 has been published. The first section reviews the Finnish economy in 1986, and the subsequent sections examine the central bank's monetary and foreign exchange policy, its relations with international organizations and its balance sheet and profit and loss account. A summary of new items relating to monetary and foreign exchange policy measures taken during the year is included. The Bank's financial statements and various banking transactions during the year under review are included in a statistical appendix. Helsinki 1987. 74 pp. ISSN 0081-9468.

The Bank of Finland's publication "Finnish Bond Issues 1986" has been published as a trilingual edition in Finnish, Swedish and English. The book contains data on all ordinary bonds, debentures and so-called other bonds issued by Finnish borrowers in 1986. All in all, 251 bond issues with a combined nominal value of FIM 24 012 million were floated in Finland in 1986. Of the loans, 139 were public issues with a total nominal value of FIM 13 475 million. At the end of 1986, the total stock of domestic bonds outstanding amounted to about FIM 71 billion.

At FIM 16 269 million, the total volume of Finnish bond issues abroad doubled from the previous year. The issues numbered 47. At the end of the year, the outstanding stock of external bonds amounted to FIM 47 billion or 56 per cent of Finland's total gross long-term foreign debt. Helsinki 1987. 393 pp. ISBN 951-686-130-X, ISSN 0781-4437.

(Continued from page 2)

Furthermore, it can be argued that overall economic policy now requires less regulation of the financial markets. Ultimately, the responsibility for the increasingly necessary flexible adjustment to structural change abroad must be borne by the affected companies themselves. This obviously requires flexibility in financial arrangements as well. The authorities' decision to refrain from tightening controls as markets became more efficient was also partly motivated by the practical difficulties of control.

PRESENT CONTROLS

Exchange control in Finland has undergone major changes in the 1980s (Table 2). Today, it focusses on the areas of foreign investment and long-term financing; short-term trade-related credits are mostly, and current transactions totally, free of control. Authorized banks are, as part of the regulatory network, required to verify that foreign transactions conform to regulations. Their own foreign operations are largely free, subject to a limit on their net foreign currency position vis-à-vis the markka; cross-currency positions are subject to scrutiny by the Bank of Finland. Similar, albeit less flexible rules apply to insurance companies operating abroad.

Portfolio investments by the public are, with minor exceptions, strictly controlled. Finnish residents may freely acquire foreign publicly quoted securities up to a maximum value of FIM 50 000 per individual (excluding accumulated earnings, interest and dividends). A resident may also freely use up to FIM 600 000 for acquiring dwellings or real estate abroad. Foreigners are allowed to trade freely in unrestricted shares on the Helsinki Stock Exchange.

Direct investments by Finnish residents abroad exceeding FIM 30 million are subject to the special permission of the Bank of Finland, but permits are granted liberally. Minor direct investments account for only a negligible proportion of total capital flows and were therefore exempted from control in 1987. Foreign inward

TABLE 2. MAJOR CHANGES IN EXCHANGE CONTROLS 1980—1987¹⁾

	Banks	Public
1980	Right to cover forward contracts with foreign loans. Currency positions defined.	Right to acquire foreign currency without prior approval by the Bank of Finland substantially enlarged.
1981	Enlarged rights to sell markka debentures abroad.	—
1982	—	—
1983	Financial futures allowed. Currency positions revised.	Financial futures allowed. Controls on import re-financing eased.
1984	Enlarged rights for lending and portfolio investment abroad. Foreign branches allowed.	Enlarged rights for insurance companies to make portfolio investments abroad.
1985	Currency risk limits defined.	Sale of markka bonds abroad prohibited. Forward cover restricted to commercial purposes. Enlarged rights to make portfolio investments. Options and futures between foreign currencies allowed.
1986	Gradual phasing out of domestic foreign currency loans. Right to sell markka bonds abroad against receipts from present holdings.	Manufacturing and shipping companies extended right to raise foreign loans of at least 5 years maturity. Enlarged rights to make portfolio investments. Controls on import re-financing eased. Revision of Foreign Exchange Act.
1987	—	Stock rather than flow limit on portfolio investment. Direct investments up to FIM 30 million free. Right of most non-financial companies to raise foreign loans of at least 5 years' maturity.

¹⁾ Throughout the period, there have been numerous upward revisions of transaction limits. The above list contains the major changes in the system up to August 1, 1987.

direct investment in certain sectors (real estate, forest industry, mining) is not allowed without special permission.

Long-term lending to foreigners is restricted but there are no controls on export credits. Long-term borrowing abroad is subject to control with one important exception. Since 1986, manufacturing and shipping companies have been allowed to raise foreign loans freely, provided that the maturity is not less than 5 years. In 1987, this right was enlarged to include most other non-financial companies. In

order to reduce the volatility of capital flows, the early repayment of such loans is not allowed without the special permission of the Bank of Finland. For the same reason, the sale of markka-denominated bonds abroad has, until further notice, been prohibited since 1985. However, a few issues have recently been authorized for trading abroad.

Short-term capital movements arising from permitted (usually trade-related) foreign transactions are treated liberally. In practice, export receivables can generally be freely refinanced abroad, as can import credits with a term of up to 6 months. Forward exchange contracts may be freely used to cover genuine currency risks and may be fully covered using short-term capital transactions. Export credits conforming to normal commercial practice can be freely extended and import credits of up to 6 months freely accepted.

