



# BANK OF FINLAND

## *Monthly Bulletin*

### Investment activity

The impact of the rate of interest and other financial factors on investment in Finland

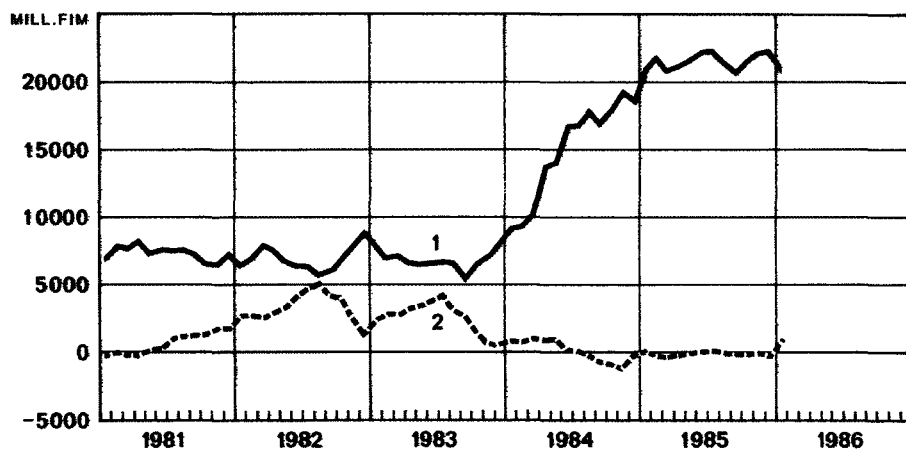
Monetary and foreign exchange policy measures from February 1985 to January 1986

Protocol on the exchange of goods between Finland and the U.S.S.R. for 1986

Board of Management of the Bank of Finland

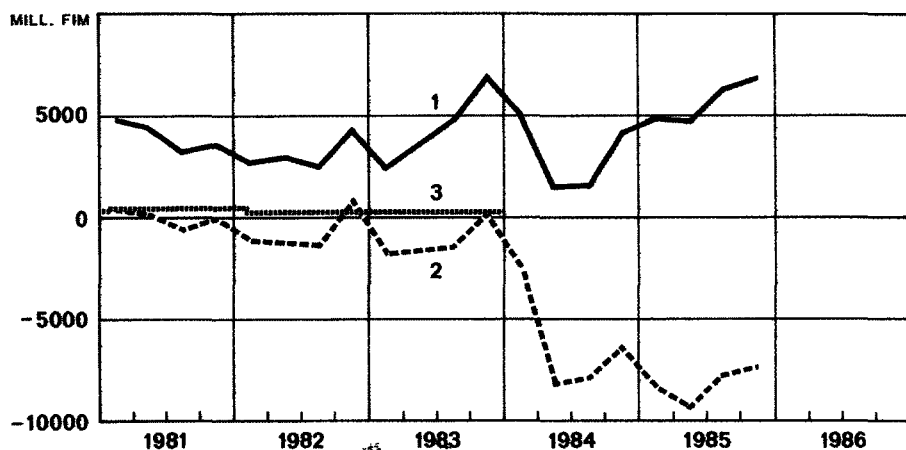
Publications of the Bank of Finland

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



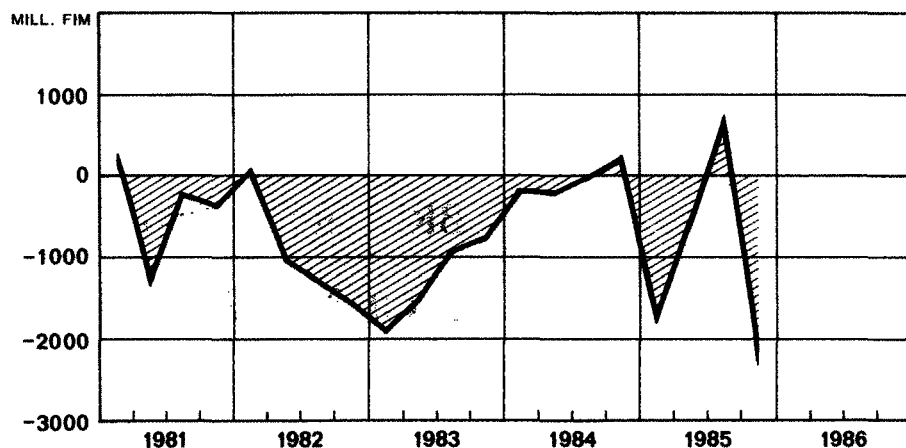
- 1. Gold and convertible currencies
- 2. Tied currencies

## **DEPOSIT BANKS' CENTRAL BANK POSITION, 1981-86**



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

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



Seasonally adjusted quarterly figures

# INVESTMENT ACTIVITY

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In 1985, Finland once again experienced real GDP growth of 3 per cent but a weaker trend became established in some sectors of the economy in the course of the year. With exports slowing down, the continuation of economic growth came to rely increasingly on domestic demand. During the first half of the year, the growth of total output was boosted by a revival in investment activity. Thereafter, performance was somewhat weaker, and preliminary estimates of the volume of both private and total fixed investment in 1985 point to an increase in the order of 3 per cent. Growth derived mainly from volume outlays in the manufacturing and energy sectors. In the rest of the corporate sector investment maintained the level of the previous year whereas residential construction declined slightly.

Fluctuations in total investment and in its various components have been relatively mild during the first half of the current decade. At the same time, investment has grown, on average, at a slightly slower rate than GDP, so that the investment ratio has gradually fallen by some 2-3 percentage points to 25 per cent. Underlying this fall is a declining trend in both residential construction and stockbuilding. The share of corporate fixed investment in GDP has remained steady at 10-11 per cent.

According to the Bank of Finland investment inquiry carried out in November, the volume of industrial<sup>1</sup> fixed investment grew by 14 per cent last year. Investment growth was fastest in energy production, but it also accelerated in the manufacturing industries to reach 10 per cent. In the forest industries, investment growth has progressed at a fairly rapid pace for

## ANNUAL PERCENTAGE CHANGES IN THE VOLUME OF INDUSTRIAL FIXED INVESTMENT IN 1984 AND 1985 AND PLANNED CHANGES FOR 1986, ACCORDING TO THE BANK OF FINLAND INVESTMENT INQUIRY OF NOVEMBER 1985

	1984	1985	1986
By industrial sector			
Forest industries	14	11	-17
Metal and engineering industries	8	16	19
Other manufacturing	-6	4	8
Total manufacturing	3	10	3
Electricity, gas and water	-9	27	0
Total industry	0	14	2
By type of investment			
Building investment	-9	9	-5
Investment in machinery and equipment	4	15	5

two years and last year investment activity also picked up in the metal and engineering industries as well as in other manufacturing.

Investment has been most buoyant among large and medium-sized companies. State-owned companies reported an increase of nearly 60 per cent in volume outlays whereas in smaller firms the volume of investment declined slightly. The growth of investment was centered on machinery and equipment, although the results of the inquiry also indicate a substantial increase of 9 per cent in the volume of industrial construction.

In the private service sector, investment activity was sustained by the construction of commercial and office buildings. Construction of commercial buildings has been continuously on the rise and last autumn building permits reached a record level, suggesting this trend will be maintained in the future.

Preliminary estimates indicate that the volume of residential investment declined by 1-2 per cent last year. Restraining the demand for

<sup>1</sup> In addition to manufacturing industries, industry includes mining and quarrying as well as electricity, gas and water supply.

dwellings has been the introduction of attractive new financial assets for households, the high real rates of interest and a waning in expectations of further rises in the prices of dwellings. Since, however, the number of dwellings completed almost reached the previous year's level, selling periods for new dwellings lengthened and the stock of unsold dwellings accumulated during the year. Reflecting this development, the number of housing starts in 1985 fell to 45-46 000, some 7-8 000 less than in the preceding year.

