



BANK OF FINLAND

Monthly Bulletin

Establishment of foreign banks in
Finland:
background and experiences

The internationalization of Finnish
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Monetary and foreign exchange policy
measures from October 1983
to September 1984

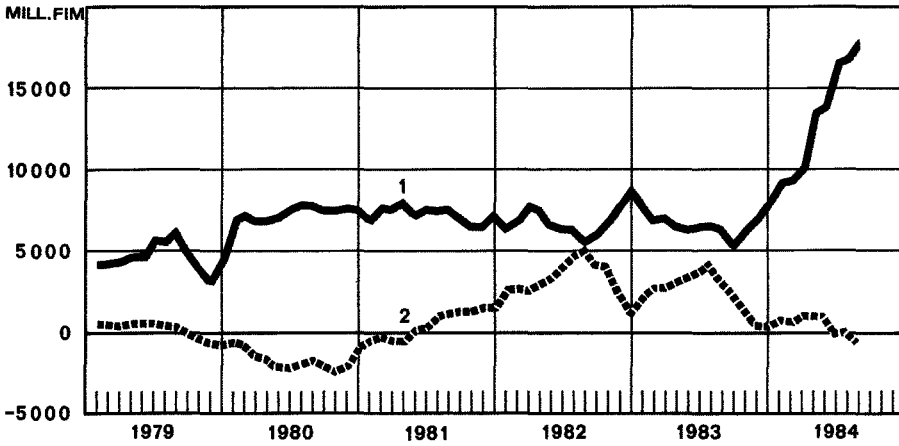
Revision of the methods of monetary
control

Publication of the Bank of Finland

OCTOBER 1984

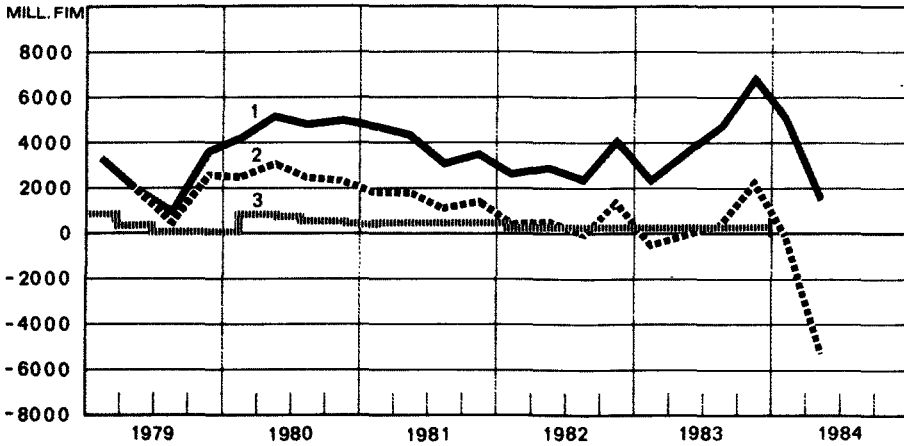
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BANK OF FINLAND'S CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, 1979-84



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

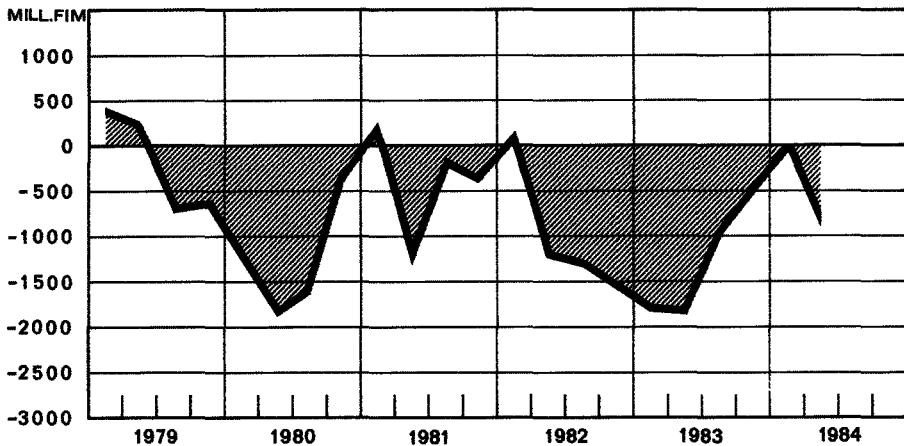
COMMERCIAL BANKS' CENTRAL BANK POSITION, 1979-84



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

Quarterly average of daily amounts (1 and 2)

BALANCE OF PAYMENTS CURRENT ACCOUNT SURPLUS/DEFICIT, 1979-84



Seasonally adjusted quarterly figures

ESTABLISHMENT OF FOREIGN BANKS IN FINLAND: BACKGROUND AND EXPERIENCES

by Ralf Pauli, Head of Department

Monetary Policy Department
Bank of Finland

The first foreign-owned banks in Finland were established in 1982. The authorities' decision to permit foreign banks to operate in Finland must be seen against the background of the overall trend of the previous two decades towards greater economic openness both in Finland and in other countries. The service sector, including banking, has also been affected by this development. Since the early 1960s, Finnish banks have started operations abroad in various forms, and interest in establishing abroad has increased in recent years.¹ Although the demand for reciprocity has not hampered the internationalization of Finnish banks, the authorities considered it reasonable to offer foreign banks the same opportunities in Finland.

LEGISLATION

In 1979 new legislation entered into force regulating a foreigner's right to carry on banking operations in Finland. Prior to that, only representative offices were allowed. The new legislation also gives a foreign bank the right, subject to the approval of the authorities, to establish or buy a commercial bank, a mortgage bank or a credit institution in Finland. On the other hand, the act does not allow a foreign bank to set up a branch office in Finland. Nor can a foreign bank engage in savings banking or co-operative banking business in Finland.

With the permission of the Ministry of Finance, a foreigner may acquire and hold shares in a Finnish commercial bank provided that the total amount of shares held by foreigners does not exceed 20 per cent of the bank's equity.

The Council of State may grant permission for larger share holdings, if there are special reasons. The Bank of Finland's statement must be obtained for these applications and the Ministry of Finance is authorized to lay down more detailed regulations on the acquisition of shares and operations.

The legislation governing the commercial banks is applied to a foreign-owned bank in the same way as to a domestic-owned bank. All these banks are supervised by the Bank Inspectorate.

According to this legislation, the permission of the Ministry of Finance is always required for carrying on banking activities. Permission is granted if the establishment of a bank serves the general interest. The establishment of a branch network in Finland is subject to the permission of the Bank Inspectorate.

In addition, under the foreign exchange regulations, the import of foreign exchange needed for establishing is subject to the approval of the Bank of Finland. In this context, the Bank of Finland is empowered to place certain conditions on the banks, and has in fact done so. In the cases handled and for which permission has been granted it is stipulated, among other things, that the banks must observe the Bank of Finland's interest rate, credit and foreign exchange policy guidelines. The Bank of Finland has also placed these banks under the same obligation to report as the other banks. Furthermore, the Bank of Finland required the newly established banks to enter into the cash reserve agreement concluded between the Bank of Finland and the banks. In keeping with the Bank's overall policy, the Bank of Finland has set a limit on the size of the banks' open foreign exchange positions.

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

Initially, the foreign banks were not granted access to central bank credit or the right to participate in the Bank of Finland's call money market. This departure from the general principle of equity of rights and obligations was motivated by the desire of the authorities to first see what the extent and nature of the operations of the new banks would be. As from the beginning of the current year, this special treatment was abolished.

In keeping with the conditions laid down by the Ministry of Finance, the foreign-owned banks are allowed to hold real estate only to the extent that it is needed for actual banking operations. Investments in other companies are subject to the approval of the Bank of Finland. General banking legislation also restricts investments of this type.

ESTABLISHMENT AND OPERATIONS

Prior to the recent establishment of foreign banks, two banks, Hambros Bank Ltd (1973) and Citibank N.A. (1977), had representative offices in Finland. After the new legislation entered into force in 1979, three banks applied for permission to start operations in the form of subsidiary banks. All three were granted permission and they commenced operations in 1982; they are Citibank, Chase Manhattan Bank and the Banque de l'Indochine et de Suez (Indosuez). The first two are fully owned by their respective parent banks, whereas 15 per cent of Indosuez is held by Postipankki. Citibank closed its representative office in connection with the establishment.

In addition to Hambros Bank Ltd, Skandinaviska Enskilda Banken, Sweden (1983), Union Bank of Norway (1984), Sparbankernas Bank, Sweden (1984) and Faellesbanken for Danmarks Sparekasser A/S, Denmark (1984) have representative offices in Finland. Svenska Handelsbanken, Sweden, is currently in the process of establishing a representative office in Finland.

For the foreign-owned banks, the year 1983 was the first full financial year. At the end of

the year, their combined balance sheet total amounted to FIM 2.6 billion, representing 2.2 per cent of the balance sheet total of the commercial banks.

A distinctive feature of these banks is the great importance in their operations of foreign banking business and transactions in the short-term money market. At the end of 1983, foreign liabilities accounted for 60 to 80 per cent of the banks' working capital. Their domestic financing consisted almost entirely of special deposits by the corporate sector. These banks do not have a network of retail branches necessary for normal, "low interest rate" deposit-taking from the household sector.

Loans to the public are granted exclusively to firms and most are denominated in foreign currency. Also typical of these banks is the large proportion of claims on other banks. Without traditional deposit-taking from the household sector and with only a small volume of cheque account business with the corporate sector, these banks have very limited scope for carrying on ordinary lending in domestic currency subject to interest rate regulation by the Bank of Finland.

EXPERIENCES

In the discussions which the authorities conducted in connection with the first applications for setting up in Finland, special attention was paid to the possible long-term effects of the establishment of foreign banks on competitive conditions and the utilization of resources in the banking sector. It was judged that these effects would be largely positive. The favourable effects on product diversification in the banking sector were also noted.

The Finnish banking sector has been characterized by a small number of competing banks and banking groups,² with a strong tendency towards mutual agreements on interest rates,

² The market is dominated by two large commercial banks, Postipankki, and savings and co-operative banking groups with their respective central monetary institutions.

	1983		1984			
	Sept. 30	Dec. 31	Sept. 7	Sept. 14	Sept. 21	Sept. 28
Assets						
Gold and foreign currency claims	8 449	8 779	18 335	18 689	18 975	17 343
Gold	1 383	1 383	1 383	1 383	1 383	1 383
Special drawing rights	527	226	841	848	858	853
IMF reserve tranche	464	751	763	770	777	773
Foreign bonds	268	685	5 804	5 804	5 795	4 995
Convertible currencies	3 035	5 184	9 266	9 604	9 879	9 057
Tied currencies	2 772	550	278	280	283	282
Other foreign claims	3 991	4 876	3 429	2 726	2 726	2 726
Markka subscription to Finland's IMF quota	1 854	2 762	2 726	2 726	2 726	2 726
Term credits	2 137	2 114	703	-	-	-
Claims on financial institutions	8 485	8 788	4 963	5 897	5 745	5 500
Banks' cheque accounts	279	445	25	70	114	42
Call money market advances	5 812	5 785	1 610	2 576	2 295	2 109
Till-money credits	852	942	1 153	1 071	1 136	1 145
Bonds	1 468	1 546	2 137	2 138	2 156	2 156
Other claims on financial institutions	74	70	38	42	44	48
Claims on the public sector	1 905	2 178	2 075	2 054	2 031	2 039
Government promissory notes	720	1 000	1 000	1 000	1 000	1 000
Bonds	494	449	289	273	252	254
Total coinage	682	710	772	774	777	779
Other claims on the public sector	9	19	14	7	2	6
Claims on corporations	4 897	5 079	4 674	4 681	4 708	4 783
Financing of exports	1 658	1 867	1 655	1 648	1 677	1 754
Financing of domestic deliveries	2 676	2 662	2 752	2 766	2 764	2 791
Bonds	136	134	149	149	149	120
Other claims on corporations	427	416	118	118	118	118
Other assets	103	105	111	111	110	110
Total	27 830	29 805	33 587	34 158	34 295	32 501
Liabilities						
Foreign currency liabilities	45	34	967	752	1 100	1 179
Convertible accounts	35	34	57	62	62	61
Tied accounts	10	0	910	690	1 038	1 118
Other foreign liabilities	4 692	5 670	3 616	3 624	3 633	3 636
IMF markka accounts	1 854	2 762	2 731	2 731	2 731	2 739
Allocations of special drawing rights	855	872	885	893	902	897
Term liabilities	1 983	2 036	-	-	-	-
Notes and coin in circulation	6 209	6 574	6 795	6 793	6 768	6 869
Notes	5 683	6 029	6 151	6 148	6 120	6 219
Coin	526	545	644	645	648	650
Certificates of deposit in circulation	800	-	-	-	-	-
Liabilities to financial institutions	7 353	5 712	10 532	10 553	9 979	9 153
Banks' cheque accounts	5	2	17	7	7	15
Call money market deposits	2 294	610	3 708	3 751	3 188	2 281
Cash reserve deposits	4 994	5 039	6 670	6 670	6 657	6 734
Capital import deposits	28	35	60	50	52	51
Other liabilities to financial institutions	32	26	77	75	75	72
Liabilities to the public sector	1	3 000	1 931	2 731	2 731	1 538
Cheque accounts	1	0	1	1	1	0
Government deposit account	-	3 000	1 900	2 700	2 700	1 500
Export deposits	-	-	30	30	30	38
Other liabilities to the public sector	0	0	0	0	0	0
Liabilities to corporations	1 952	1 832	3 009	2 997	3 024	3 072
Deposits for investment and ship purchase	1 431	1 290	1 898	1 900	1 906	1 974
Capital import deposits	508	531	1 106	1 092	1 113	1 093
Other liabilities to corporations	13	11	5	5	5	5
Other liabilities	15	15	19	15	14	14
Equalization accounts	2 023	2 057	1 335	1 305	1 648	1 632
SITRA's capital	-	-	400	400	400	400
Capital accounts	4 740	4 911	4 983	4 988	4 998	5 008
Primary capital	3 000	3 000	3 000	3 000	3 000	3 000
Reserve fund	1 365	1 365	1 638	1 638	1 638	1 638
Undisposed profits	-	-	273	273	273	273
Net earnings	375	546	72	77	87	97
Total	27 830	29 805	33 587	34 158	34 295	32 501