EVALUATION

The exchange control system in Finland, though diminishing in importance, is comparable to that existing in Sweden and Norway. Although still somewhat more comprehensive than in many OECD countries, the controls are not very stringent in terms of monetary policy, since short-term trade-related capital flows are free. Nevertheless, the extent of short-term financial flows is restricted, and several categories of long-term capital flows are still subject to approval by the Bank of Finland.

Market pressures will undoubtedly continue to reduce the effectiveness of the remaining controls as Finnish companies seek access to the same kind of financing opportunities and risk management instruments as their competitors. Furthermore, the present practice of restricting long-term lending of less than 5 years' maturity while having largely deregulated short-term and very long-term capital flows is not fully consistent with the current aims of control. The trend towards less exchange control in Finland is therefore likely to continue, especially as regards long-term capital flows.

August 3, 1987

BANK OF FINLAND

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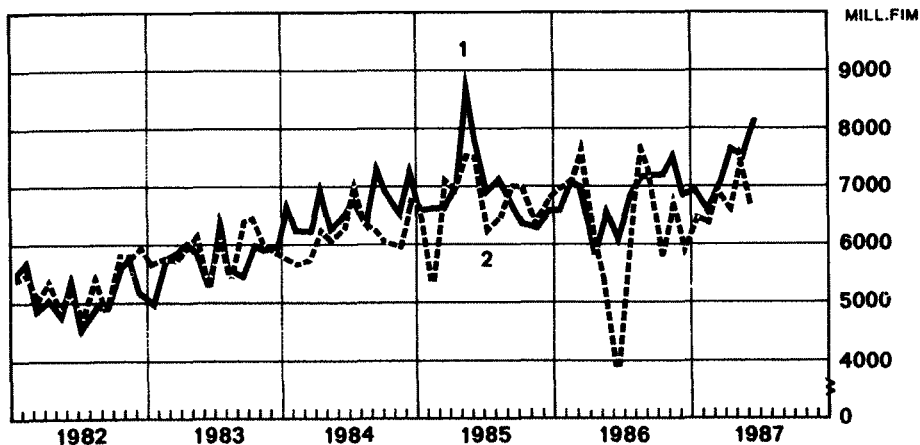
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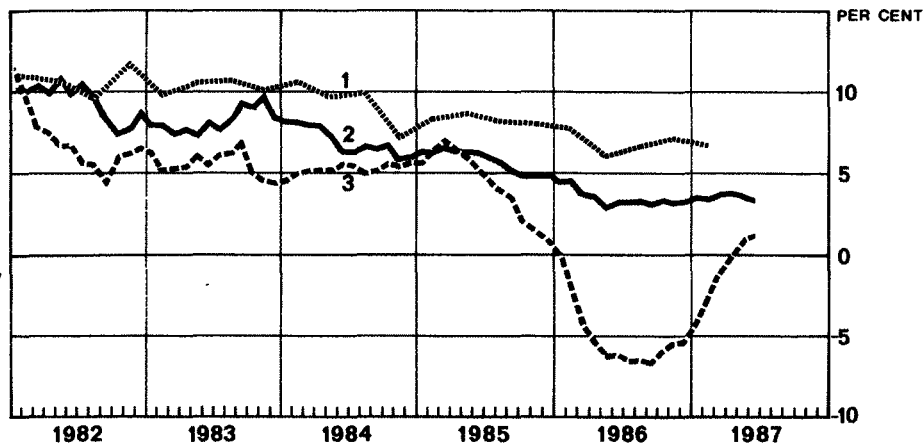
FOREIGN TRADE, 1982-87

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



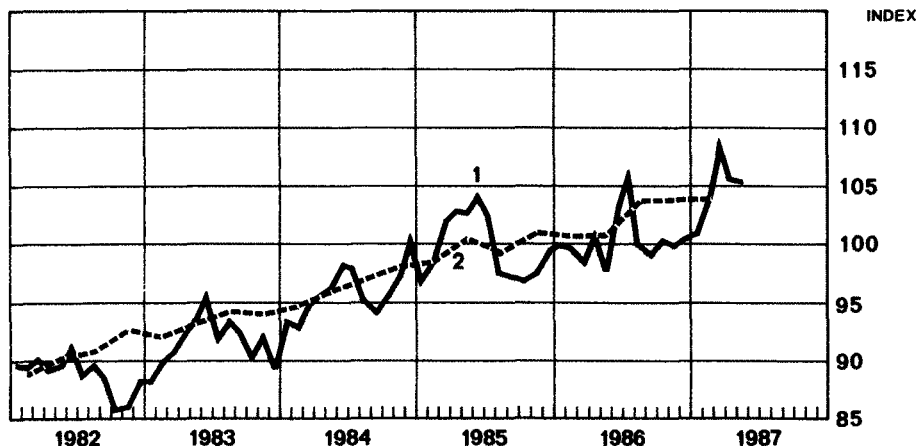
PRICES AND WAGES, 1982-87

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



PRODUCTION, 1982-87

- 1. Total index of industrial production 1980 = 100, seasonally adjusted monthly figures
- 2. Volume index of gross domestic product 1985 = 100, seasonally adjusted quarterly figures



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