The response of both industrial and total investment to export growth and rising income was delayed and rather sluggish in comparison with most previous upswings. In part, this was attributable to counter-cyclical economic policy. Tax incentives made the accumulation of investment reserves attractive and, spurred by good profitability during the accounting year 1984, firms increased their investment reserves substantially last year as well. In the course of the year, investment deposits at the Bank of Finland rose from some FIM 2 billion to nearly FIM 4 billion. The level of interest rates was also quite high and the cost of new long-term finance did not start to fall until the autumn. The effect of high interest rates on investment was reinforced by a substantial slowdown in the rate of inflation, together with the consequent weakening of inflationary expectations.

Changes in the composition of firms' long-term expenditure have also contributed to the muted investment response. Outlays on research and development have grown faster than conventional types of investment, estimates pointing to an annual volume growth of some 10-20 per cent during recent years. Furthermore, direct investment abroad has increased considerably. Since technological change and the internationalization of com-

panies' operations can be expected to advance at an equally fast rate in the future, the share of conventional fixed investment in firms' total expenditure is likely to shrink further.

In the face of deteriorating cyclical conditions some steps have been taken to relieve the relatively tight stance of economic policy. Investment reserves made by companies for accounting periods ending in 1983 or earlier were released by the Government from the beginning of October last year. The Bank of Finland lowered the call money rate gradually during the year from 14.8 to 11.7 per cent. The base rate was lowered by 0.5 percentage point from the beginning of February last year and by an equivalent amount from the beginning of January this year. The main impact of these policy measures is expected to fall on investment in 1986 and later.

The deteriorating cyclical prospects may also have led firms to exercise some caution in their investment decisions. Even so, the results of the November investment inquiry suggest that industrial investment will continue to expand in 1986. The total volume of planned investment exceeds last year's level by 2 per cent. Investment growth is anticipated to continue in the metal and engineering industries as well as in the industry group 'other manufacturing'. In recent years, firms' investment plans for the next year have been fairly accurate and thus the rate of growth in industrial investment can be expected to decelerate. In the service sector, the favourable financial position of firms, together with the release of investment reserves, may induce some investment growth whereas residential investment is expected to decline further.

January 28, 1986

	1985		1986			
	Jan. 31	Dec. 31	Jan. 8	Jan. 15	Jan. 23	Jan. 31
<b>Assets</b>						
Gold and foreign currency claims	21 460	22 650	22 173	23 297	23 332	22 383
Gold	1 732	2 081	2 081	2 081	2 081	2 081
Special drawing rights	944	931	926	930	933	930
IMF reserve tranche	866	775	771	775	776	786
Convertible currencies	17 491	18 608	18 139	18 312	18 172	17 388
Tied currencies	427	255	256	1 199	1 370	1 198
Other foreign claims	2 835	2 645	2 645	2 645	2 645	2 633
Markka subscription to Finland's IMF quota	2 835	2 645	2 645	2 645	2 645	2 633
Claims on financial institutions	6 430	9 256	9 669	9 984	8 609	5 601
Banks' cheque accounts	116	—	—	—	—	—
Call money market advances	2 868	5 219	5 754	6 194	4 737	1 852
Till-money credits	1 382	1 925	1 767	1 650	1 688	1 558
Bonds	2 011	2 065	2 094	2 094	2 114	2 119
Other claims on financial institutions	53	47	54	46	70	72
Claims on the public sector	1 952	1 023	1 021	1 023	1 021	1 036
Government promissory notes	1 000	—	—	—	—	—
Bonds	130	118	117	118	118	132
Total coinage	814	891	892	893	895	896
Other claims on the public sector	8	14	12	12	8	8
Claims on corporations	4 958	4 679	4 680	4 696	4 745	4 805
Financing of exports	1 836	1 601	1 599	1 622	1 665	1 673
Financing of domestic deliveries	2 929	2 924	2 929	2 923	2 929	2 981
Bonds	110	81	79	79	79	79
Other claims on corporations	83	73	73	72	72	72
Other assets	141	146	145	146	147	147
Total	37 776	40 399	40 333	41 791	40 499	36 605
<b>Liabilities</b>						
Foreign currency liabilities	514	576	117	81	59	143
Convertible accounts	53	36	55	54	36	35
Tied currencies	461	540	62	27	23	108
Other foreign liabilities	3 759	3 494	3 489	3 494	3 496	3 482
IMF markka accounts	2 835	2 645	2 645	2 645	2 645	2 634
Allocations of special drawing rights	924	849	844	849	851	848
Notes and coin in circulation	6 881	8 072	7 636	7 495	7 431	7 455
Notes	6 197	7 304	6 877	6 743	6 682	6 710
Coin	684	768	759	752	749	745
Liabilities to financial institutions	15 362	12 153	13 685	14 457	13 073	12 299
Banks' cheque accounts	6	0	0	0	0	0
Call money market deposits	5 738	1 205	2 733	3 496	2 118	1 734
Cash reserve deposits	8 799	10 222	10 222	10 222	10 222	9 828
Capital import deposits	754	639	636	642	642	631
Other liabilities to financial institutions	65	87	94	97	91	106
Liabilities to the public sector	1 285	4 300	3 704	4 204	4 214	1 014
Cheque accounts	1	0	0	1	1	1
Government deposit account	1 200	4 300	3 700	4 200	4 200	1 000
Export deposits	84	—	—	—	—	—
Capital import deposits	—	—	—	—	—	—
Other liabilities to the public sector	0	0	4	3	13	13
Liabilities to corporations	2 825	4 267	4 268	4 492	4 621	4 585
Deposits for investment and ship purchase	2 144	3 841	3 837	3 822	3 819	3 832
Capital import deposits	676	424	429	666	789	750
Other liabilities to corporations	5	2	2	4	13	3
Other liabilities	15	14	19	15	14	15
Valuation account and reserves	840	1 639	1 531	1 669	1 707	1 728
SITRA's capital	400	400	400	400	400	400
Capital accounts	5 895	5 484	5 484	5 484	5 484	5 484
Primary capital	5 000	5 000	5 000	5 000	5 000	5 000
Reserve fund	764	764	484	484	484	484
Undisposed profits	126	—	—	—	—	—
Net earnings	5	-280	—	—	—	—
Total	37 776	40 399	40 333	41 791	40 499	36 605

## BANK OF FINLAND

Mill. FIM

End of year or month	Foreign sector						Public sector			
	Gold, SDRs, IMF reserve tranche	Convert- ible cur- rencies, net	Total convert- ible reserves (1 + 2)	Tied cur- rencies, net	Other claims, net	Net claims (3 to 5)	Claims	Certifi- cates of deposit and depos- it account	Other liabili- ties	Net liabili- ties (8 - 7 + 9)
	1	2	3	4	5	6	7	8	9	10
1982	2 444	6 561	9 005	1 525	-1 447	9 083	1 040	1 700	50	710
1983	2 360	5 835	8 195	550	-794	7 951	2 178	3 000	0	822
1984	3 527	15 303	18 830	-337	-917	17 576	1 951	4 200	77	2 326
1985	3 787	18 572	22 359	-285	-849	21 225	1 023	4 300	0	3 277
1985										
Jan.	3 542	17 438	20 980	-34	-924	20 022	1 952	1 200	85	-667
Feb.	3 631	18 254	21 885	-368	-965	20 552	1 958	2 800	93	935
March	3 540	17 366	20 906	-502	-910	19 494	2 021	1 400	100	-521
April	3 565	17 639	21 204	-321	-917	19 966	1 808	1 000	510	-298
May	3 537	18 128	21 665	62	-907	20 820	1 819	1 100	100	-619
June	3 547	18 743	22 290	253	-901	21 642	1 817	800	58	-959
July	3 498	18 842	22 340	269	-889	21 720	1 580	1 600	58	78
Aug.	3 468	18 032	21 500	-159	-873	20 468	1 575	1 500	58	-17
Sept.	3 463	17 391	20 854	-269	-865	19 720	1 297	1 500	58	261
Oct.	3 462	18 174	21 636	-283	-859	20 494	1 269	1 500	59	290
Nov.	3 447	18 811	22 258	-166	-853	21 239	1 320	4 400	0	3 080
Dec.	3 787	18 572	22 359	-285	-849	21 225	1 023	4 300	0	3 277
1986										
Jan.	3 797	17 353	21 150	1 090	-849	21 391	1 036	1 000	14	-22