End of year or month	Foreign sector							Public sector			
	Gold, SDRs, IMF reserve tranche	Foreign bonds	Convertible currencies, net	Total convertible reserves (1+2+3)	Tied currencies, net	Other claims, net	Net claims (4+5+6)	Claims	Certificates of deposit and deposit account	Other liabilities	Net liabilities (9-8+10)
	1	2	3	4	5	6	7	8	9	10	11
1980	1 850	2 125	3 823	7 798	-757	-890	6 151	1 225	1 900	591	1 266
1981	2 408	1 405	3 645	7 458	1 909	-991	8 376	1 236	1 600	578	942
1982	2 444	765	5 796	9 005	1 525	-1 447	9 083	1 040	1 700	50	710
1983	2 360	685	5 150	8 195	550	-794	7 951	2 178	3 000	0	822
1983											
Sept.	2 374	268	3 000	5 642	2 762	-701	7 703	1 905	800	1	-1 104
Oct.	2 377	302	3 913	6 592	1 546	-726	7 412	1 839	950	0	-889
Nov.	2 393	425	4 341	7 159	681	-772	7 068	1 880	2 500	1	621
Dec.	2 360	685	5 150	8 195	550	-794	7 951	2 178	3 000	0	822
1984											
Jan.	2 366	924	5 931	9 221	926	-846	9 301	2 136	500	12	-1 624
Feb.	2 333	1 143	5 923	9 399	841	88	10 328	2 094	800	12	-1 282
March	2 323	1 095	6 863	10 281	1 153	870	12 304	2 273	1 300	13	-960
April	2 819	1 920	9 041	13 780	1 027	858	15 665	2 175	600	17	-1 558
May	2 912	2 658	8 555	14 125	1 074	515	15 714	2 137	800	22	-1 315
June	2 927	3 184	10 645	16 756	170	510	17 436	2 103	1 000	26	-1 077
July	2 970	3 859	10 031	16 860	224	-184	16 900	2 109	1 800	20	-289
Aug.	2 975	5 673	9 274	17 922	-375	-181	17 366	2 080	1 200	30	-850
Sept.	3 009	4 995	8 996	17 000	-836	-910	15 254	2 039	1 500	38	-501

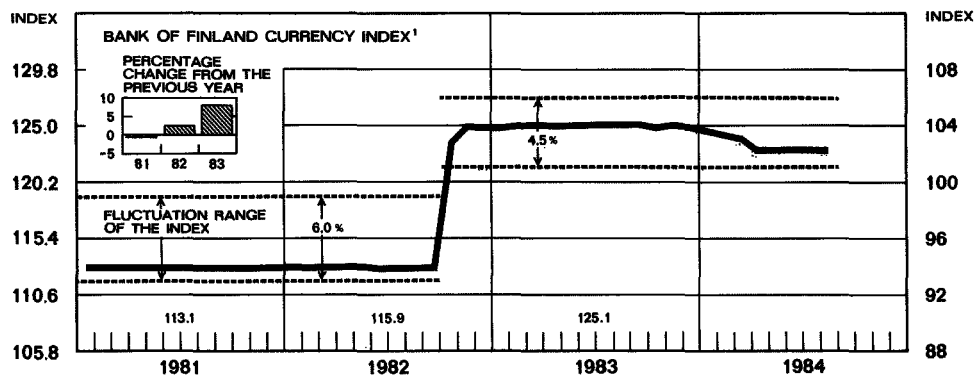
FOREIGN EXCHANGE POSITION

Mill. FIM

	Net holdings, Dec. 31, 1983			Net holdings, Aug. 31, 1984			Change	
	Bank of Finland	Other	Total	Bank of Finland	Other	Total	Aug.	Jan.-Aug.
Gold	1 383		1 383	1 383		1 383	-	-
Special drawing rights	226		226	835		835	+7	+609
IMF reserve tranche	751		751	757		757	-2	+6
Foreign bonds	685		685	5 673		5 673	+1 814	+4 988
Convertible currencies	5 150	-13 558	-8 408	9 275	-18 233	-8 958	-1 174	-550
Total	8 195	-13 558	-5 363	17 923	-18 233	-310	+645	+5 053
Tied currencies	550	-250	300	-376	-257	-633	-523	-933
Grand total	8 745	-13 808	-5 063	17 547	-18 490	-943	+122	+4 120

End of year or month	Domestic financial sector						Corporate sector				Notes and coin in circulation
	Till-money credits	Claims on cheque accounts, net	Demand for call money by deposit banks	Supply of call money by deposit banks	Cash reserve deposits	Other liabilities, net	Net claims (1+2+3-4-5-6)	Permanent special financing schemes	Liabilities, net	Net claims (8-9)	
	1	2	3	4	5	6	7	8	9	10	11
1980	643	480	3 674	290	3 317	-421	1 611	3 063	642	2 421	4 954
1981	768	495	1 796	1 080	2 492	-406	-107	3 865	749	3 116	5 595
1982	889	163	3 126	1 470	3 132	-1 042	618	4 302	999	3 303	6 062
1983	942	443	5 785	610	5 039	-1 555	3 076	4 529	1 282	3 247	6 574
1983											
Sept.	852	274	5 812	2 294	4 994	-1 482	1 132	4 334	1 389	2 945	6 209
Oct.	1 032	298	5 876	2 226	5 015	-1 461	1 426	4 535	1 382	3 153	6 159
Nov.	953	322	6 565	997	5 053	-1 507	3 297	4 610	1 361	3 249	6 179
Dec.	942	443	5 785	610	5 039	-1 555	3 076	4 529	1 282	3 247	6 574
1984											
Jan.	1 038	62	4 087	2 907	5 250	-1 619	-1 351	4 572	1 106	3 466	6 195
Feb.	1 024	58	3 659	2 607	5 327	-1 605	-1 588	4 592	1 746	2 846	6 232
March	924	14	2 916	3 105	5 710	-1 612	-3 349	4 596	1 763	2 833	6 308
April	1 123	191	1 573	4 836	6 142	-1 605	-6 486	4 600	2 220	2 380	6 602
May	1 119	-136	1 244	3 892	6 432	-1 999	-6 098	4 572	2 142	2 430	6 647
June	1 119	15	541	3 872	6 480	-2 006	-6 671	4 571	2 641	1 930	6 954
July	1 279	14	1 041	3 063	6 604	-2 037	-5 296	4 487	2 771	1 716	6 813
Aug.	1 108	5	1 149	4 109	6 670	-2 033	-6 484	4 435	2 753	1 682	6 776
Sept.	1 145	27	2 109	2 281	6 734	-2 081	-3 653	4 545	2 834	1 711	6 869

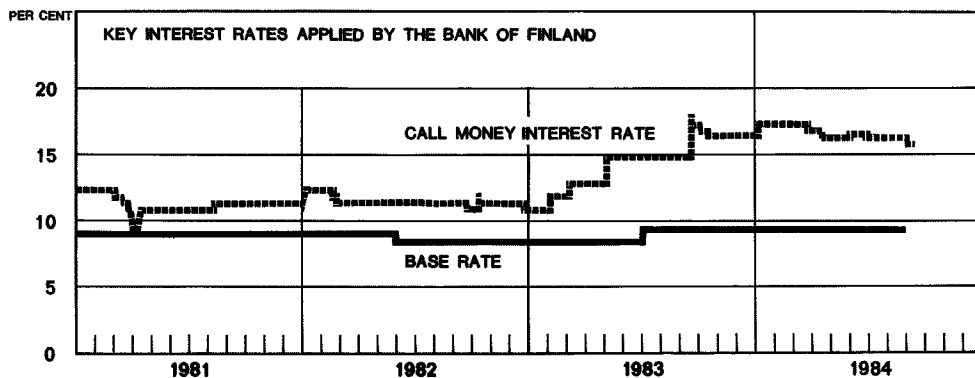
¹ The left-hand scale depicts movements in the external value of the markka under the index in use until December 31, 1983 (1974 = 100), and the right-hand scale movements in the external value of the markka under the revised index introduced on January 1, 1984 (1982 = 100).



MONETARY POLICY INDICATORS

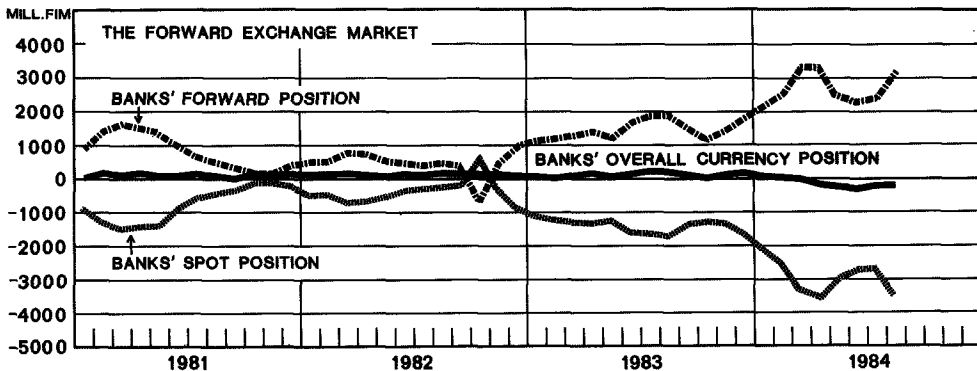
Average for period	Gross central bank debt of the deposit banks mill. FIM	Net central bank debt of the deposit banks mill. FIM	Cash reserve deposits of the deposit banks mill. FIM	Cash reserve requirement %	Call money credit extended by the Bank of Finland	Call money interest rate %	Average cost of gross central bank debt %	Base rate %	Average lending rate of the commercial banks ¹ %
	1	2	3	4	5	6	7	8	9
1979	2 769	372	447	1.0	321	9.74	9.11	7.46	8.03
1980	4 971	1 560	2 542	3.8	3 313	12.38	12.37	9.20	9.77
1981	4 095	-33	2 795	3.5	2 161	11.48	11.61	9.25	9.84
1982	3 201	-783	2 777	3.1	1 571	11.64	11.98	8.81	9.33
1983	4 539	-1 213	4 345	4.3	2 724	15.37	15.13	9.00	9.56
1983									
July	4 477	-1 856	4 889	4.7	2 627	15.00	14.67	9.50	10.09
Aug.	4 634	-1 972	4 920	4.7	2 541	15.00	14.68	9.50	10.10
Sept.	5 523	-912	4 945	4.7	3 627	16.67	16.13	9.50	10.16
Oct.	6 972	74	4 984	4.7	4 651	16.95	16.74	9.50	10.14
Nov.	7 075	238	5 008	4.7	4 837	16.70	16.27	9.50	10.15
Dec.	7 007	646	5 039	4.7	5 269	16.70	16.49	9.50	10.18
1984									
Jan.	6 794	-458	5 045	4.7	4 588	17.50	17.50	9.50	10.30
Feb.	5 327	-2 921	5 242	4.7	2 323	17.50	17.50	9.50	10.36
March	3 460	-4 482	5 351	5.0	869	17.50	17.50	9.50	10.38
April	2 051	-7 207	5 721	5.4	-1 487	16.77	16.82	9.50	10.42
May	1 471	-8 557	6 149	5.6	-2 407	16.53	16.52	9.50	10.43
June	1 175	-9 062	6 429	5.6	-2 633	16.80	16.80	9.50	10.48
July	1 463	-7 680	6 481	5.6	-1 199	16.53	16.51	9.50	10.48
Aug.	1 462	-8 136	6 598	5.6	-1 538	16.50	16.50	9.50	10.49
Sept.	2 127	-8 186	6 672	5.6	-1 515	16.10	16.04	9.50	..

¹ End of period.



FORWARD EXCHANGE MARKETS IN FINLAND

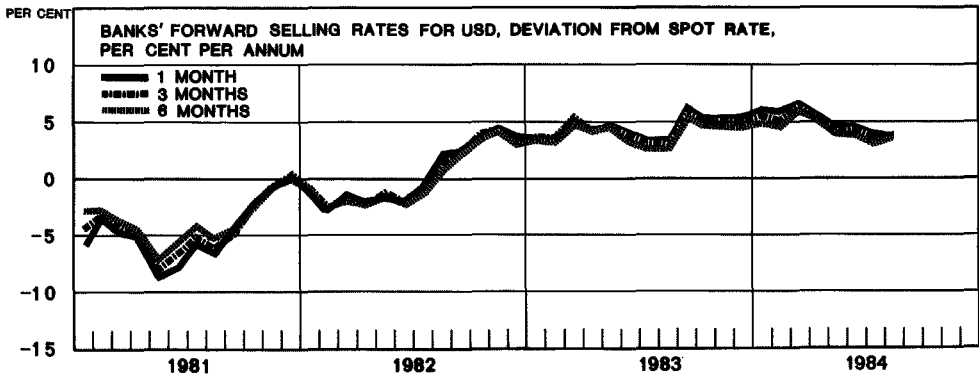
Period	Banks' forward positions in mill. FIM with						Banks' forward selling rates for USD		
	Domestic firms			Foreign banks	Bank of Finland	Overall	Deviation from spot rate, per cent per annum		
	Assets	Liabilities	Net	Net	Net	Net	1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
1982	11 128	2 117	9 011	-865	-6 827	1 104	3.9	3.8	3.4
1983	7 541	1 227	6 314	-1 688	-2 290	2 373	5.6	5.3	4.8
1983									
April	10 194	1 877	8 317	-929	-5 947	1 329	4.3	4.4	4.3
May	10 229	1 708	8 521	-955	-5 743	1 742	4.9	4.8	4.7
June	9 674	1 604	8 070	-1 296	-4 932	1 689	4.3	4.1	3.5
July	9 349	1 610	7 739	-1 299	-4 248	2 183	3.7	3.6	2.9
Aug.	8 618	1 784	6 834	-1 144	-3 791	1 813	3.6	3.3	2.8
Sept.	7 818	1 952	5 866	-1 575	-3 345	964	6.5	6.1	5.7
Oct.	8 087	1 942	6 145	-1 645	-2 792	1 711	5.5	5.2	4.8
Nov.	7 488	1 912	5 576	-1 411	-2 438	1 687	5.4	5.3	4.8
Dec.	7 541	1 227	6 314	-1 688	-2 290	2 373	5.6	5.3	4.8
1984									
Jan.	7 292	1 661	5 631	-2 026	-1 235	2 304	6.3	5.3	5.1
Feb.	8 290	1 681	6 609	-1 871	-1 887	2 717	6.1	5.3	4.8
March	10 052	1 611	8 441	-1 676	-3 560	3 173	6.7	6.6	6.2
April	11 249	1 326	9 923	-841	-5 109	3 846	5.8	5.7	5.5
May	13 528	1 156	12 372	178	-10 041	2 529	4.9	4.5	4.1
June	15 547	1 145	14 402	1 389	-12 667	3 083	4.8	4.7	4.0
July	15 956	1 306	14 650	1 541	-13 011	3 240	4.1	3.9	3.3
Aug.	20 049	1 354	18 695	2 557	-17 217	4 089	3.8	4.0	3.7



FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange, FIM

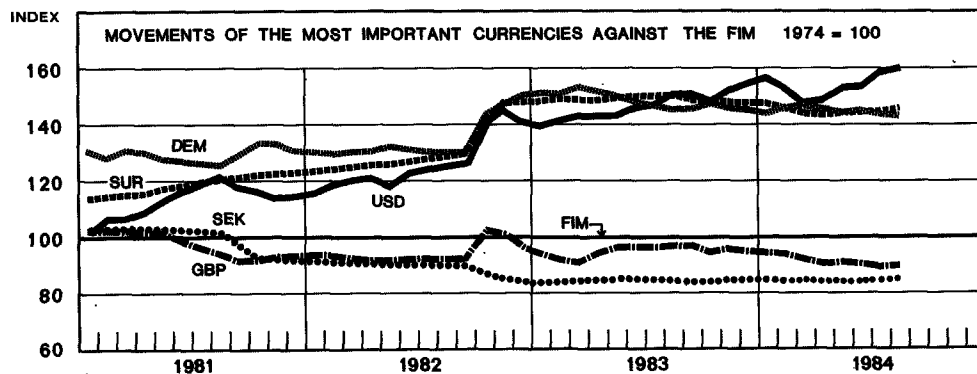
Period	New York 1 US \$ USD	Montreal 1 C \$ CAD	London 1 £ GBP	Dublin 1 Ir£ IEP	Stockholm 100 Skr SEK	Oslo 100 Nkr NOK	Copenhagen 100 Dkr DKK	Frankfurt 100 DM DEM	Amsterdam 100 Hfl NLG	Brussels 100 FB BEC	BEL
	1	2	3	4	5	6	7	8	9	10	11
1979	3.896	3.330	8.275	.	91.12	77.22	74.38	212.75	194.43	13.338	12.979
1980	3.730	3.194	8.691	7.689	88.43	75.81	66.53	205.58	188.02	12.818	12.635
1981	4.315	3.602	8.731	6.976	85.74	75.54	60.96	191.31	173.43	11.688	11.095
1982	4.820	3.913	8.423	6.854	77.03	74.84	57.93	198.76	180.66	10.584	9.859
1983	5.570	4.524	8.456	6.957	72.75	76.44	61.07	218.61	195.66	10.934	10.742
1983											
Aug.	5.714	4.637	8.590	6.753	72.82	76.70	59.45	213.97	191.29	10.678	10.631
Sept.	5.713	4.642	8.575	6.727	72.65	77.04	59.64	214.38	191.70	10.632	10.513
Oct.	5.646	4.589	8.465	6.742	72.68	77.24	60.06	217.30	193.69	10.670	10.509
Nov.	5.754	4.661	8.511	6.686	72.83	77.19	59.56	214.73	191.61	10.574	10.474
Dec.	5.860	4.706	8.414	6.639	72.84	76.01	58.99	213.55	190.33	10.500	10.357
1984											
Jan.	5.940	4.764	8.389	6.579	72.85	75.65	58.56	211.96	188.64	10.395	10.225
Feb.	5.803	4.655	8.355	6.626	72.56	75.47	58.89	214.81	190.35	10.495	10.182
March	5.618	4.432	8.201	6.645	72.79	75.04	59.16	216.76	192.02	10.596	10.260
April	5.650	4.422	8.054	6.569	72.27	74.54	58.32	214.29	189.99	10.491	10.209
May	5.821	4.502	8.100	6.518	72.15	74.64	57.91	211.99	188.39	10.422	10.267
June	5.822	4.472	8.038	6.528	72.05	74.66	58.10	213.19	189.12	10.462	10.324
July	6.019	4.550	7.962	6.501	72.64	73.48	57.92	211.78	187.65	10.454	10.355
Aug.	6.072	4.661	7.987	6.502	72.78	73.27	57.78	210.61	186.72	10.433	10.336
Sept.	6.278	4.787	7.919	6.451	73.36	73.05	57.40	208.01	184.46	10.320	10.236



Average selling rates for foreign exchange, FIM

Zurich 100 Sfr CHF	Paris 100 FF FRF	Rome 100 Lit ITL	Vienna 100 ÖS ATS	Lisbon 100 Esc PTE	Reykjavik 100 Isk ISK	Madrid 100 Ptas ESP	Tokyo 100 Y JPY	Moscow 1 Cl Rbl SUR	1 special drawing right SDR	Currency index ¹
12	13	14	15	16	17	18	19	20	21	22
234.36	91.88	0.473	29.19	8.13	1.14	5.84	1.797	5.941	5.016 78	117.3
222.87	88.65	0.440	28.90	7.60	0.81	5.25	1.662	5.741	4.842 55	113.6
220.34	79.92	0.385	27.17	7.17	60.35	4.72	1.967	5.986	5.071 40	113.1
237.79	73.65	0.358	28.31	6.13	40.79	4.41	1.943	6.624	5.305 63	115.9
265.70	73.53	0.369	31.11	5.14	23.25	3.91	2.351	7.491	5.943 25	125.1
264.52	71.24	0.361	30.47	4.69	20.67	3.79	2.342	7.559	5.991 35	125.2
264.40	71.10	0.358	30.53	4.64	20.63	3.77	2.359	7.507	5.995 33	125.2
267.91	71.25	0.359	30.93	4.59	20.49	3.75	2.430	7.439	5.989 58	125.0
265.52	70.72	0.355	30.53	4.55	20.72	3.74	2.452	7.438	6.043 58	125.1
267.20	70.15	0.353	30.33	4.49	20.76	3.73	2.506	7.439	6.101 77	125.0
266.26	69.47	0.350	30.10	4.41	20.58	3.74	2.547	7.425	6.145 38	103.8
263.17	69.92	0.349	30.48	4.35	20.05	3.78	2.488	7.343	6.065 12	103.6
262.10	70.46	0.350	30.80	4.32	19.63	3.77	2.498	7.252	5.969 10	103.3
258.71	69.79	0.347	30.48	4.25	19.66	3.78	2.515	7.239	5.965 91	102.5
257.05	69.14	0.345	30.18	4.21	19.94	3.80	2.528	7.252	6.050 38	102.5
255.83	69.50	0.346	30.39	4.16	19.87	3.78	2.501	7.257	6.044 21	102.5
250.57	69.13	0.346	30.20	4.08	20.17	3.75	2.484	7.296	6.131 93	102.5
251.43	68.75	0.343	30.01	4.08	19.78	3.71	2.511	7.340	6.162 64	102.5
251.64	67.93	0.338	29.64	4.03	19.44	3.71	2.565	7.435	6.272 79	102.5

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

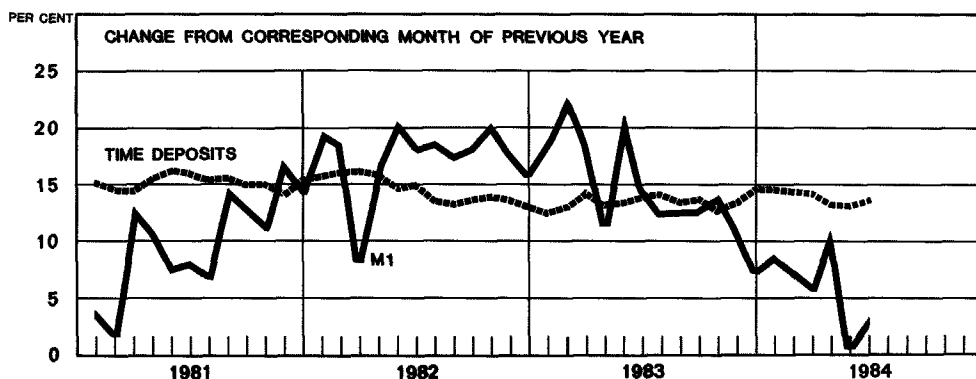
End of year and month	Demand deposits				Time deposits					Total (4+9)
	Commercial banks	Savings banks & Co-op. banks	Posti-pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	All deposit banks (5 to 8)	
	1	2	3	4	5	6	7	8	9	
1980	5 459	2 285	2 531	10 275	22 591	20 009	15 950	6 355	64 905	75 180
1981	5 791	2 879	2 952	11 622	26 094	22 937	18 598	7 448	75 077	86 699
1982	7 155	3 874	3 049	14 078	29 465	25 883	21 040	8 666	85 054	99 132
1983*	7 057	4 567	3 676	15 300	34 302	29 273	24 175	9 938	97 688	112 988

1983*

June	7 127	3 998	4 150	15 275	31 513	27 685	22 650	9 071	90 919	106 194
July	6 198	4 084	4 346	14 628	31 476	27 999	22 899	9 304	91 678	106 306
Aug.	6 978	4 128	4 331	15 437	31 309	28 135	23 013	9 293	91 750	107 187
Sept.	6 964	4 185	4 324	15 473	31 364	28 230	23 194	9 388	92 176	107 649
Oct.	7 271	4 269	4 529	16 069	31 414	28 298	23 285	9 365	92 362	108 431
Nov.	7 521	4 182	3 625	15 328	31 702	28 447	23 424	9 492	93 065	108 393
Dec.	7 057	4 567	3 676	15 300	34 302	29 273	24 175	9 938	97 688	112 988

1984*

Jan.	7 438	4 163	4 442	16 043	33 658	29 724	24 641	10 241	98 264	114 307
Feb.	7 325	3 975	4 055	15 355	34 365	30 235	25 190	10 333	100 123	115 478
March	6 469	4 040	3 974	14 483	34 812	30 236	25 203	10 471	100 722	115 205
April	7 094	4 084	4 173	15 351	34 760	30 411	25 252	10 403	100 826	116 177
May	6 978	4 216	3 960	15 154	34 485	30 801	25 653	10 552	101 491	116 645
June	6 843	4 291	4 231	15 365	35 435	31 442	26 232	10 364	103 473	118 838



ADVANCES TO THE PUBLIC – MONEY SUPPLY

Mill. FIM

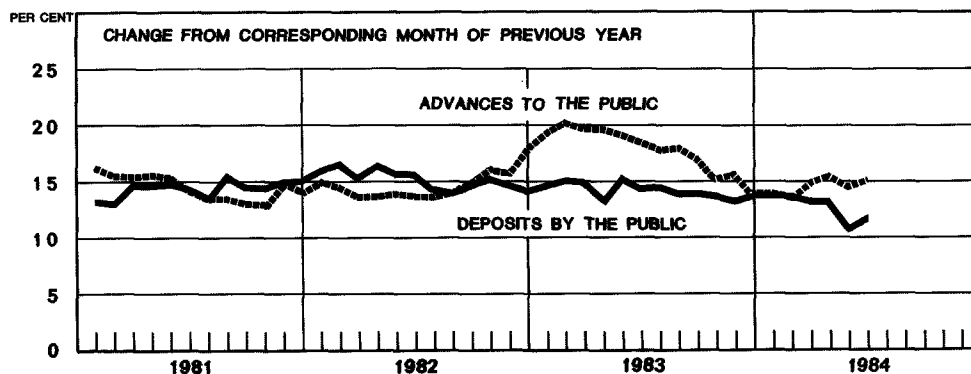
End of year and month	Advances granted by				Types of advances			Total (1 to 4) (5 to 7)	Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency		M ₁	M ₁ + Quasi-Money
	1	2	3	4	5	6	7		8	9
1980	35 994	19 097	16 760	9 973	70 466	2 347	9 011	81 824	14 979	81 601
1981	40 462	22 009	20 059	11 135	80 817	2 877	9 971	93 665	17 186	94 577
1982	48 620	25 682	23 601	12 684	93 014	3 468	14 105	110 587	19 917	107 549
1983*	56 162	29 276	27 322	13 471	104 627	4 350	17 254	126 231	21 427	121 905

1983*

June	52 635	27 460	25 095	13 072	98 935	4 700	14 627	118 262	21 362	115 242
July	52 374	27 711	25 371	13 193	99 508	4 669	14 472	118 649	20 634	115 283
Aug.	53 028	28 101	25 787	13 348	100 638	4 764	14 862	120 264	21 011	115 625
Sept.	53 682	28 594	26 228	13 456	102 188	4 902	14 870	121 960	21 403	116 469
Oct.	54 535	28 821	26 529	13 543	103 090	4 797	15 541	123 428	21 772	116 992
Nov.	56 197	29 040	26 946	13 666	104 024	4 851	16 974	125 849	21 105	117 008
Dec.	56 162	29 276	27 322	13 470	104 626	4 350	17 254	126 230	21 427	121 905

1984*

Jan.	57 343	29 569	27 515	14 193	105 759	5 004	17 857	128 620	22 098	123 176
Feb.	58 398	29 762	27 706	14 017	106 328	4 989	18 566	129 883	21 334	124 666
March	59 625	29 961	27 990	14 011	106 930	5 142	19 515	131 587	20 606	125 049
April	61 338	30 142	28 191	14 317	107 812	5 466	20 710	133 988	21 464	126 269
May	60 965	30 522	28 535	14 362	109 106	5 140	20 138	134 384	21 486	126 686
June	62 468	30 718	28 825	14 343	110 267	5 208	20 879	136 354	22 026	129 549