## OFFICIAL FOREIGN EXCHANGE RESERVES

Mill. FIM

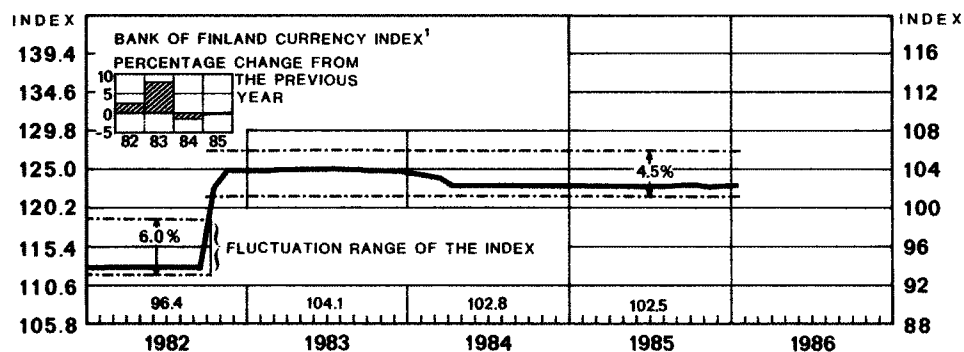
	Dec. 31, 1984	Oct. 31, 1985	Nov. 29, 1985	Dec. 31, 1985	Jan. 31, 1986
Gold	1 732	1 732	1 732	2 081	2 081
SDRs	936	925	932	931	930
IMF reserve tranche	859	805	783	775	786
Convertible currencies, net	15 303	18 174	18 811	18 572	21 150
Total convertible reserves, net	18 830	21 636	22 258	22 359	24 947
Tied currencies, net	-337	-283	-166	-285	1 090
Total reserves, net	18 493	21 353	22 092	22 074	26 037

## Domestic financial sector

## Corporate sector

End of year or month	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)	Notes and coin in circulation
	1	2	3	4	5	6	7	8	9	10	11
1982	889	163	3 126	1 470	3 132	-1 042	618	4 302	999	3 303	6 062
1983	942	443	5 785	610	5 039	-1 555	3 076	4 529	1 282	3 247	6 574
1984	1 563	383	5 018	2 216	8 696	-1 235	-2 713	4 646	2 614	2 032	7 442
1985	1 925	0	5 219	1 205	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1985											
Jan.	1 382	110	2 868	5 738	8 799	-1 245	-8 932	4 765	2 632	2 133	6 881
Feb.	1 364	26	4 816	5 184	9 241	-1 197	-7 022	4 729	2 921	1 808	6 929
March	1 273	1	4 599	5 335	9 452	-1 173	-7 741	4 751	3 085	1 666	6 972
April	1 435	29	4 558	5 199	9 502	-1 170	-7 509	4 684	3 243	1 441	7 173
May	1 373	47	3 611	4 785	9 577	-1 175	-8 156	4 744	3 237	1 507	7 322
June	1 384	0	3 845	5 120	9 686	-1 163	-8 414	4 754	3 899	855	7 553
July	1 533	64	4 391	4 981	9 878	-1 203	-7 668	4 758	4 223	535	7 376
Aug.	1 371	52	5 553	4 692	9 928	-1 212	-6 432	4 734	4 040	694	7 342
Sept.	1 617	182	7 396	5 940	9 983	-1 352	-5 376	4 660	4 094	566	7 352
Oct.	1 567	-28	5 950	5 381	10 019	-1 384	-6 527	4 789	4 111	678	7 322
Nov.	1 450	-8	5 901	3 881	10 097	-1 992	-4 643	4 707	4 094	613	7 442
Dec.	1 925	0	5 219	1 205	10 222	-1 386	-2 897	4 525	4 113	412	8 072
1986											
Jan.	1 558	0	1 852	1 734	9 828	-1 454	-6 698	4 654	4 434	220	7 455

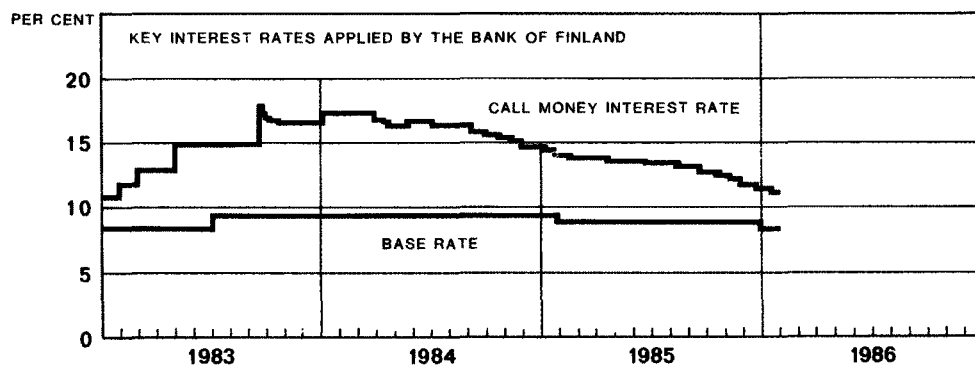
<sup>1</sup> The left-hand scale depicts movements in the external value of the markka under the index in use until December 31, 1983 (1974 = 100), and the right-hand scale movements in the external value of the markka under the revised index introduced on January 1, 1984 (1982 = 100).



# MONETARY POLICY INDICATORS

Average for period	Gross central bank debt of the deposit banks mill. FIM	Net central bank debt of the deposit banks mill. FIM	Cash reserve deposits of the deposit banks mill. FIM	Cash reserve requirement %	Call money credit extended by the Bank of Finland	Call money interest rate %	Average cost of gross central bank debt %	Base rate %	Average lending rate of the commercial banks <sup>1</sup> %
	1	2	3	4	5	6	7	8	9
1981	4 095	-33	2 795	3.5	2 161	11.48	11.61	9.25	9.84
1982	3 201	-783	2 778	3.1	1 571	11.64	11.99	8.81	9.33
1983	4 539	-1 213	4 345	4.3	2 724	15.37	15.14	9.00	9.56
1984	3 176	-6 365	6 325	5.4	-39	16.53	16.53	9.50	10.49
1985	5 812	-8 293	9 578	5.6	1 285	13.37	13.37	9.04	10.41
1984									
Nov.	4 181	-6 888	7 410	5.6	522	15.48	15.48	9.50	10.63
Dec.	5 650	-5 999	8 051	5.6	2 052	15.07	15.07	9.50	10.68
1985									
Jan.	4 713	-7 902	8 700	5.6	798	14.57	14.61	9.50	10.69
Feb.	4 414	-9 319	8 815	5.6	-504	14.18	14.18	9.00	10.30
March	5 727	-8 143	9 262	5.6	1 119	14.00	14.00	9.00	10.36
April	5 483	-8 902	9 453	5.6	552	13.96	13.96	9.00	10.38
May	4 691	-9 268	9 504	5.6	236	13.80	13.80	9.00	10.37
June	4 337	-10 150	9 588	5.6	-562	13.77	13.77	9.00	10.37
July	5 444	-8 711	9 695	5.6	984	13.60	13.60	9.00	10.40
Aug.	6 153	-7 843	9 881	5.6	2 038	13.43	13.43	9.00	10.43
Sept.	7 771	-6 928	9 930	5.6	3 002	13.11	13.11	9.00	10.42
Oct.	7 516	-7 079	9 982	5.6	2 904	12.78	12.78	9.00	10.43
Nov.	6 407	-8 485	10 024	5.6	1 539	12.37	12.37	9.00	10.40
Dec.	7 084	-6 784	10 101	5.6	3 317	11.96	11.96	9.00	10.37
1986									
Jan.	5 280	-7 742	10 210	5.3	2 467	11.64	11.64	8.50	..