STATE FINANCES

Mill. FIM

Revenue	Jan.-June		Expenditure	Jan.-June	
	1983	1984		1983	1984
Income and wealth tax (net)	8 557	9 855	Wages, salaries, pensions etc.	5 700	6 285
Gross receipts	23 532	27 606	Repair and maintenance	665	740
Refunds & local authorities	-14 975	-17 751	Other consumption expenditure	3 815	3 762
Other taxes on income and wealth	289	366	Total consumption expenditure	10 180	10 787
Employers' child allowance payments	1	1	State aid to local authorities	7 614	9 137
Sales tax	8 154	10 066	State aid to industries	4 216	4 659
of which: agric. price subsidies			Child allowances	2 128	2 125
Customs duties and import charges and levies	782	766	Share in national pensions and sickness insurance schemes	1 243	1 411
Excise duties	4 600	4 824	Deficit of State enterprises	731	592
Excise duty on alcoholic bevs.	1 669	1 763	Other transfer expenditure	4 865	5 547
Excise duty on tobacco	662	705	Total transfer expenditure	19 747	22 503
Excise duty on liquid fuel	1 540	1 660	Machinery and equipment	895	934
Other excise duties	729	696	Construction of buildings	525	556
Tax on autom. and motor-cycles	1 359	1 268	Land and waterway construction	1 072	981
Stamp duties	824	1 106	Total real investment	2 492	2 471
Special diesel etc. vehicles tax	132	183	Interest on State debt	1 896	2 288
Other taxes and similar revenue	799	1 010	Other expenditure	7	5
Total taxes	25 497	29 445	Total other expenditure	1 903	2 293
Miscellaneous revenue	2 391	2 786	Increase in inventories	153	-367
Interest, dividends etc.	869	860	Lending	1 964	1 882
Surplus of state enterprises	886	1 103	Other financial investment	397	329
Redemptions of loans granted	960	659	Total expenditure	36 836	39 898
Total revenue	30 603	34 853	Redemption of foreign loans	1 486	1 159
Foreign borrowing	2 551	2 943	Redemption of domestic loans	1 009	2 558
Domestic borrowing	3 665	3 377	Total redemptions	2 495	3 717
Total borrowing	6 216	6 320			
Deficit (+) or surplus (-)	2 512	2 442			
Total	39 331	43 615	Total	39 331	43 615

State debt	1982	1983	1984			
	Dec.	Dec.	April	May	June	July
Foreign debt	18 807	21 723	22 391	22 867	23 282	23 377
Long-term debt	11 378	16 383	16 903	17 027	17 194	17 315
Short-term credit	63	18	37	37	45	53
Domestic debt	11 441	16 401	16 940	17 064	17 239	17 368
Total State debt	30 248	38 124	39 331	39 931	40 521	40 745
Total debt mill. \$	5 651	6 506	6 961	6 860	6 960	6 769

FOREIGN TRADE

Mill. FIM

Value, mill. FIM

Period	Value, mill. FIM		
	Exports f.o.b	Imports c.i.f.	Surplus of exports (+) or imports (-)
1979	43 430	44 222	-792
1980	52 795	58 250	-5 455
1981	60 308	61 269	-961
1982	63 026	64 751	-1 725
1983	69 692	71 528	-1 836

1983

Nov.	6 512	6 378	+134
Dec.	6 834	7 084	-250

1984*

Jan.	6 691	5 737	+ 954
Feb.	6 415	5 296	+1 119
March	6 666	5 921	+745
April	6 790	6 066	+724
May	6 629	6 298	+331
June	6 378	6 365	+13
July	6 434	7 173	-739

Jan.-July

1983	39 646	39 449	+197
1984*	46 003	42 856	+3 147

Indices of exports and imports
1980 = 100

Period	Volume		Unit value		Terms of trade
	Exports	Imports	Exports	Imports	
	1979	92	89	90	
1980	100	100	100	100	100
1981	103	94	111	112	99
1982	100	95	119	117	101
1983	104	98	127	125	101

1982

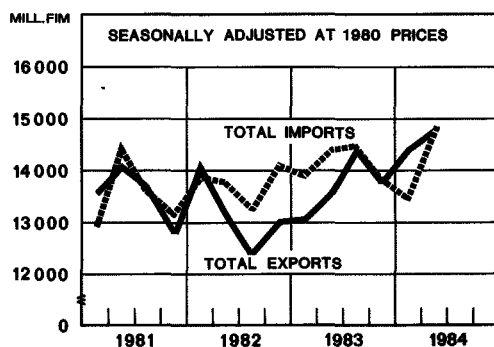
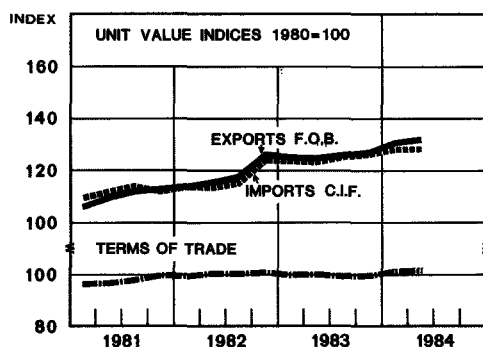
Apr.-June	102	92	116	114	101
July-Sept.	85	90	118	116	101
Oct.-Dec.	107	107	127	125	101

1983

Jan.-March	101	90	126	125	101
Apr.-June	103	95	126	124	101
July-Sept.	97	97	127	126	100
Oct.-Dec.	115	108	128	127	100

1984*

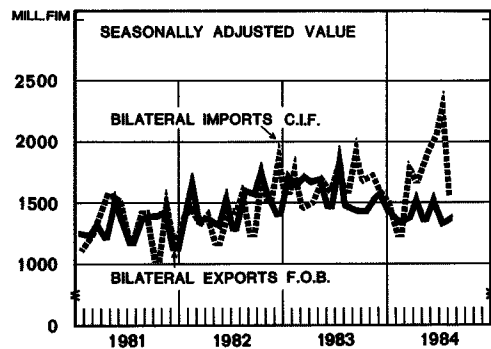
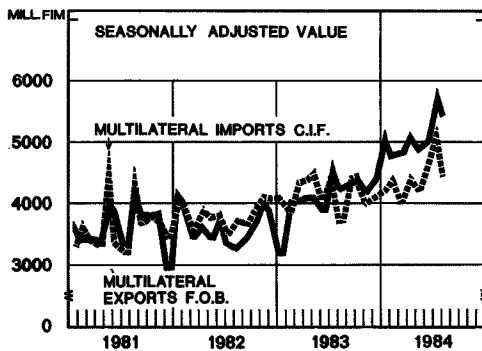
Jan.-March	114	90	132	129	102
Apr.-June	113	99	133	129	103



FOREIGN TRADE BY MAIN GROUPS

Mill. FIM

Period	Exports, f.o.b.					Imports, c.i.f.				
	Agri-cultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Raw materials and intermediate goods	Fuels and lubricants	Finished goods		Other goods
								Investment goods	Consumer goods	
1979	1 366	6 073	12 992	10 342	12 657	28 878	3 401	5 719	6 133	91
1980	1 403	7 742	15 751	11 546	16 353	38 622	4 088	7 989	7 440	111
1981	2 036	6 852	17 127	14 858	19 435	39 156	5 115	8 877	8 015	106
1982	1 676	6 278	17 502	18 908	18 662	41 144	4 869	9 195	9 130	413
1983	1 723	6 944	19 327	20 211	21 487	44 757	5 006	10 860	10 572	333
1983										
Nov.	78	643	1 851	2 054	1 886	4 122	435	935	869	17
Dec.	238	658	1 815	1 931	2 192	4 505	434	1 216	923	6
1984*										
Jan.	222	502	1 625	2 395	1 947	3 162	407	1 171	932	65
Feb.	332	540	1 703	1 790	2 050	3 116	339	824	1 005	12
March	355	626	1 990	1 766	1 929	3 828	273	813	999	8
April	263	567	1 880	1 739	2 341	3 695	265	1 096	992	18
May	234	632	2 128	1 840	1 795	4 124	453	788	930	3
June	250	641	1 768	1 686	2 033	4 214	531	851	767	2
July	333	554	1 765	2 013	1 769	4 863	565	850	878	17
Jan.-July										
1983	1 184	3 994	10 482	12 030	11 956	24 237	2 417	6 356	6 206	233
1984*	1 989	4 062	12 859	13 229	13 864	27 002	2 833	6 393	6 503	125



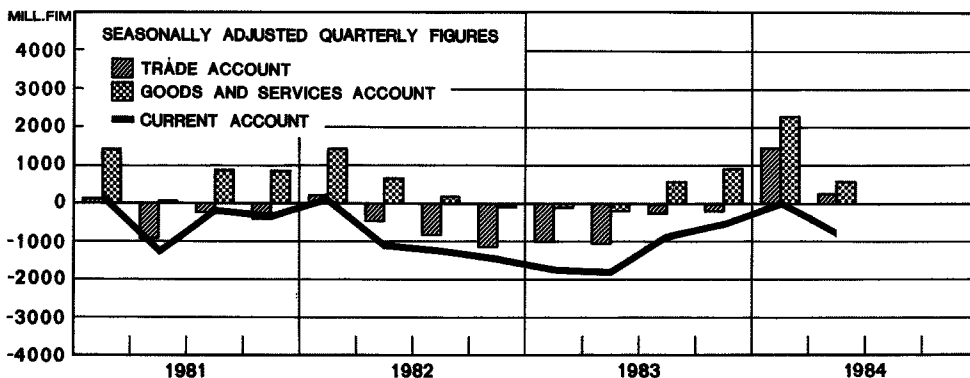
FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January-July				January-July			
	1983*		1984*		1983*		1984*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
OECD countries in Europe	53.5	21 202	57.2	26 298	53.6	21 134	54.2	23 233
Austria	0.7	278	0.7	334	1.3	493	1.1	461
Belgium and Luxembourg	1.7	665	1.6	707	1.9	755	2.0	836
Denmark	3.3	1 328	4.2	1 931	2.6	1 031	2.5	1 069
France	4.3	1 683	4.3	1 952	3.5	1 389	3.1	1 343
Federal Republic of Germany	9.8	3 896	10.2	4 708	14.0	5 540	13.8	5 921
Italy	1.9	770	2.2	1 024	3.2	1 270	3.3	1 396
Netherlands	4.1	1 598	3.7	1 675	2.7	1 058	2.7	1 168
Norway	3.2	1 270	4.7	2 165	2.5	969	2.1	890
Portugal	0.2	96	0.2	100	0.7	265	0.7	297
Spain	0.7	281	0.7	326	0.7	282	0.9	374
Sweden	11.0	4 391	11.6	5 336	11.4	4 498	12.3	5 281
Switzerland	1.4	536	1.3	582	1.7	676	1.6	694
United Kingdom	9.9	3 906	10.5	4 843	6.7	2 636	7.4	3 185
Other	1.3	504	1.3	615	0.7	272	0.7	318
OECD countries outside Europe	6.3	2 491	11.4	5 258	12.9	5 079	11.5	4 931
Canada	0.6	253	0.8	359	0.6	253	0.6	247
Japan	1.2	477	1.3	611	5.7	2 220	5.8	2 482
United States	3.6	1 416	8.3	3 807	6.1	2 406	4.8	2 056
Other	0.9	345	1.0	481	0.5	200	0.3	146
CMEA countries	30.5	12 073	22.1	10 177	26.0	10 261	27.0	11 591
Czechoslovakia	0.4	155	0.4	188	0.5	183	0.4	180
German Democratic Republic	0.5	191	0.5	226	0.6	252	0.5	217
Poland	0.2	64	0.3	135	1.1	456	1.3	544
Soviet Union	28.9	11 474	20.4	9 369	23.2	9 141	24.3	10 430
Other	0.5	189	0.5	259	0.6	229	0.5	220
Latin America	1.6	651	0.8	357	2.7	1 076	2.6	1 103
Argentina	0.1	44	0.1	32	0.1	51	0.1	61
Brazil	0.3	123	0.2	71	0.7	289	0.9	390
Colombia	0.1	59	0.1	54	0.5	195	0.6	242
Other	1.1	425	0.4	200	1.4	541	1.0	410
Other	8.1	3 229	8.5	3 913	4.8	1 899	4.7	1 998
GRAND TOTAL	100.0	39 646	100.0	46 003	100.0	39 449	100.0	42 856
of which								
EFTA countries	16.7	6 615	18.6	8 577	17.6	6 933	18.0	7 701
EEC countries	35.9	14 249	37.7	17 323	35.4	13 947	35.3	15 144
OECD countries	59.8	23 693	68.6	31 556	66.4	26 213	65.7	28 164

BALANCE OF PAYMENTS

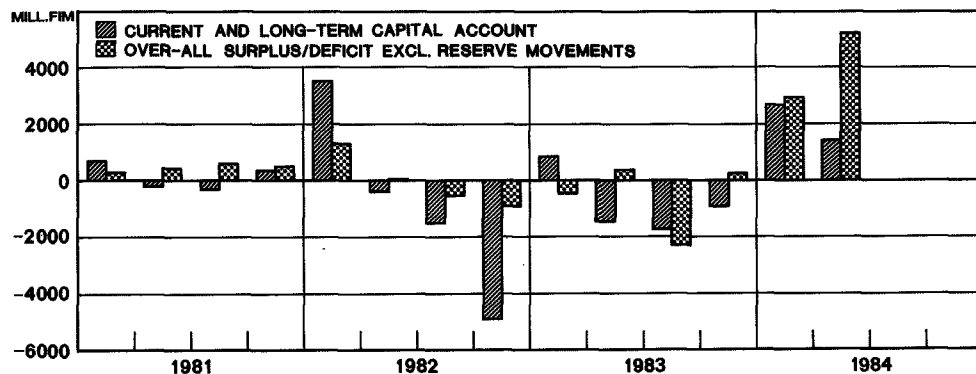
Period	Exports f.o.b.	Imports c.i.f.	Trade account (1-2)	Transport, net	Travel, net	Other services, net	Goods and services account (3 to 6)	Invest- ment income, net	Un- requited transfers, net	Other, net	Current account (7 to 10)
	1	2	3	4	5	6	7	8	9	10	11
1980	52 594	58 046	-5 452	+2 824	+320	+679	-1 629	-3 292	-454	+164	-5 211
1981	60 243	61 703	-1 460	+3 088	+405	+1 049	+3 082	-4 423	-498	+107	-1 732
1982	62 867	65 147	-2 280	+2 856	-277	+1 732	+2 031	-5 447	-643	+161	-3 898
1983*	69 593	72 107	-2 514	+3 298	-749	+1 172	+1 207	-5 811	-721	+25	-5 300
1981											
July-Sept.	14 096	15 738	-1 642	+813	+443	+303	-83	-1 026	-109	+53	-1 165
Oct.-Dec.	16 197	16 528	-331	+706	-28	+287	+634	-1 120	-133	+9	-610
1982											
Jan.-March	16 078	14 858	+1 220	+699	-154	+484	+2 249	-1 078	-187	-6	+978
Apr.-June	15 577	15 376	+201	+700	-83	+451	+1 269	-1 682	-167	+50	-530
July-Sept.	13 308	15 419	-2 111	+789	+151	+478	-693	-1 359	-139	+75	-2 116
Oct.-Dec.	17 904	19 494	-1 590	+668	-191	+319	-794	-1 328	-150	+42	-2 230
1983*											
Jan.-March	16 796	16 469	+327	+807	-291	+190	+1 033	-1 553	-217	-29	-766
Apr.-June	17 154	17 500	-346	+787	-229	+299	+511	-1 492	-149	+35	-1 095
July-Sept.	16 236	18 002	-1 766	+934	+44	+336	-452	-1 459	-147	+45	-2 013
Oct.-Dec.	19 407	20 136	-729	+770	-273	+347	+115	-1 307	-208	-26	-1 426
1984*											
Jan.-March	19 733	17 051	+2 682	+1 016	-371	-139	+3 188	-2 099	-232	-56	+801
Apr.-June	19 754	18 896	+858	+1 025	-337	-293	+1 253	-1 309	-143	-2	-201



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 terms, 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
+5 183	-4 140	-433	-428	+182	-5 029	+3 255	-967	+3 696	+40 ¹	+995	-995
+8 312	-4 643	-518	-826	+2 325	+593	-148	+723	-421	+1 056 ¹	+1 803	-1 803
+10 213	-4 721	-1 239	-3 642	+611	-3 287	-914	+771	+1 493	+1 811	-126	+126
+10 112	-7 273	+423	-1 367	+1 895	-3 405	+3 273	-3 422	+1 272	+120	-2 162	+2 162
+1 932	-797	-91	-200	+844	-321	+329	-364	-827	+1 771	+588	-588
+3 028	-1 678	-211	-157	+982	+372	-1 309	+46	+601	+766	+476	-476
+3 637	-806	-114	-165	+2 552	+3 530	-676	+762	-1 517	-787	+1 312	-1 312
+2 332	-1 555	-328	-301	+148	-382	+367	+581	-171	-350	+45	-45
+1 859	-883	-127	-246	+603	-1 513	-277	-143	-520	+1 909	-544	+544
+2 385	-1 477	-670	-2 930	-2 692	-4 922	-328	-429	+3 701	+1 039	-939	+939
+2 985	-1 271	+100	-182	+1 632	+866	-115	+647	-1 214	-666	-482	+482
+2 435	-2 895	+273	-204	-391	-1 486	+1 261	-353	+699	+276	+397	-397
+1 479	-1 269	+142	-128	+224	-1 789	+1 197	-1 671	-593	+543	-2 313	+2 313
+3 213	-1 838	-92	-853	+430	-996	+930	-2 045	+2 380	-33	+236	-236
+4 075	-1 887	-235	-47	+1 906	+2 707	-767	+959	+2 443	-2 356	+2 986	-2 986
+3 858	-2 351	-181	+271	+1 597	+1 396	+1 162	+485	+3 139	-960	+5 222	-5 222

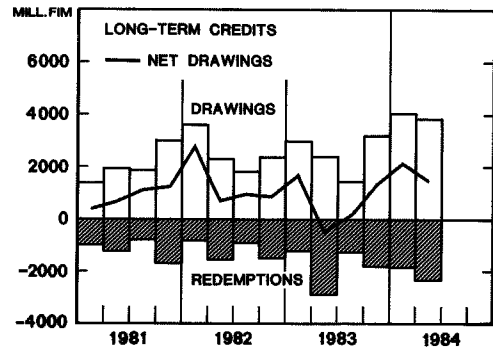
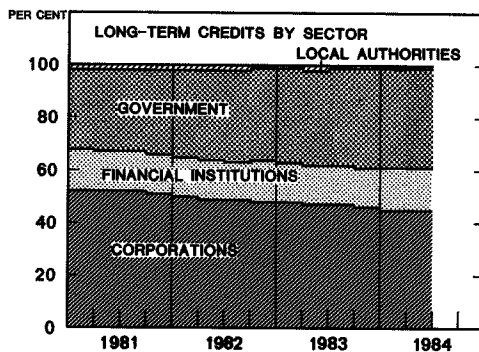
Assets: increase -, decrease +. Liabilities: increase +, decrease -

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

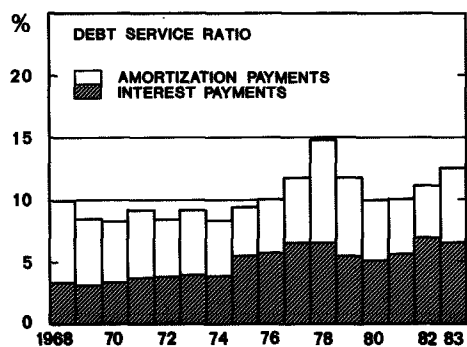
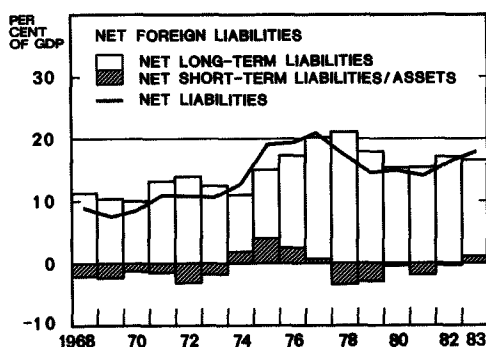


FINLAND'S FOREIGN ASSETS AND LIABILITIES

End of year and month	Long-term assets				Long-term liabilities						Net long-term liabilities (10-4)
	Export credits	Direct investment	Other	Total (1 to 3)	Financial loans	Import credits	Direct investment	Portfolio investment	Other	Total (5 to 9)	
	1	2	3	4	5	6	7	8	9	10	
1980	3 872	2 806	1 051	7 729	29 730	4 377	2 075	..	340	36 522	28 793
1981	4 673	3 426	1 317	9 416	35 536	4 444	2 183	..	391	42 554	33 138
1982*	6 628	4 626	3 796	15 050	47 547	4 608	2 223	..	752	55 130	40 080
1983*	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1981											
Dec.	4 673	3 426	1 317	9 416	35 536	4 444	2 183	..	391	42 554	33 138
1982											
March	4 960	3 616	1 415	9 991	38 669	4 623	2 263	..	709	46 264	36 273
June	5 361	3 741	1 471	10 573	39 847	4 456	2 313	..	696	47 312	36 739
Sept.	5 556	4 084	1 466	11 106	41 198	4 515	2 345	..	687	48 745	37 639
Dec.	6 628	4 626	3 796	15 050	47 547	4 608	2 223	..	752	55 130	40 080
1983*											
March	6 672	5 003	3 892	15 567	49 897	4 759	2 288	..	846	57 790	42 223
June	6 458	4 998	3 956	15 412	49 921	4 462	2 306	..	812	57 501	42 089
Sept.	6 411	5 392	3 935	15 738	50 705	4 566	2 303	..	798	58 372	42 634
Dec.	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1984*											
March	6 658	6 687	3 539	16 884	54 014	4 225	2 354	987	731	62 311	45 427
June	7 000	7 435	3 230	17 665	57 198	3 937	2 393	1 640	729	65 897	48 232



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
9 895	10 061	12 532	32 488	3 089	16 240	11 849	31 178	-1 310	27 483	6 700	3 274
11 362	13 781	14 176	39 319	2 427	20 218	14 743	37 388	-1 931	31 207	8 067	3 567
12 737	22 899	13 858	49 494	5 348	31 331	13 782	50 461	967	41 047	9 268	3 663
11 842	29 263	15 915	57 020	5 705	39 443	16 138	61 286	4 266	49 074	11 670	5 706
11 362	13 781	14 176	39 319	2 427	20 218	14 743	37 388	-1 931	31 207	2 466	1 329
12 795	13 654	13 791	40 240	3 074	18 592	14 218	35 884	-4 356	31 917	1 757	600
12 846	14 641	13 536	41 023	3 077	19 349	15 048	37 474	-3 549	33 190	2 850	1 137
12 456	17 474	13 531	43 461	4 097	21 737	14 859	40 693	-2 768	34 871	2 077	699
12 737	22 899	13 858	49 494	5 348	31 331	13 782	50 461	967	41 047	2 584	1 227
12 365	22 166	14 580	49 111	4 637	29 530	15 105	49 272	161	42 384	2 573	984
12 905	23 008	14 878	50 791	4 705	31 137	16 546	52 388	1 597	43 686	3 831	2 286
10 556	23 605	15 681	49 842	4 737	31 289	16 779	52 805	2 963	45 597	2 538	1 049
11 842	29 263	15 915	57 020	5 705	39 443	16 138	61 286	4 266	49 074	2 728	1 387
14 740	25 724	15 677	56 141	3 657	37 966	15 789	57 412	1 271	46 698	3 249	1 089
20 705	31 916	14 971	67 592	3 775	47 081	17 202	68 058	466	48 698	2 959	1 624



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			
1982	1 122	120.8	122.1	116.7	120.8	122.4	119.0	117.7	116.8	117.8
1983	1 189	127.6	128.8	124.2	125.9	130.8	128.5	128.7	124.4	129.3
1984										
Jan.	1 228	131.6	132.5	128.7	129.6	134.7	133.0	133.5	129.6	133.5
Feb.	1 231	131.8	133.0	128.1	129.6	135.2	133.7	133.6	129.6	133.6
March	1 238	132.0	133.5	127.6	129.6	135.7	134.1	134.2	129.6	134.5
April	1 246	132.7	134.5	127.5	130.6	136.3	134.3	134.7	130.1	135.0
May	1 251	133.4	134.9	128.8	131.4	136.7	134.8	136.6	134.9	135.8
June	1 254	134.1	135.5	129.7	131.8	137.2	136.3	137.0	134.9	136.4
July	1 261	134.8	136.0	131.0	132.9	137.6	136.5	137.5	135.5	136.6
Aug.	1 264	134.8	136.6	129.5	132.6	138.2	136.9	137.7	135.7	136.9

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
1982	109.6	112.3	112.9	105.3	111.7	105.9	110.2	106.8	106.0	109.6
1983	118.7	120.0	125.1	112.8	118.4	114.3	126.6	117.4	116.9	120.7
1984										
Jan.	123.3	122.6	132.1	113.2	121.1	119.2	139.4	123.1	123.8	128.1
Feb.	123.8	123.6	132.1	115.0	121.1	120.9	139.4	123.4	124.0	128.3
March	124.7	125.4	132.1	117.8	121.5	121.4	139.4	124.3	124.3	128.6
April	125.6	127.3	132.1	119.2	121.6	121.8	143.4	125.0	125.4	128.9
May	126.9	128.4	132.5	119.7	126.0	122.4	144.8	123.6	125.9	130.6
June	127.2	128.8	132.6	119.7	126.0	122.4	144.7	124.7	126.2	130.7
July	127.7	130.2	132.7	118.6	126.0	122.7	147.7	125.7	126.1	131.0
Aug.	128.2	131.1	132.7	119.6	126.0	123.8	148.1	126.0	127.2	131.2

WAGES

Index of wage and salary earnings 1975 = 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							
1981	201.3	192.5	165.6	186.1	182.2	174.8	191.9	187.4	188.8	188.1
1982	225.7	213.5	181.8	206.9	201.1	195.0	212.0	207.4	208.9	208.1
1983*	246.2	234.4	202.5	228.2	222.0	215.1	233.4	229.1	229.3	229.2
1983*										
Jan.-March	240.2	224.3	194.0	217.6	214.1	205.8	222.9	219.0	219.7	219.4
Apr.-June	247.1	236.7	201.0	227.8	222.3	214.1	233.9	229.0	230.2	229.6
July-Sept.	243.3	234.8	202.8	228.9	222.5	215.9	234.3	229.9	230.4	230.1
Oct.-Dec.	253.7	242.0	208.3	238.8	230.5	224.7	242.1	238.3	237.8	238.1
1984*										
Jan.-March	254.7	244.6	215.5	242.8	231.3	230.5	244.9	241.2	240.7	241.0

PRODUCTION

Volume indices of production 1980 = 100

Period	Gross domestic product	Industrial production	Agriculture	Forestry	Construction of buildings	Land and waterway construction	Transport and communication	Commerce	Public sector services	Others
1982										
Apr.-June	103	106	75	94	84	104	103	103	107	109
July-Sept.	103	95	182	45	112	105	104	106	109	107
Oct.-Dec.	115	111	85	110	144	110	116	121	111	116
1983*										
Jan.-March	101	103	73	99	83	95	97	95	111	108
Apr.-June	107	112	80	90	91	104	105	109	111	115
July-Sept.	107	99	204	41	120	104	108	105	113	112
Oct.-Dec.	117	116	87	101	149	104	123	117	114	120
1984*										
Jan.-March	104	109	74	90	81	92	105	97	115	112
Apr.-June	109	113	82	92	85	103	112	107	115	119