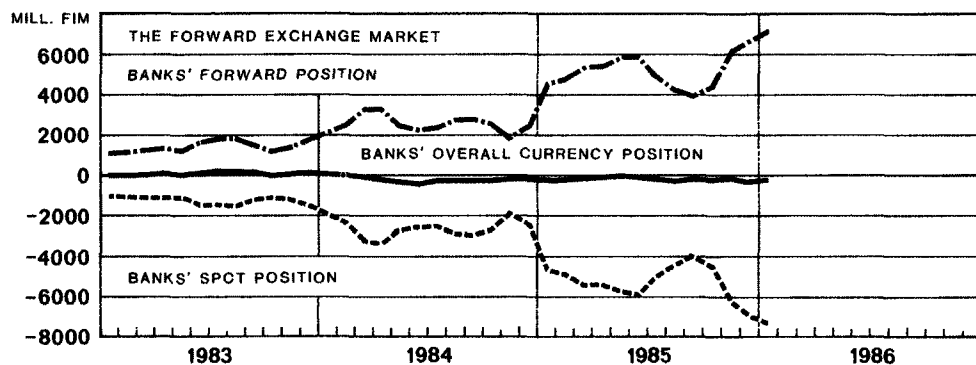
<sup>1</sup> End of period.





# FORWARD EXCHANGE MARKETS IN FINLAND

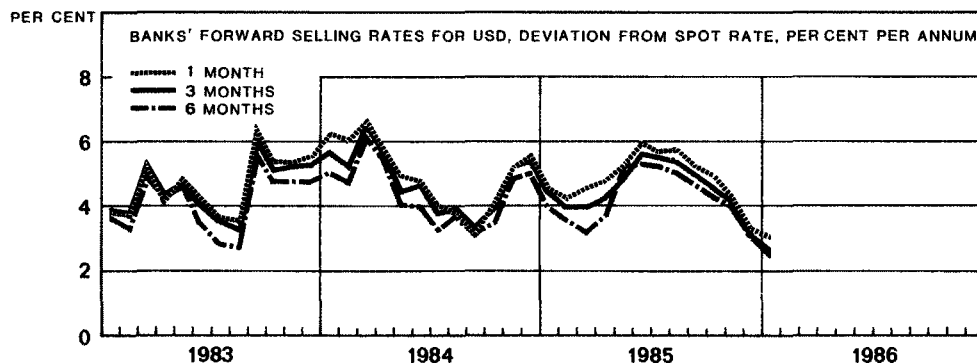
Period	Banks' forward positions in mill. FIM with						Banks' forward selling rates for USD		
	Domestic firms			Foreign banks	Bank of Finland	Overall	Deviation from spot rate, per cent per annum		
	Assets	Liabilities	Net	Net	Net	Net	1 month	3 months	6 months
	1	2	3	4	5	6	7	8	9
1984	22 921	1 394	21 527	2 002	-19 962	3 746	5.6	5.5	5.1
1985	16 982	1 733	15 249	708	-9 005	6 876	3.3	3.2	3.1
1984									
Aug.	20 050	1 354	18 696	2 557	-17 217	4 089	3.8	4.0	3.7
Sept.	20 548	1 679	18 869	2 406	-18 362	3 056	3.2	3.4	3.2
Oct.	22 267	1 741	20 526	1 914	-19 419	3 138	4.2	4.0	3.5
Nov.	22 383	1 786	20 597	1 790	-20 139	2 460	5.3	5.2	4.9
Dec.	22 921	1 394	21 527	2 002	-19 962	3 746	5.6	5.5	5.1
1985									
Jan.	23 207	1 450	21 757	2 949	-19 394	5 420	4.5	4.4	4.1
Feb.	22 602	1 592	21 010	2 971	-18 323	5 186	4.3	4.0	3.6
March	23 344	2 247	21 097	1 048	-16 848	5 575	4.6	4.0	3.3
April	22 987	2 219	20 769	1 640	-16 768	5 753	4.8	4.3	3.8
May	22 085	2 316	19 769	1 708	-15 704	5 865	5.3	4.9	4.5
June	21 221	2 259	18 962	1 941	-15 352	5 478	6.0	5.7	5.4
July	19 534	2 250	17 284	2 418	-14 224	5 558	5.7	5.6	5.3
Aug.	18 271	2 727	15 544	1 083	-12 493	4 163	5.8	5.4	5.1
Sept.	17 755	2 889	14 866	92	-11 101	3 811	5.3	5.0	4.7
Oct.	17 666	2 795	14 871	805	-9 813	5 986	5.0	4.6	4.3
Nov.	17 510	2 014	15 496	1 200	-10 032	6 702	4.3	4.1	4.0
Dec.	16 982	1 733	15 249	708	-9 005	6 876	3.3	3.2	3.1



# FOREIGN EXCHANGE RATES

Average selling rates for foreign exchange, FiM

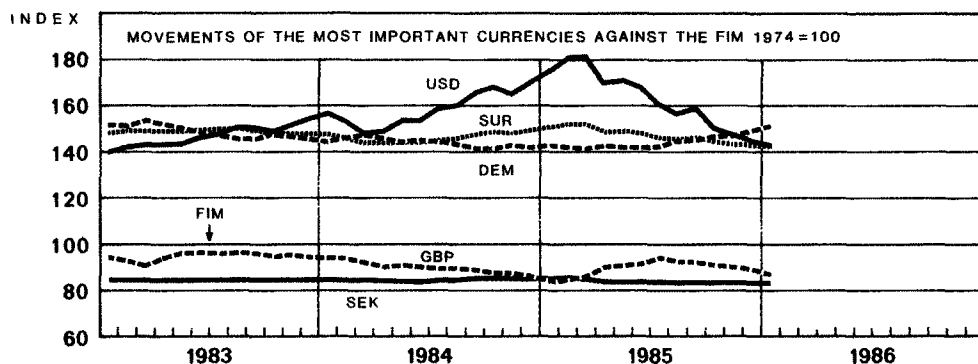
Period	New York 1 US \$ USD	Montreal 1 C \$ CAD	London 1 £ GBP	Dublin 1 Ir£ IEP	Stockholm 100 Skr SEK	Oslo 100 Nkr NOK	Copenhagen 100 Dkr DKK	Frankfurt 100 DM DEM	Amsterdam 100 Hfl NLG	Brussels 100 FB BEC	BEI
	1	2	3	4	5	6	7	8	9	10	11
1981	4.315	3.602	8.731	6.976	85.74	75.54	60.96	191.31	173.43	11.688	11.095
1982	4.820	3.913	8.423	6.854	77.03	74.84	57.93	198.76	180.66	10.584	9.859
1983	5.570	4.524	8.456	6.957	72.75	76.44	61.07	218.61	195.66	10.934	10.742
1984	6.010	4.645	8.023	6.533	72.77	73.84	58.16	211.65	187.72	10.428	10.274
1985	6.206	4.554	8.000	6.590	72.22	72.31	58.71	211.42	187.45	10.483	10.421
1984											
Dec.	6.458	4.896	7.686	6.512	73.07	72.10	58.16	208.46	184.72	10.379	10.341
1985											
Jan.	6.640	5.023	7.510	6.548	73.38	72.53	58.75	209.90	185.81	10.489	10.455
Feb.	6.853	5.078	7.525	6.496	73.69	72.64	58.28	208.47	184.09	10.385	10.342
March	6.861	4.962	7.688	6.486	72.97	72.56	58.11	207.80	183.82	10.341	10.286
April	6.445	4.732	8.028	6.562	72.05	72.52	58.32	209.55	185.32	10.405	10.354
May	6.477	4.716	8.091	6.533	72.14	72.47	58.00	208.44	184.60	10.365	10.319
June	6.371	4.665	8.172	6.535	72.10	72.40	58.06	208.37	184.78	10.347	10.298
July	6.099	4.516	8.402	6.570	71.95	72.29	58.26	209.37	185.97	10.398	10.316
Aug.	5.942	4.387	8.253	6.653	71.70	72.30	58.93	213.31	189.63	10.547	10.425
Sept.	6.025	4.404	8.232	6.611	71.89	72.39	58.60	212.50	188.92	10.510	10.431
Oct.	5.690	4.168	8.106	6.676	71.63	72.10	59.41	215.47	191.11	10.633	10.556
Nov.	5.579	4.060	8.042	6.668	71.60	71.66	59.53	215.40	191.26	10.654	10.608
Dec.	5.487	3.941	7.952	6.737	71.57	71.85	60.23	218.51	194.03	10.722	10.666
1986											
Jan.	5.419	3.860	7.747	6.772	71.49	71.90	60.64	222.15	197.11	10.875	10.733



Average selling rates for foreign exchange. FIM

Zurich 100 Sfr CHF	Paris 100 FF FRF	Rome 100 Lit ITL	Vienna 100 OS ATS	Lisbon 100 Esc PTE	Reykjavik 100 lkr ISK	Madrid 100 Ptas ESB	Tokyo 100 ¥ JPY	Moscow 1 Cl Rbl SUR	special drawing right SDR	Currency index <sup>1</sup>
12	13	14	15	16	17	18	19	20	21	22
220.34	79.92	0.385	27.17	7.17	60.35	4.72	1.967	5.986	5.071 40	113.1
237.79	73.65	0.358	28.31	6.13	40.79	4.41	1.943	6.624	5.305 63	115.9
265.70	73.53	0.369	31.11	5.14	23.25	3.91	2.351	7.491	5.943 25	125.1
256.42	69.07	0.344	30.13	4.14	19.39	3.75	2.534	7.357	6.147 39	102.8
253.60	69.40	0.327	30.12	3.67	15.20	3.66	2.610	7.419	6.278 77	102.5
252.66	68.18	0.340	29.71	3.92	16.38	3.77	2.609	7.516	6.366 57	102.5
250.36	68.70	0.343	29.92	3.90	16.54	3.81	2.619	7.582	6.470 31	102.5
245.43	68.34	0.339	29.70	3.83	16.72	3.79	2.636	7.652	6.582 22	102.5
244.48	68.14	0.331	29.61	3.81	16.62	3.76	2.660	7.654	6.601 66	102.5
249.89	68.78	0.329	29.85	3.77	16.02	3.76	2.568	7.487	6.380 70	102.5
247.90	68.50	0.328	29.68	3.71	15.73	3.71	2.578	7.496	6.399 94	102.5
248.20	68.49	0.328	29.67	3.69	15.52	3.67	2.564	7.455	6.344 84	102.4
252.74	68.98	0.323	29.82	3.64	15.07	3.64	2.529	7.359	6.211 68	102.5
259.72	69.98	0.319	30.40	3.63	14.77	3.64	2.509	7.319	6.131 58	102.5
258.26	69.77	0.318	30.25	3.57	14.57	3.59	2.550	7.366	6.183 31	102.6
262.81	70.80	0.320	30.69	3.52	13.85	3.54	2.653	7.262	6.051 77	102.6
262.36	70.80	0.320	30.66	3.50	13.63	3.51	2.740	7.209	6.016 47	102.4
261.01	71.57	0.322	31.12	3.48	13.36	3.54	2.710	7.183	5.971 01	102.5
262.42	72.55	0.327	31.63	3.49	13.03	3.56	2.712	7.164	5.940 24	102.6

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



## DEPOSITS BY THE PUBLIC

Mill. FIM

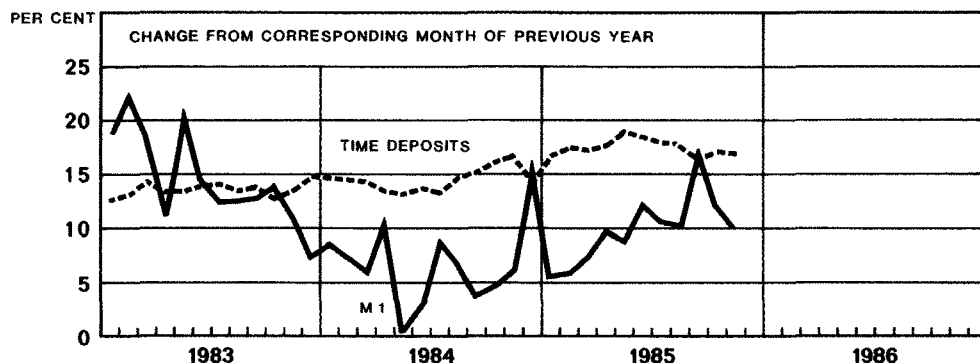
End of year and month	Demand deposits				Time deposits					Total (4 + 9)
	Commer- cial banks	Savings banks & Co-op. banks	Posti- pankki	All deposit banks (1 to 3)	Commercial banks	Savings banks	Co-op. banks	Posti- pankki	All deposit banks (5 to 8)	
	1	2	3	4	5	6	7	8	9	10
1981	5 791	2 879	2 952	11 622	26 094	22 937	18 598	7 448	75 077	86 699
1982	7 155	3 874	3 049	14 078	29 465	25 883	21 040	8 665	85 054	99 132
1983	7 056	4 567	3 676	15 300	34 302	29 273	24 175	9 938	97 689	112 988
1984*	8 470	5 268	4 463	18 201	39 354	33 333	27 900	11 266	111 852	130 053

1984\*

Oct.	7 422	4 522	4 621	16 566	37 457	32 255	26 919	10 710	107 341	123 907
Nov.	7 532	4 315	3 876	15 723	38 240	32 459	27 193	10 815	108 706	124 430
Dec.	8 470	5 268	4 463	18 201	39 354	33 333	27 900	11 266	111 852	130 053

1985\*

Jan.	7 742	4 442	4 655	16 839	40 372	34 040	28 637	11 762	114 811	131 650
Feb.	7 340	4 255	4 445	16 041	41 866	34 729	29 275	11 806	117 677	133 717
March	6 579	4 273	4 663	15 515	42 639	34 658	29 180	11 692	118 170	133 685
April	7 660	4 505	4 786	16 950	42 772	34 904	29 368	11 726	118 770	135 720
May	7 463	4 733	4 364	16 559	43 804	35 347	29 838	11 893	120 881	137 440
June	7 621	4 755	5 168	17 544	44 443	36 047	30 500	11 768	122 758	140 302
July	7 927	4 874	5 283	18 084	44 294	36 219	30 455	11 799	122 767	140 851
Aug.	7 222	4 917	5 731	17 871	44 796	36 551	30 741	12 083	124 171	142 041
Sept.	8 081	5 072	6 243	19 397	44 770	36 469	30 658	11 973	123 870	143 267
Oct.	8 281	5 194	5 547	19 022	45 896	36 825	30 892	12 366	125 979	145 001



# ADVANCES TO THE PUBLIC – MONEY SUPPLY

Mill. FIM

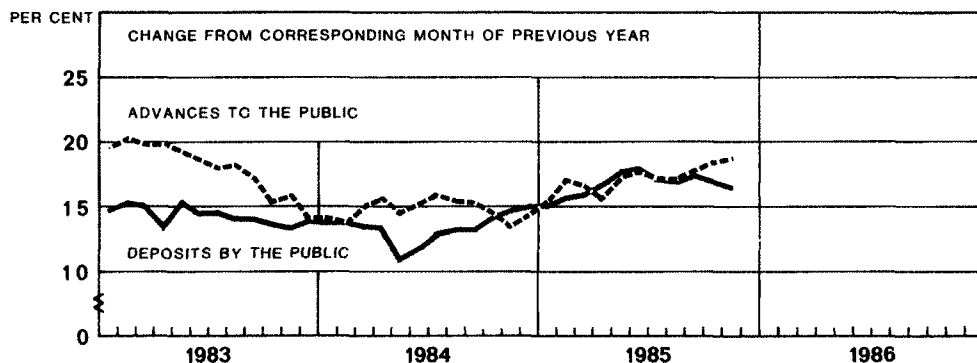
End of year and month	Advances granted by				Types of advances				Money Supply	
	Commercial banks	Savings banks	Co-op. banks	Posti-pankki	Loans & bills in domestic currency	Cheque credits	Domestic credits in foreign currency	Total (1 to 7)	M <sub>1</sub>	M <sub>1</sub> + Quasi-Money
	1	2	3	4	5	6	7	8	9	10
1981	40 461	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	17 253	126 231	21 427	121 906
1984*	65 965	32 705	31 164	14 687	118 924	5 233	20 363	144 520	24 945	141 658