PRODUCTION

Index of industrial production 1980 = 100

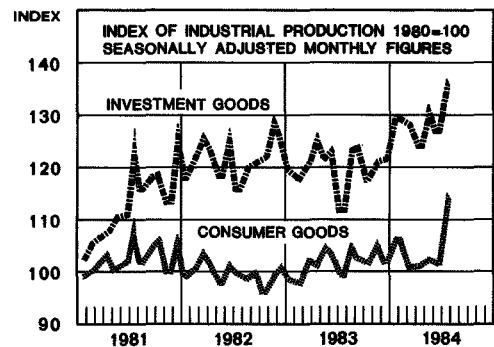
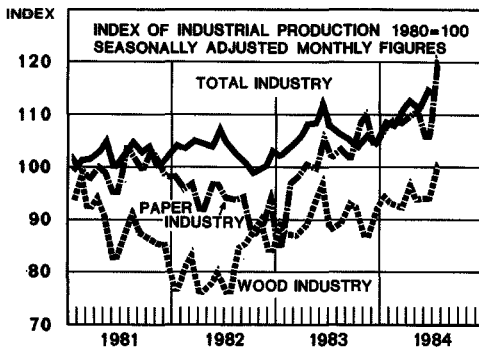
Period	Total	Investment goods	Consumer goods	Other producer goods	Special indices of manufacturing						Total adjusted for seasonal variations
					Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
1981	102.6	114.1	103.4	100.1	104.0	89.6	100.8	103.0	101.3	106.9	102.9
1982*	103.7	121.0	103.4	100.6	106.4	83.5	96.1	98.8	109.8	114.0	103.8
1983*	106.8	125.3	103.3	105.1	106.4	88.9	103.9	105.1	117.3	117.3	106.9

1983*

July	67.6	47.2	62.8	73.4	92.7	34.9	104.6	68.5	70.4	49.5	108.2
Aug.	111.3	118.8	108.0	111.5	113.2	86.5	115.4	115.3	128.0	113.9	106.9
Sept.	114.3	138.3	109.8	112.2	111.1	107.3	104.7	114.4	146.9	129.4	105.9
Oct.	112.8	126.0	111.3	111.2	125.2	100.1	115.9	116.2	135.9	119.3	104.6
Nov.	118.5	139.2	117.8	115.1	127.5	89.1	117.4	120.9	117.6	130.3	106.7
Dec.	106.6	128.9	103.7	104.0	103.4	77.6	98.7	107.3	106.9	120.2	105.2

1984*

Jan.	113.4	135.1	109.4	111.4	100.0	91.7	111.3	111.6	102.8	125.7	109.3
Feb.	108.2	130.4	103.2	106.7	87.5	85.7	112.9	103.8	92.4	120.9	108.6
March	116.4	142.0	109.7	114.9	97.1	98.6	118.2	120.4	111.4	129.3	111.3
April	107.8	132.1	100.5	106.8	95.4	102.2	102.9	116.3	96.2	121.6	113.3
May	121.8	158.5	110.9	120.4	114.0	118.2	120.5	117.6	117.5	144.1	111.8
June	110.0	144.5	101.5	107.9	103.6	103.1	91.5	105.7	114.6	128.2	115.3
July	75.3	56.8	72.3	79.9	97.4	41.0	124.2	71.9	60.8	57.2	114.3



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
1982	3 659	2 526	2 377	149	5.9	41 435	106	109
1983	3 681	2 546	2 390	156	6.1	39 324	107	110
1983								
June	3 678	2 715	2 549	166	6.1	2 089	101	95
July	3 682	2 730	2 577	153	5.6	1 084	105	86
Aug.	3 682	2 555	2 426	128	5.0	1 303	106	113
Sept.	3 682	2 540	2 397	143	5.6	2 153	107	119
Oct.	3 687	2 520	2 369	151	6.0	2 860	106	115
Nov.	3 695	2 507	2 355	152	6.1	3 391	106	117
Dec.	3 695	2 526	2 369	157	6.2	4 109	132	124
1984*								
Jan.	3 699	2 510	2 339	171	6.8	3 577	97	94
Feb.	3 700	2 498	2 329	169	6.8	4 209	95	101
March	3 694	2 520	2 353	168	6.6	4 734	105	111
April	3 693	2 523	2 356	167	6.6	4 207	101	98
May	3 697	2 579	2 438	140	5.4	3 734	113	120
June	3 695	2 745	2 570	175	6.4	2 664	115	106
July	3 700	2 761	2 614	146	5.3	1 323

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											
1982	52.17	19.30	6.73	19.12	3.50	43.74	18.0	6.02	14.35	2.67	50.32
1983*	51.78	19.66	6.44	18.34	3.65	47.37	18.43	5.92	16.32	3.55	51.44
1983*											
Jan.-March	9.85	4.18	1.28	3.23	0.70	10.29	4.06	1.13	3.80	0.66	45.55
Apr.-June	19.12	7.95	3.14	5.43	1.01	10.56	4.29	0.85	3.77	0.90	52.74
July-Sept.	14.22	4.23	1.07	6.90	0.91	11.06	3.96	1.86	3.52	0.96	58.14
Oct.-Dec.	8.59	3.31	0.95	2.78	1.02	15.46	6.12	2.07	5.24	1.02	51.44
1984*											
Jan.-March	9.11	3.83	1.12	3.08	0.61	8.72	3.72	0.71	3.08	0.62	47.01
Apr.-June	16.19	7.21	2.35	4.67	0.73	8.64	3.53	0.55	3.57	0.51	53.65

EXPLANATIONS RELATING TO THE STATISTICAL SECTION

BANK OF FINLAND

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

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

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

MONETARY POLICY INDICATORS

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

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

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

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

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

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

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

FORWARD EXCHANGE MARKETS IN FINLAND

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

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

FOREIGN EXCHANGE RATES

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

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

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

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

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

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

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

STATE FINANCES

Page 12. Official figures computed by the Economics Department of the Ministry of Finance. Revenue and expenditure: Extra-budgetary funds and the aggregated net current deficit of State enterprises are included. Figures are reported on a cash payment basis. Debt: Foreign debt includes promissory notes given to international organizations.

FOREIGN TRADE

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

BALANCE OF PAYMENTS

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

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

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

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

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

FOREIGN ASSETS AND LIABILITIES

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

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

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

Columns 22 and 23 during the year and the quarter.

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

PRICE INDICES

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

WAGES - PRODUCTION

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

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

LABOUR - TIMBER FELLINGS - INTERNAL TRADE - CONSTRUCTION OF BUILDINGS

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

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

SOME PARTICULARS ABOUT FINLAND

FORM OF GOVERNMENT

From 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 1983 is as follows: Social Democratic Party of Finland 57, National Coalition Party 44, Centre Party 38, Democratic League of the People of Finland 27, Finnish Rural Party 17, Swedish People's Party 11, Christian League of Finland 3. The Greens 2 and Finnish People's Constitutional Party 1.

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

INTERNATIONAL ORGANIZATIONS

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

LAND

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

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

POPULATION

NUMBER OF INHABITANTS (1982): 4.8 million. Sweden 8.3, Switzerland 6.3, Denmark 5.1, and Norway 4.1 million.

DENSITY OF POPULATION (1982): In South Finland 47.1, in East and Central Finland 14.2, in North Finland 4.2 and in the whole country an average of 15.9 inhabitants to the square kilometre.

DISTRIBUTION BY AREA (1982): 40% of the population inhabit the rural areas, 60% towns. The largest towns are: Helsinki (Helsingfors), the capital, 484 260 inhabitants, Tampere (Tammerfors) 167 211, Turku (Åbo) 163 484.

EMPLOYMENT (1983): Agriculture and forestry 13%, industry and construction 33%, commerce 14%, transport and communication 7%, financing, insurance, real estate and business services 6%, community and personal services 27%.

LANGUAGE (1982): Finnish speaking 93.5%, Swedish speaking 6.3%, others 0.2%.

EDUCATION (1984): 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 (1982): births 13.7 ‰, deaths 9.0 ‰, change + 6.2 ‰, net immigration + 1.5 ‰. Deaths in France 10.1 ‰ and Great Britain 11.8 ‰.

TRADE AND TRANSPORT

NATIONAL INCOME (1983), in million FIM: Gross domestic product at factor cost by industrial origin: agriculture and fishing 1 747 (5%), forestry 9 007 (4%), manufacturing 73 782 (30%), construction 20 442 (8%), trade, restaurants and hotels 27 803 (11%), transport and communication 19 129 (8%), banking and insurance 9 671 (4%), ownership of dwellings 16 460 (7%), other services 58 100 (23%), total 246 141. Index of real domestic product 108 (1980 = 100).

FOREST RESOURCES (1982). The growing stock comprised of 1 658 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 667 million m³ was up to the standard required for logs, 52% of these being pine. The annual growth was 67 million m³ and the total drain calculated on the basis of roundwood consumption was 48.5 million m³.

AGRICULTURE (1982). Cultivated land 2.4 million hectares. Number of holdings 212 630 of which 148 590 are of more than 5 ha. Measure of self-sufficiency in bread cereals (1983) 93%.

INDUSTRY (1982). Gross value of industrial production FIM 203 910 mill., number of workers 405 013, salaried employees 144 435, motive power 8.3 mill. kW. Index of industrial production 103.7 for 1982 (1980 = 100).

STATE RAILWAYS (Dec. 31, 1983): Length 6 069 km.

MERCHANT FLEET (Sept. 30, 1984): Passenger vessels 159 (238 035 gross reg. tons), tankers 44 (1 016 342 gross reg. tons), dry cargo vessels 174 (859 102 gross reg. tons), other vessels 101 (14 087 gross reg. tons), total 478 (2 127 566 gross reg. tons).

MOTOR VEHICLES (Dec. 31, 1983): Passenger cars 1 410 438, lorries and vans 167 831, buses 9 102, others 10 585, total 1 597 956.

FINNISH AIRLINES (May 1, 1984) Finnair has in use 1 DC-8, 6 DC-9-10, 5 DC-9-41, 12 DC-9-51, 3 DC-9 Super 82, 3 DC-10-30, 1 DC-10-30ER and 2 Fokker F-27. The company has scheduled flights to 38 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 20.1, DEM 18.8, GBP 14.7, USD 10.5, other currencies 35.9. 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, 1983). There are two big and eight small commercial banks with in all 924 offices, 270 savings banks, 371 co-operative banks, five mortgage banks, Postipankki and three development credit institutions. The co-operative stores accept deposits from their members. The Social Insurance Institution and 48 private insurance companies also grant credits.

RATES OF INTEREST (Jan. 1, 1984). The Bank of Finland's base rate is 9 ½%. The interest rates for domestic lending other than bank financing by the Bank of Finland vary between 7% and 12%. Other credit institutions: time deposits 5 ½%; 6 month deposits 6 ½%; 12 month deposits 8%; 24 month deposits 9 ¼% and sight deposits 2 ¼%. The highest lending rate is 14%.

THE INTERNATIONALIZATION OF FINNISH BANKING OPERATIONS

by Jyrki Laakso, Research Manager

The Finnish Bankers' Association

INTRODUCTION

The foreign operations of Finnish commercial banks have entered a phase of rapid internationalization. Until the mid-1960s, foreign trade financing and foreign credits were primarily channelled through the network of correspondent banks. This network, covering thousands of banks throughout the world, is, of course, still of primary importance in handling the bulk of routine foreign transactions.

The origins of the internationalization of the Finnish commercial banks can be traced back to the mid-1960s, when the first consortium banks were set up in co-operation with other Nordic banks. Having thus secured a foothold abroad, they rapidly expanded their operations in various financial centres. The first subsidiaries were established in the mid-1970s in countries nearer to home, while representative offices were opened in countries farther afield.

The third stage of internationalization is currently proceeding at a brisk pace and is characterized by the diversification of direct operations in the international money and capital markets. Finnish commercial banks have opened their first branch offices abroad, debenture loans have been raised in the international capital markets to back equity, and participation in syndicated Euroloans has increased.

The increasing diversification of Finnish banking operations in the international financial markets can be seen as an outcome of the structural changes that the Finnish economy has undergone in recent years. Finnish companies have been going through a process of

rapid internationalization, with a concomitant increase in the demand for international banking services. At the same time, the liberalization of exchange controls has improved the prerequisites for expansion in the international arena.

THE NEED FOR INTERNATIONALIZATION

The growth in the international operations of the Finnish commercial banks has gone hand in hand with the internationalization of Finnish industrial companies. The natural background to this development has been the increased importance of foreign trade and capital movements resulting from liberal trade policy and less restrictive control of capital movements.

Finnish industry has traditionally had to seek markets outside Finland. With the dismantling of trade barriers and increasing integration, the safeguarding of competitiveness in international markets has become of vital importance. To support this development, Finnish companies have, in recent years, acquired subsidiaries abroad, particularly in Scandinavia, other western European countries and the USA.

Direct investment abroad has taken the form of both acquisitions and the establishment of subsidiaries. The commercial banks have played an active role in these operations by arranging finance, granting guarantees and otherwise assisting companies establishing abroad.

The vigorous growth of the international capital markets, together with the recent tendencies for higher foreign exchange risks and marked fluctuations in interest rates, has com-

TABLE 1. FOREIGN BRANCH OFFICES AND SUBSIDIARIES OF FINNISH BANKS

	Year of establishment or affiliation	Finnish shareholder	Finnish shareholding, per cent	Total assets on Dec. 31, 1983 mill.FIM
Branch offices				
Kansallis-Osake-Pankki, London	1984	.	.	.
Union Bank of Finland, London	1985	.	.	.
Subsidiaries				
Nordfinanz-Bank Zürich, Zürich	1984	KOP	58.2	7 107
Union Bank of Finland International S.A., Luxembourg	1976	UBF	100	6 512
Kansallis International Bank S.A., Luxembourg	1977	KOP	85	3 196
		Pohjola Insurance Company Ltd	15	
Postipankki (U.K.) Ltd, London	1981	PSP	87.5	2 999
		Bank of Åland	2.5	
		Pohjola Insurance Company Ltd	10	
Union Bank of Finland (Singapore) Ltd, Singapore	1980	UBF	100	2 664
Kansallis Overseas Bank Ltd, Nassau	1983	KOP	100	119
Bank of Helsinki (Overseas) Ltd, Nassau	1985	Bank of Helsinki	100	.

pelled the Finnish banks to actively follow developments in the market. By expanding their international activities, the banks have also been able to take advantage of the market on the best available terms and to be well placed to meet any new developments.

Movements in international interest rates and exchange rate fluctuations are felt in the Finnish economy more distinctly than previously. Consequently, the commercial banks have had to invest more heavily than before in their foreign operations in order to be able to best serve the needs of their domestic corporate customers. In addition, competition for prime customers has become increasingly intense.