1984\*

Oct.	64 242	32 223	30 465	14 536	116 238	5 398	19 829	141 466	22 832	134 162
Nov.	64 911	32 478	30 810	14 688	117 444	5 697	19 746	142 887	22 426	135 800
Dec.	65 965	32 705	31 164	14 687	118 924	5 233	20 363	144 520	24 945	141 658

1985\*

Jan.	68 756	33 087	31 445	15 369	120 263	6 014	22 380	148 658	23 357	143 069
Feb.	71 757	33 384	31 707	15 328	121 848	6 099	24 228	152 175	22 617	145 403
March	72 453	33 564	31 988	15 565	123 188	6 305	24 077	153 570	22 152	145 638
April	73 567	33 860	32 184	15 484	124 351	6 320	24 425	155 095	23 595	147 783
May	75 015	34 172	32 621	15 883	126 022	6 365	25 304	157 691	23 423	149 700
June	77 246	34 390	32 983	15 959	127 596	6 279	26 703	160 579	24 750	153 455
July	77 104	34 848	33 378	16 074	128 886	6 242	26 275	161 403	24 902	154 118
Aug.	77 677	35 276	33 824	16 082	130 846	6 333	25 680	162 859	24 783	155 013
Sept.	79 367	35 764	34 411	16 376	133 113	6 637	26 167	165 917	26 092	156 195
Oct.	80 304	36 141	34 826	16 442	134 924	6 333	26 456	167 712	25 607	158 054



# STATE FINANCES

Mill. FIM

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

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

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

# FOREIGN TRADE

Mill. FIM

Value, mill. FIM

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

1985\*

Jan.	6 905	7 086	-181
Feb.	6 586	4 787	+1 799
March	6 616	6 945	-329
April	7 090	7 074	-16
May	8 569	7 153	+1 416
June	6 842	7 063	-221
July	7 107	6 734	+373
Aug.	6 659	5 788	+871
Sept.	6 901	7 020	-119
Oct.	7 467	8 155	-688
Nov.	6 727	6 636	+91
Dec.	6 552	6 965	-413

Jan.-Dec.

1984	80 904	74 682	+6 222
1985*	84 022	81 406	+2 616

Indices of exports and imports  
1980 = 100

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

1983

Oct.-Dec.	115	108	128	128	100
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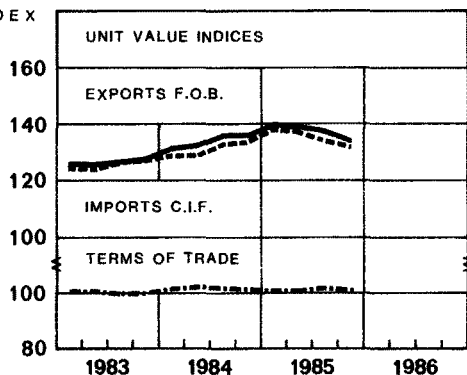
1984

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

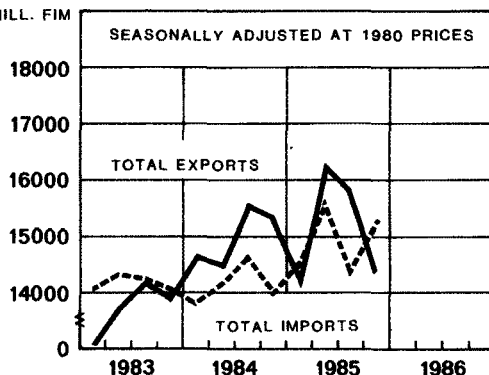
1985\*

Jan.-March	108	93	140	138	101
Apr.-June	121	106	139	137	101
July-Sept.	114	100	138	134	102
Oct.-Dec.	117	113	134	132	102

INDEX



MILL. FIM



## FOREIGN TRADE BY MAIN GROUPS

Mill. FIM

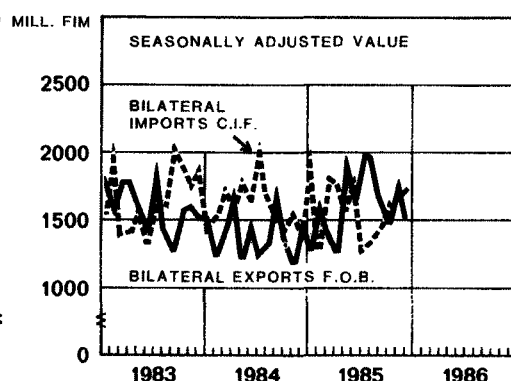
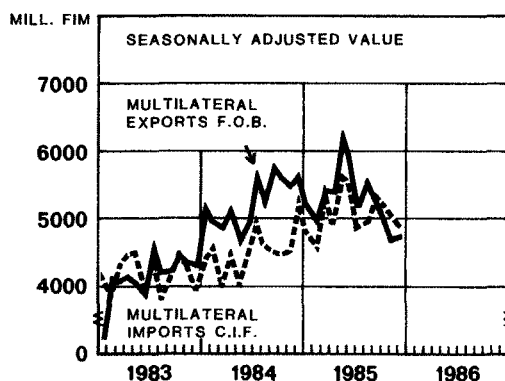
Period	Exports, f.o.b.					Imports, c.i.f.				
	Agricultural and other primary products	Wood industry products	Paper industry products	Metal, engineering industry products	Other goods	Raw materials and intermediate goods	Fuels and lubricants	Finished goods		Other goods
								Investment goods	Consumer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

1985\*

Jan.	282	622	2 050	1 834	2 117	4 740	274	878	1 013	181
Feb.	393	482	1 991	1 860	1 860	2 740	218	788	1 025	16
March	295	465	2 157	1 586	2 113	4 252	248	1 082	1 214	149
April	287	590	2 221	1 885	2 107	4 377	436	1 049	1 203	9
May	292	620	2 352	2 869	2 436	4 776	395	928	1 047	7
June	212	680	1 855	2 008	2 088	4 528	601	1 020	911	4
July	152	504	2 215	2 265	1 972	4 185	637	885	997	30
Aug.	142	507	2 251	1 830	1 929	3 435	491	833	1 020	9
Sept.	155	503	2 094	2 022	2 127	4 435	458	937	1 184	6
Oct.	185	629	2 165	1 963	2 526	4 987	742	1 169	1 251	5
Nov.	155	588	1 888	2 175	1 921	3 892	556	1 074	1 105	9
Dec.	128	538	1 807	2 104	1 974	4 498	436	1 027	996	8

Jan.—Dec.

1984	2 865	7 145	23 573	22 998	24 323	47 028	5 034	10 993	11 454	173
1985*	2 678	6 728	25 046	24 401	25 169	50 845	5 492	11 671	12 966	433





## FOREIGN TRADE BY COUNTRIES

Mill. FIM

Area and country	Exports, f.o.b.				Imports, c.i.f.			
	January–December				January–December			
	1984*		1985*		1984*		1985*	
	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM	%	Mill. FIM
<b>OECD countries in Europe</b>	57.9	46 868	57.1	47 950	54.5	40 720	56.0	45 601
Austria	0.7	593	0.7	597	1.1	838	1.2	961
Belgium and Luxembourg	1.5	1 194	1.5	1 267	1.9	1 445	2.0	1 632
Denmark	4.1	3 298	4.0	3 403	2.4	1 821	2.5	2 036
France	3.9	3 188	3.9	3 299	3.2	2 363	3.4	2 764
Federal Republic of Germany	9.6	7 758	9.3	7 781	13.9	10 386	14.9	12 165
Italy	2.1	1 716	2.0	1 688	3.1	2 348	3.4	2 755
Netherlands	3.5	2 866	3.3	2 781	2.7	2 047	2.9	2 400
Norway	4.5	3 663	4.2	3 513	2.1	1 557	2.4	1 956
Portugal	0.2	171	0.3	258	0.7	487	0.7	577
Spain	0.7	592	0.8	693	0.9	678	1.0	812
Sweden	12.3	9 961	13.2	11 078	12.3	9 194	11.8	9 618
Switzerland	1.2	1 006	1.5	1 267	1.6	1 230	1.7	1 364
United Kingdom	12.0	9 738	10.8	9 078	7.7	5 758	7.2	5 848
Other	1.4	1 124	1.5	1 247	0.8	568	0.9	713
<b>OECD countries outside Europe</b>	11.4	9 262	10.1	8 471	11.6	8 651	11.8	9 590
Canada	0.8	687	1.2	998	0.7	533	0.7	567
Japan	1.3	1 036	1.5	1 224	5.6	4 166	5.3	4 309
United States	8.2	6 615	6.3	5 308	5.0	3 734	5.4	4 400
Other	1.1	924	1.1	941	0.3	218	0.4	314
<b>CMEA countries</b>	20.8	16 805	23.4	19 676	26.2	19 557	24.0	19 566
Czechoslovakia	0.4	306	0.3	276	0.4	327	0.5	369
German Democratic Republic	0.5	374	0.5	389	0.5	404	0.5	406
Poland	0.3	231	0.4	333	1.6	1 159	1.5	1 209
Soviet Union	19.0	15 397	21.5	18 085	23.1	17 274	21.0	17 100
Other	0.6	497	0.7	593	0.5	393	0.6	482
<b>Latin America</b>	1.0	769	1.7	1 413	2.6	1 932	2.3	1 842
Argentina	0.1	79	0.1	66	0.2	134	0.1	111
Brazil	0.2	132	0.2	146	0.9	668	0.7	602
Colombia	0.1	106	0.1	119	0.6	446	0.6	474
Other	0.6	452	1.3	1 082	0.9	684	0.8	655
<b>Other</b>	8.9	7 200	7.8	6 512	5.1	3 822	5.9	4 807
<b>GRAND TOTAL</b>	100.0	80 904	100.0	84 022	100.0	74 682	100.0	81 406
of which								
<b>EFTA countries</b>	19.2	15 502	20.0	16 838	18.0	13 410	17.9	14 604
<b>EEC countries</b>	37.9	30 664	35.9	30 134	35.6	26 571	37.0	30 115
<b>OECD countries</b>	69.4	56 130	67.1	56 421	66.1	49 371	67.8	55 191

# 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
1982	62 867	65 147	-2 280	+2 856	-277	+1 732	+2 031	-5 447	-643	+161	-3 898
1983	69 368	72 139	-2 771	+3 200	-748	+1 610	+1 291	-5 817	-797	+96	-5 227
1984*	80 608	75 099	+5 508	+3 909	-1 212	-393	+7 812	-6 781	-1 037	-244	-250
1985*	83 900	81 900	+2 000	+3 800	-1 600	-500	+3 700	-6 200	-1 150	-350	-4 000

1983

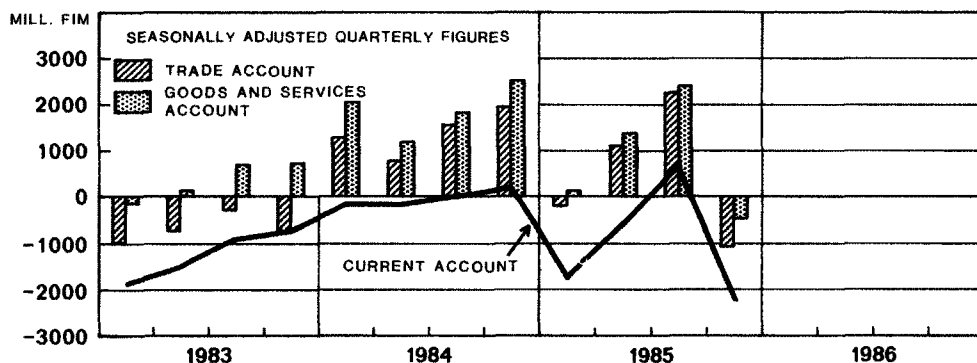
Jan.-March	16 740	16 469	+271	+744	-292	-142	+865	-1 557	-243	+5	-930
Apr.-June	17 098	17 538	-440	+753	-229	+288	+372	-1 492	-176	+42	-1 254
July-Sept.	16 180	17 970	-1 790	+888	+45	+487	-370	-1 463	-174	+53	-1 954
Oct.-Dec.	19 350	20 162	-812	+815	-272	+693	-424	-1 305	-204	-4	-1 089

1984\*

Jan.-March	19 678	17 067	+2 612	+967	-370	-61	-3 148	-2 010	-272	-72	+794
Apr.-June	19 700	18 845	-855	+985	-326	-181	+1 332	-1 219	-190	-45	-121
July-Sept.	19 395	19 324	+71	+1 105	-123	-104	+949	-1 593	-267	-52	-963
Oct.-Dec.	21 834	19 863	+1 971	+853	-393	-47	+2 384	-1 959	-309	-76	+40

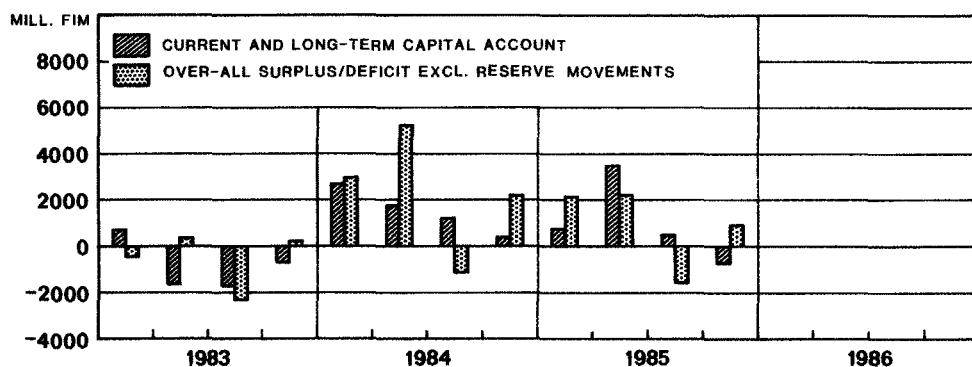
1985\*

Jan.-March	20 064	18 942	+1 123	+889	-490	-254	+1 268	-1 585	-349	-131	-798
Apr.-June	22 479	21 411	+1 068	+970	-444	-187	+1 406	-1 707	-289	-56	-646
July-Sept.	20 645	19 654	+991	+994	-247	-26	+1 712	-1 408	-222	-63	+19
Oct.-Dec.	20 712	21 893	-1 181	+948	-419	-34	-687	-1 500	-289	-100	-2 576