FINNISH BANKS ABROAD

The internationalization of the Finnish banks has proceeded in stages. Starting with participation in consortium banks, the next step has been to establish subsidiaries and then finally to open branch offices whenever the authorities have granted the relevant permission. In this way, the banks have also diversified their services with regard to forms of establishment.

The latest phase in this development, the opening of branch offices, got under way in April 1984 with the setting up in London of the first branch office by Kansallis-Osake-Pankki, one of the two leading commercial banks in Finland. This enabled Kansallis-Osake-Pankki

TABLE 2. PARTICIPATION OF FINNISH BANKS IN CONSORTIUM BANKS

	Year of establishment or affiliation	Finnish shareholder	Finnish shareholding, per cent	Total assets on Dec. 31, 1983 mill.FIM
Scandinavian Bank Ltd, London	1969	UBF	23.6	20 970
Manufacturers Hanover Banque Nordique, Paris	1967	KOP	10	5 762
Skandinaviska Enskilda Banken Luxembourg S.A., Luxembourg	1980	Bank of Åland	1.3	5 314
London & Continental Bankers Ltd, London	1973	Okobank	2.6	4 490 ¹
Nordic American Banking Corporation, New York	1979	KOP	25	3 731
Arbuthnot Latham Bank Ltd, London	1981	Bank of Helsinki	16	3 183 ¹
American Scandinavian Banking Corporation, New York	1981	UBF	25	2 668
Banque Nordeurope S.A., Luxembourg	1973	Skopbank	12.5	2 428 ¹
B.E.G. Bank Europäischer Genossenschaftsbanken, Zürich	1980	Okobank	1.375	2 412
Banque Transatlantique S.A., Paris	1971	Bank of Helsinki	2.5	2 140
Fennoscandia Ltd, London	1983	Skopbank	50	608

¹ Total assets on March 31, 1984

to continue its operations in London after the dissolution of the Nordic Bank consortium. Union Bank of Finland Ltd, the other top commercial bank, has announced that it will open a branch office in London in January 1985.

The top two commercial banks set up their first subsidiaries in Luxembourg in 1976 (Union Bank of Finland Ltd) and 1977 (Kansallis-Osake-Pankki). In addition, Union Bank of Finland Ltd has a subsidiary in Singapore, where Kansallis-Osake-Pankki, too, is in the process of establishing. Kansallis-Osake-Pankki also has a subsidiary in Nassau, and in the spring of this year it was disclosed that the

bank would purchase the majority shareholding in Nordfinanz-Bank Zürich, in which Nordic Bank PLC had previously had the majority holding.

The first Finnish subsidiary to gain recognized bank status in London was Postipankki (UK) Ltd. Apart from the state-owned Postipankki, Ålandsbanken Ab and the Pohjola Group (insurance) are minority shareholders in the bank. Among the most recent developments worth mentioning is the decision by Bank of Helsinki Ltd to set up its first subsidiary in Nassau. The foreign branch offices and subsidiaries of the Finnish commercial banks are shown in Table 1.

The consortium banks in which the Finnish commercial banks participate are shown in Table 2. The most important of the consortium banks is Scandinavian Bank Ltd, which was established at the end of the 1960s. The smaller Finnish commercial banks, such as Skopbank and Okobank, have been active in joining consortium banks, particularly in London. Typically, participation has taken the form of minority shareholdings in banks already well-established in the market. For example, Bank of Helsinki Ltd is a minority shareholder in Arbuthnot Latham Bank Ltd in London through its shareholding in the holding company Dow Scandia Holdings Ltd. Consortium banks have also been used as a means of penetrating the US market, since it has been the view among the Finnish banks that,

as yet, they lack the necessary resources for striking out alone in the United States.

The representative offices of the Finnish commercial banks are shown in Table 3. A representative office has, in many cases, been the first step towards starting actual banking operations abroad. The first representative offices were opened in the early 1970s. More have subsequently been set up during the 1980s to supplement the existing network of offices, and also in countries where the prerequisites for establishing full banking operations do not exist or where this is not possible. The subsidiaries and representative offices of the consortium banks and subsidiaries are not included in Table 3.

TABLE 3. REPRESENTATIVE OFFICES OF FINNISH BANKS

		Year of establishment	Type of ownership
Kansallis-Osake-Pankki	Moscow	1973	Fully owned
	Singapore	1984	Fully owned
	Tokyo	1981	Joint Nordic Office
Union Bank of Finland	Moscow	1975	Fully owned
	Representative Office for the Federal Republic of Germany and the Benelux Countries,		
	Luxembourg	1978	Fully owned
	Stockholm	1983	Fully owned
	Tokyo	1972	Joint Nordic Office
	Sao Paulo	1980	Joint Nordic Office
	Los Angeles	1983	Within SBL ¹
	London	1984	Fully owned
Postipankki	Moscow	1984	
Skopbank	London	1979	Fully owned
	Moscow	1982	Fully owned
	Stockholm	1984	Joint Nordic Office
	Oslo	1984	Joint Nordic Office
	Copenhagen	1984	Joint Nordic Office
Bank of Helsinki	Jakarta	1975	Within ALB ²
Okobank	Moscow	1984 ³	

1 SBL = Scandinavian Bank Ltd, London

2 ALB = Arbuthnot Latham Bank Ltd, London

3 To be established in 1984

OPERATIONS

The major activity of the overseas offices of Finnish commercial banks has been the provision of financing services to Finnish companies both at home and abroad. Operations related to Finland seem, however, to be diminishing in relative terms as foreign offices gain more competence in international financial markets. They have also engaged in other financing services, notably bank guarantees and forex business. The bulk of the financing of Finland's foreign trade is, of course, handled through the ordinary foreign exchange banks, i.e. the parent banks.

Banks operating in the international capital markets can arrange long-term credit for financing investments quickly and on the best available terms, either in the form of supplier credits or long-term financial credits. They also participate in syndicated Euroloans.

The diversification of financial services is also marked nowadays by more individual co-operation with companies, as, for example, in arranging their share issues abroad. Furthermore, as part of their capital market services, the banks assist firms in the acquisition and establishment of subsidiaries abroad.

Some degree of division of labour has taken place in recent years between different types of offices situated abroad. Subsidiaries and, more recently, branch offices concentrate on serving the Finnish client companies of their parent banks in the home country and the companies' subsidiaries established or establishing abroad, as well as other companies outside Finland in Finnish-related matters.

The large consortium banks have also activated their international operations during the last few years. They have founded subsidiaries and branch offices in other countries, their clienteles have become more international, and they have been prepared to take on more international risk. Indeed, the time of consortium banks is by no means over.

The liberalization of exchange controls, and, in particular, the establishment of branch offices abroad has made customer service faster and more flexible by concentrating all operations within one and the same bank. At the same time, it has reduced bureaucracy and the costs of finance. Similarly, foreign branches are profitable from the point of view of a parent bank because the solvency requirement for a branch office is covered by the equity of the parent bank. The establishment of a branch office abroad does not require investment in foreign share capital.

LEGISLATIVE CONSTRAINTS

The internationalization of the commercial banks has been hampered to some extent by a stipulation in the Commercial Bank Act according to which a bank's stake in a foreign credit or financial institution must not exceed 20 per cent of the bank's own equity. In fact, the Ministry of Finance has granted a special permit to exceed this limit whenever necessary. The stipulation has, however, given rise to pressure for raising share capitals, which of course is desirable from a prudential and financial stability point of view.

By contrast, foreign investors are entitled to own shares in a Finnish commercial bank subject only to the approval of the Ministry of Finance. It is further stated in the Act on the Right of Foreigners to Own Shares in Finnish Credit Institutions and to Conduct Banking Business in Finland that shares owned by foreigners may not exceed 20 per cent of the share capital of a joint-stock bank or credit institution. However, the Council of State may, if there are special reasons, authorize a foreign credit institution to acquire shares in a commercial bank in excess of this limit. It was on this basis that three foreign-owned commercial banks established subsidiaries in Finland at the beginning of the 1980s.¹

As internationalization becomes increasingly diversified, it also generates technical and leg-

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

islative problems that have to be solved. The administrative control system has to adapt itself to the changed circumstances and take into account the views of the authorities in the countries to be entered. Since the establish-

ment of Finnish banks abroad is still strictly subject to the permission of the authorities, it is evident that the process of internationalization will continue to proceed at a smooth and stable pace in the future.

MONETARY AND FOREIGN EXCHANGE POLICY MEASURES FROM OCTOBER 1983 TO SEPTEMBER 1984

1983

October

Regulation of average lending rates. On October 1, the Bank of Finland raises the proportion of the cost of borrowing on the unregulated money market which the banks may pass on in their lending rates from 40 to 50 per cent.

Call money market. The Bank of Finland lowers the call money rate from 17.5 to 17.1 per cent on October 6, to 17.0 per cent on October 12 and to 16.7 per cent on October 17.

November

Government deposit account/certificates of deposit. On the proposal of the Board of Management, the Bank Supervisors of Parliament decide that the Bank of Finland may pay interest on a deposit account opened by the government up to a rate which is half a percentage point below the base rate. The deposit account replaces the earlier transactions with the government in certificates of deposits, the interest payment permit for which is to terminate at the end of 1983.

1984

January

Quotas at base rate. The commercial banks' central bank quotas at base rate are abolished as from January 1.

Call money market. Foreign-owned banks are extended the same rights as the domestic banks to participate in the call money market as from January 1. At the same time, an upper limit is imposed on call money deposits of 20 per cent of each bank's balance sheet total.

The Bank of Finland raises the call money rate from 16.7 to 17.5 per cent on January 1.

Regulation of average lending rates. On January 1, the Bank of Finland raises the proportion of the banks' funding costs in the unregulated money market which they may pass on in their lending rates from 50 to 60 per cent. In the same context, the 14 per cent upper limit on the banks' lending rates is abolished for credit extended to corporations in the form of cheque account overdrafts and bills.

Currency index. As from January 1, only the convertible currencies most important for Finland's foreign trade are taken into account when calculating the currency index number expressing the external value of the markka.

Revised Nordic agreement on short-term foreign exchange support. According to the revised swap agreement entering into force on January 1, the central banks of Denmark, Finland, Norway and Sweden are each entitled to receive credit up to a maximum of SDR 150 million. In addition, each bank is required to extend credit up to a maximum of SDR 100 million. In the case of the central bank of Iceland, the right to credit is SDR 30 million and the lending requirement SDR 20 million.

Liberalization of Foreign Exchange Regulations. The provision prohibiting the export and import of 500 markka banknotes is cancelled on January 1.

As from the same date, most of the upper limits on the markka amounts specified in the Foreign Exchange Regulations are raised by slightly more than an adjustment for inflation requires. For example, the maximum value of the means of payment that may be freely exported from the country is raised from FIM 5 000 to FIM 10 000 per person per journey.

Payments arrangements between Finland and Czechoslovakia. Finland and Czechoslovakia agree that in 1984 and 1985 payments between

the two countries can be effected in any convertible currency.

Export deposits. On January 17, the Council of State decides to collect export deposits for pine sawnwood as from January 20. The deposits are to be made at the Bank of Finland, and will bear interest at a rate of 8 ¼ per cent.

Investment reserves. On January 17, the Government decides to raise maximum permissible transfers to investment reserves from 50 per cent to 70 per cent of profits for accounting periods ending in 1984. The Bank of Finland decides to pay interest at a rate of 1 ½ percentage points below the base rate, i.e. 8 per cent, on investment deposits made on the basis of this decision. These decisions enter into force on January 26.

February

Cash reserve requirement. At the end of February, the Bank of Finland raises the reserve requirement from 4.7 to 5.0 per cent.

Repayment of standby credit. On February 29, 1984, the Bank of Finland repays a USD 150 million standby credit.

March

Repayment of standby credit. On March 23, 1984, the Bank of Finland repays its last standby credit in use, amounting to USD 200 million.

The external value of the markka. On March 27, 1984, the Bank of Finland raises the external value of the markka by about one per cent within the range of fluctuation of the currency index number.

Financing of domestic suppliers' credits. The Bank of Finland reduces its share in the financing of domestic suppliers' credits from 40 to 30 per cent as from March 27, 1984.

Arrangement for the financing of short-term export credits. On March 27, 1984, the Bank of Finland decides to reduce the maximum annual average amount of the Bank's financing of short-term export credits from FIM 50 to FIM 30 million as from January 1, 1984.

Cash reserve requirement. The Bank of Finland raises the cash reserve requirement from 5.0 per cent to 5.4 per cent at the end of March.

April

Call money market. The Bank of Finland rescinds the upper limit on the banks' call money deposits as from April 1, 1984. The Bank of Finland lowers the call money rate from 17.5 to 17.0 per cent as from the same date. The call money rate is lowered further to 16.7 per cent as from April 17 and to 16.5 per cent as from April 19.

Cash reserve requirement. The Bank of Finland raises the cash reserve requirement from 5.4 to 5.6 per cent at the end of April.

Revisions in Foreign Exchange Regulations. In a decision of the Council of State, the foreign branch offices of commercial banks and Postipankki are defined as non-residents as from March 1, 1984. Because of this decision, the Bank of Finland announces certain other revisions in the Foreign Exchange Regulations, which enter into force on April 11, 1984. The right of Finnish residents to use credit and debit cards for purchasing goods to be imported to Finland is extended as from the same date, provided that the value of any one purchase does not exceed FIM 10 000.

May

Call money market. The Bank of Finland raises the call money rate from 16.5 to 16.8 per cent as from May 29.

June

Export deposits. On June 5, the Council of State decides to collect export deposits for pulp to be exported between June 8, 1984 and June 7, 1985. The deposits are to be made at the Bank of Finland, and will bear interest at a rate of $8 \frac{3}{4}$ per cent.

July

Call money market. The Bank of Finland lowers the call money rate from 16.8 to 16.5 per cent as from July 3.

September

Central bank financing. The Bank of Finland decides to extend to Peruspankki Ltd, as from the beginning of September, the same rights to central bank financing and the use of the call money market as the other commercial banks.

Call money market. The Bank of Finland lowers the call money rate from 16.5 to 16.0 per

cent as from September 7 and further to 15.8 per cent as from September 28.

Cash reserve requirement. On September 7, 1984, the Bank of Finland concludes a new cash reserve agreement with the banks. According to it, the cash reserve base comprises, in addition to deposits received on normal terms, the total stock of deposits denominated in foreign currency, special deposits and the banks' net foreign liabilities after certain deductions. (See the item in this issue of the Bulletin).

Regulation of average lending rates. On September 7, 1984, the Bank of Finland decides to revise its regulation of the banks' average lending rates. According to the new system, the average lending rate applied by a banking institution to its domestic markka-denominated lending is allowed to rise by not more than 30 per cent of the increase in the average deposit rate on the bank's total stock of deposits. The new system is to become effective progressively as from the beginning of October. (See the item in this issue of the Bulletin).

ITEMS

Revision of the methods of monetary control. Because of changes in the financial market, the Bank of Finland has modified the two essential elements of monetary control, the cash reserve requirement system and the regulation of average lending rates. The purpose of these revisions is to ensure that the banks face the same operating conditions and to enhance the efficiency of monetary policy.

Extension of the cash reserve base. According to the cash reserve agreement concluded between the Bank of Finland and the banks in the spring of 1979, the banks are obliged to keep deposits with the Bank of Finland in a certain proportion to each bank's deposit-taking. By modifying the size of the deposit requirement, the Bank of Finland affects the banks' liquidity and volume of lending.

Under the agreement, the basis for determining cash reserve deposits, or the cash reserve base, was defined as deposits denominated in domestic currency received from the public on normal terms plus half of the domestic deposits denominated in foreign currency. During the period the agreement has been in operation, the unregulated money market and the banks' finance denominated in foreign currency have increased very significantly. Hence, the cash reserve base has diminished in proportion to the banks' overall level of activity and the effectiveness of this instrument of monetary control has weakened. Moreover, owing to the changes in the financial market, the cash reserve requirement has affected banks unevenly in that the co-operative and savings banks have had to bear a substantially heavier burden in proportion to their volume of lending and balance sheet total than have the commercial banks. This is because the unregulated money market and foreign business transactions are of less significance to the co-operative and savings banks than to the commercial banks.

Accordingly, the Bank of Finland has concluded a new cash reserve agreement with the banks which redresses these defects by treating various financial items and banks more equally. Under the new agreement, the cash reserve base has been extended so that, in addition to deposits taken on normal terms, it now includes the total stock of domestic deposits denominated in foreign currency and, as new items, unregulated money market deposits and the banks' net foreign liabilities. Thus, the new cash reserve base has wide coverage of the financial sources to which the banks have access in their lending.

However, in calculating the new cash reserve base certain deductions are allowed with respect to the net foreign liabilities. By this means, the Bank of Finland wants to ensure that the domestic banks face the same competitive conditions as the foreign banks. To the same end, the Bank has decided to start collecting, as from January 1, 1985, deposits corresponding to those covered by the cash reserve agreement from firms which, with the approval of the Bank, finance their export receivables or imports through loans raised directly from foreign financial institutions in their own names.

As in the former agreement, the Bank of Finland is entitled to raise the deposit requirement by not more than 0.6 percentage point at a time, and the upper limit on the deposit requirement is also unchanged at 8 per cent. Since last spring, the cash reserve requirement has been 5.6 per cent.

The extension has increased the cash reserve base by about 30 per cent, which, according to June figures, means that the maximum amount of cash reserve deposits has risen from FIM 9.2 billion to FIM 12.2 billion. Given an unchanged cash reserve requirement, this means that the banks' deposit requirement has grown by a total of about FIM 2 billion. In order to facilitate the transition, the additional deposits required will be collected progressively in October—December.

Estimated on the basis of the June situation, the distribution of the cash reserve deposits between the banks according to the old and the new base is as follows:

	Old distribution %	New distribution %
Commercial banks	34	43
Co-operative banks + the Central Bank of the Co-operative Banks of Finland Ltd. (OKO)	24	21
Savings banks + the Central Bank of the Savings Banks (SKOP)	29	25
Postipankki	13	11
<hr/> Total	<hr/> 100	<hr/> 100

Unification of the regulation of average lending rates. In recent years, the range of influence of the Bank of Finland's regulation of interest rates has been diminished by the growth of the unregulated money market and of foreign capital flows. Nevertheless, the regulation of the banks' average lending rates on domestic markka-denominated lending still constitutes a central element of monetary policy. Ideally, the regulation of interest rates should not decisively hamper interest rate competition nor place the banks in different positions in this respect. The control system should also allow scope for continuing the gradual shift towards freer interest rate formation.

Under the system of control so far in force, the commercial banks have been required to have a lower average lending rate than the co-operative and savings banks. The right, granted to the banks last year, to pass on in their lending rate part of their interest expenses on deposits in the unregulated money market has, however, reduced this difference. The changes in the methods of controlling average interest rates now introduced by the Bank of Finland also unify the operating conditions of the banks in this respect in that the same average deposit rate entitles all the banks to apply the same average lending rate.

According to the new system, the higher the average rate on a monetary institution's total

stock of domestic deposits denominated in domestic currency, the higher is the average lending rate it may apply. Nevertheless, the increase in lending rates may not be more than 30 per cent of the rise in deposit rates. In practice, this means that if a bank's average deposit rate rises by one percentage point, as a result, for example, of competition in the unregulated money market, the bank is allowed to raise its average lending rate by 0.3 percentage point.

Estimated on the basis of the situation prevailing at the end of June, this means that the upper limit on the banks' lending rates will rise on average by 0.3 percentage point. For the commercial banks, the rise in the upper limit on the average lending rate will be about 0.5 percentage point and for other categories of banks 0.1–0.3 percentage point. For certain individual banks, the revision of the system may also result in a fall in the upper limit. The changes in average interest rates will take place over a transition period of one to two years, starting in October 1984. The banks for whom the upper limit on their average rate rises may, during the following 12 months, progressively raise their interest rates, whereas a 24-month adjustment period is allowed for the banks for whom the upper limit on their average rate falls.

Publication of the Bank of Finland. The following publication has appeared in series C:7, Erik Dahmén, *Ekonomi i omvandling, Utländska och finländska erfarenheter* (The economy in transition, Finnish and foreign experiences), published in Swedish and Finnish, Helsinki 1984, 209 pp. ISBN 951-686-094-X, ISSN 0781-4429.

The study examines the economic policy experiences over the past quarter of a century of small industrial countries which have become increasingly dependent on foreign trade, and offers some recommendations on future economic policy decisions. A comparative analysis dealing with Finland, in particular, is included in the study.

Professor Dahmén points out that the prerequisites for economic development and economic policy have, in general, undergone rapid and fundamental changes. This has placed heavy demands on adjustment and the renewal of industry. Nevertheless, the economy's ability to meet these demands has, if anything, weakened, because of many factors, especially those characteristic of a mixed economy.

In Finland, great attention has been paid to growth policy and this, together with several economic policy phenomena, has been favourable for the development of the Finnish eco-

nomy. However, Finnish industry is at present faced with the necessity of structural change and renewal because of both a number of international and domestic factors and future prospects. According to Professor Dahmén, if the aim is to influence the use of economic resources and income distribution, it is more important than ever not to intensify fiscal policy any further. Although policy should seek to prevent the strengthening of business cycles, attempts to smooth cyclical fluctuations should not be allowed to go too far. Rather, economic policy should aim primarily at enhancing the factors essentially affecting economic development.

(continued from page 2)

bank charges and other competitive means easy to duplicate. Traditionally, competition has taken such forms as payment and other services provided free of charge or priced at rates low in relation to costs. A further distinctive feature is the, by international standards, highly developed network of branches. Certain aspects of the competitive conditions have therefore made the actual intermediation of loans more expensive, and this has been reflected in relatively large interest rate margins.

It is too early as yet to estimate to what extent the recent establishment of foreign banks has affected the competitive conditions in the banking sector. Assessment is difficult because, in recent years, there have also been other factors tending to promote greater market-orientation.

A vigorously expanding short-term money market with deposit-taking and lending at market rates was already in existence when the foreign banks started operations.³ The growth of this market may, however, have been given a boost by the activities of the new banks. To the extent these banks operate in the domestic currency market, it takes place almost exclusively in the unregulated short-term money market. Initially, the operations of the foreign-owned banks in the unregulated market were confined almost entirely to the interbank market.

Since the beginning of this year, the foreign banking subsidiaries have been entitled to place funds in the Bank of Finland's call money market, and this has increased their pos-

sibilities of borrowing in the short-term market. This has undoubtedly strengthened free interest rate formation in the money market. The large domestically owned banks had, through a mutual agreement, temporarily prevented the unregulated short-term rate from rising above 15 per cent when, in the autumn of 1983, the Bank of Finland raised its call money rate in order to curb an outflow of foreign currency. Since last spring, the difference between the Bank of Finland call money rate and the short-term market rate has been very small.

The impact on the bank's foreign currency flows has also been of a fairly general kind. Tendencies already prevalent before the arrival of the foreign banks have been strengthened. Competition in currency dealing, foreign payment services and intermediation of loans raised abroad has stiffened in recent years. Margins between selling and buying rates have been drastically reduced, and charges for guarantees and other charges on foreign currency loans and other services have been cut. Through consensus and agreements it had been possible to keep these relatively high.

In conclusion, it can be said that the establishment of foreign banks in Finland does not seem to have led to any dramatic changes in financial and foreign exchange markets. Indeed, such an outcome had not been anticipated. On the other hand, the entry of foreign banks has certainly served to strengthen the trend towards greater market-orientation and in so doing has possibly hastened a development which in the longer run will provide fewer direct opportunities for regulation in monetary and foreign exchange policy.

³ At present, special deposit-taking accounts for about 15 per cent of total deposit-taking in deposit banks as a whole and for about 25 per cent in commercial banks.

September 21, 1984

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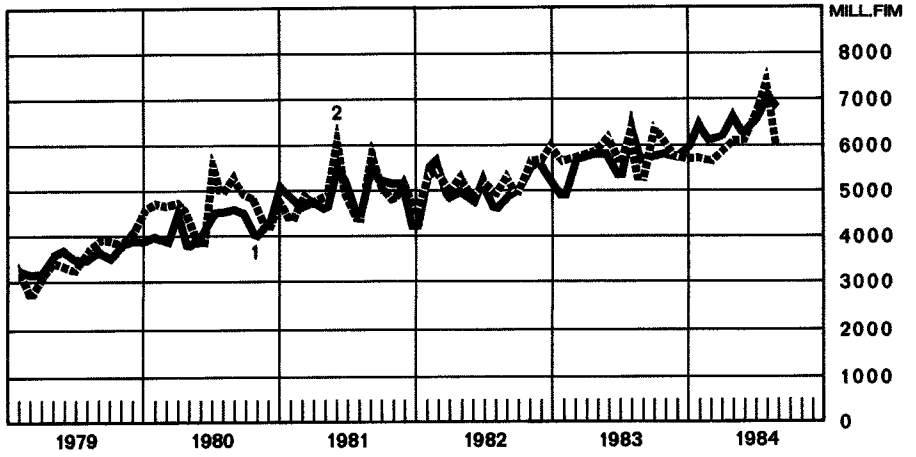
Data Processing

FOREIGN TRADE, 1979 - 84

1. Exports f.o.b.

2. Imports c.i.f.

Seasonally adjusted monthly figures



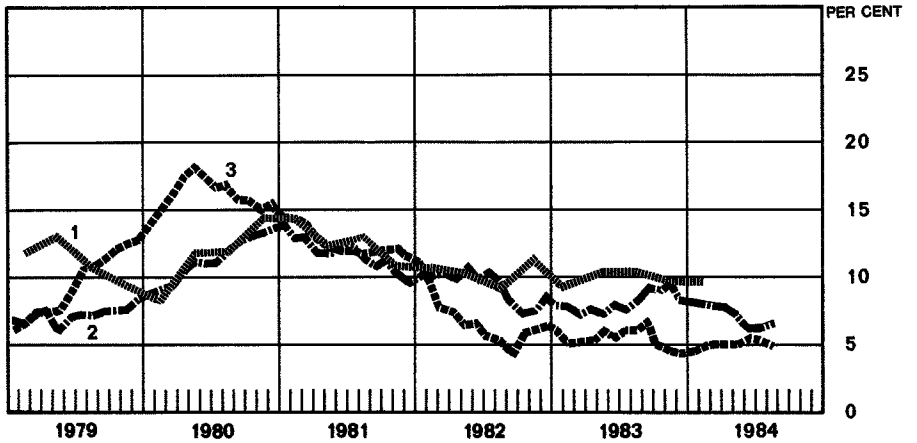
PRICES AND WAGES, 1979 - 84

1. Index of wage and salary earnings 1975 = 100, quarterly figures

2. Consumer price index 1981 = 100, monthly figures

3. Basic price index for domestic supply 1980 = 100, monthly figures

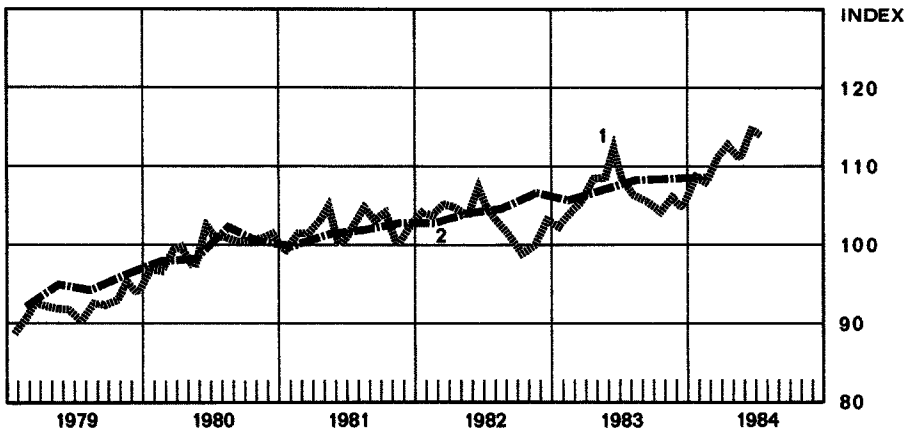
Percentage change on previous year



PRODUCTION, 1979 - 84

1. Total index of industrial production 1980 = 100, seasonally adjusted monthly figures

2. Volume index of gross domestic product 1980 = 100, seasonally adjusted quarterly figures



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