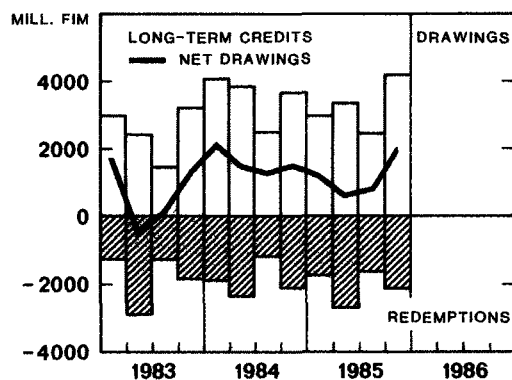
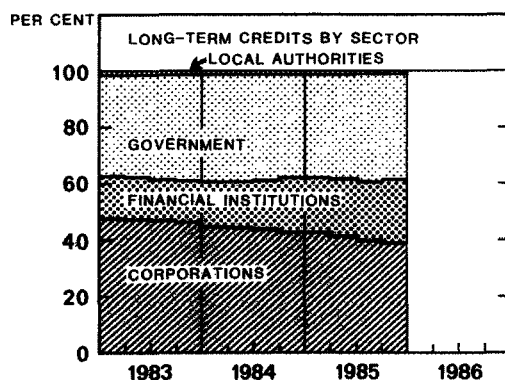
Drawings of long-term loans	Amortizations of long-term loans	Long-term export credits, net	Miscellaneous long-term capital items, net	Long-term capital account (12 to 15)	Current and long-term capital account (11 + 16)	Prepayments and liabilities related to imports	Prepayments and receivables related to exports	Short-term capital of authorized banks, net	Miscellaneous, short-term capital items, incl. errors and omissions	Over-all surplus deficit excl. reserve movements (17 to 21)	Bank of Finland foreign exchange reserves
12	13	14	15	16	17	18	19	20	21	22	23
+10 213	-4 721	-1 239	-3 642	+611	-3 287	-914	+771	+1 493	+1 811	-126	+126
+10 112	-7 273	+423	-1 388	+1 874	-3 353	+3 273	-3 380	+1 266	+32	-2 162	+2 162
+14 087	-7 538	-1 682	+1 428	+6 295	+6 045	+695	+3 308	+2 086	-2 859	+9 275	-9 275
+13 009	-8 179	+1 354	+1 813	-7 997	+3 997	+2 000	-7 053	+4 800	0	+3 744	-3 744
+2 985	-1 271	+100	-182	+1 632	+702	-115	+654	-1 220	-503	-482	+482
+2 435	-2 895	+273	-204	-391	-1 645	+1 261	-343	+699	+425	+397	-397
+1 479	-1 269	+142	-129	+223	-1 731	+1 197	-1 662	-593	+476	-2 313	+2 313
+3 213	-1 838	-92	-873	+410	-679	+930	-2 029	+2 380	-366	+236	-236
+4 075	-1 887	-235	-47	+1 906	-2 700	-1 002	+1 135	+2 443	-2 290	+2 986	-2 986
+3 858	-2 351	+89	+276	+1 872	+1 751	+1 087	+161	+2 531	-308	+5 222	-5 222
+2 495	-1 185	-603	+1 475	+2 182	+1 219	+332	+6	-2 186	-511	-1 140	+1 140
+3 659	-2 115	-933	-276	+335	+375	+278	+2 005	-702	+251	+2 208	-2 208
+2 977	-1 738	+336	-49	+1 526	+728	+533	-1 027	+1 924	-6	+2 153	-2 153
+3 355	-2 709	+369	+3 111	+4 126	+3 480	+862	-1 693	+1 582	-2 003	+2 228	-2 228
+2 460	-1 621	+263	-627	+475	+494	-56	-965	-1 540	+501	-1 566	+1 566
+4 217	-2 111	+386	-622	+1 870	-706	+661	-3 368	+2 835	+1 509	+930	-930

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

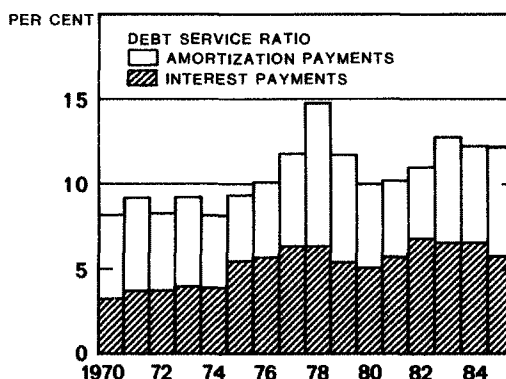
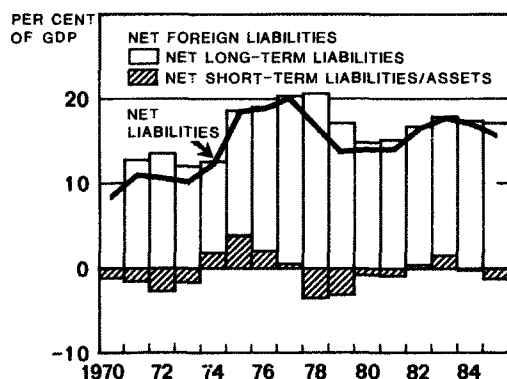


# FINLAND'S FOREIGN ASSETS AND LIABILITIES

End of year and month	Long-term assets				Long-term liabilities						Net long-term liabilities (10-4)
	Export credits	Direct investment	Other	Total (1 to 3)	Financial loans	Import credits	Direct investment	Portfolio investment	Other	Total (5 to 9)	
	1	2	3	4	5	6	7	8	9	10	11
1982	6 628	4 626	3 796	15 050	47 547	4 608	2 223	..	752	55 130	40 080
1983	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1984*	8 920	8 689	1 915	19 524	63 958	3 865	2 646	2 013	805	73 287	53 763
1985*	6 566	10 553	2 787	19 906	64 598	2 927	3 010	6 277	1 065	77 877	57 971
1983											
March	6 672	5 003	3 892	15 567	49 897	4 759	2 288	..	846	57 790	42 223
June	6 458	4 998	3 956	15 412	49 921	4 462	2 306	..	812	57 501	42 089
Sept.	6 411	5 392	3 935	15 738	50 705	4 566	2 303	..	798	58 372	42 634
Dec.	6 612	6 166	3 932	16 710	53 118	4 472	2 317	848	763	61 518	44 808
1984*											
March	6 658	6 687	3 539	16 884	54 014	4 225	2 354	987	731	62 311	45 427
June	6 827	7 435	3 230	17 492	57 198	3 937	2 393	1 640	729	65 897	48 405
Sept.	7 767	7 834	1 839	17 440	60 497	3 951	2 410	1 957	834	69 649	52 209
Dec.	8 920	8 689	1 915	19 524	63 958	3 865	2 646	2 013	805	73 287	53 763
1985*											
March	8 504	9 408	2 071	19 983	64 798	3 616	2 631	2 900	778	74 723	54 740
June	8 034	9 824	2 195	20 053	65 273	3 350	2 763	6 317	873	78 576	58 523
Sept.	7 200	10 290	2 179	19 669	64 060	3 080	2 809	6 210	867	77 026	57 357
Dec.	6 566	10 553	2 787	19 906	64 598	2 927	3 010	6 277	1 065	77 877	57 971



Short-term assets				Short-term liabilities				Net short-term liabilities (19-15)	Net liabilities (11 + 20)	Debt service, flow	Of which amortization payments, flow
Bank of Finland	Authorized banks and other foreign exchange holders	Cor- porate sector	Total (12 to 14)	Bank of Finland	Authorized banks and other foreign exchange holders	Cor- porate sector	Total (16 to 18)				
12	13	14	15	16	17	18	19	20	21	22	23
12 737	22 899	13 858	49 494	5 348	31 331	13 782	50 461	967	41 047	9 069	3 464
11 842	29 263	15 915	57 020	5 705	39 443	16 180	61 328	4 308	49 116	11 591	5 621
22 912	43 319	12 491	78 722	4 562	55 695	17 922	78 179	-543	53 220	12 878	5 896
25 183	43 990	16 854	86 027	4 070	60 506	16 980	81 556	-4 471	53 500	13 293	6 951
12 365	22 166	14 580	49 111	4 637	29 530	15 112	49 279	168	42 391	2 535	942
12 905	23 008	14 878	50 791	4 705	31 137	16 563	52 405	1 614	43 703	3 788	2 243
10 556	23 605	15 681	49 842	4 737	31 289	16 805	52 831	2 989	45 623	2 542	1 049
11 842	29 263	15 915	57 020	5 705	39 443	16 180	61 328	4 308	49 116	2 726	1 387
14 740	25 724	15 522	55 986	3 657	37 966	15 617	57 240	1 254	46 681	3 523	1 452
20 705	31 935	15 083	67 723	3 775	47 084	16 884	67 743	20	48 425	3 260	1 987
21 064	34 621	14 700	70 385	4 815	47 882	17 388	70 085	-300	51 909	2 448	821
22 912	43 319	12 491	78 722	4 562	55 695	17 922	78 179	-543	53 220	3 647	1 636
24 785	44 984	13 492	83 261	4 535	59 101	18 298	81 935	-1 327	53 413	3 301	1 688
26 208	46 661	14 605	87 473	3 729	62 282	18 558	84 570	-2 904	55 619	3 894	2 110
24 770	44 927	14 477	84 174	4 240	58 729	17 207	80 176	-3 999	53 358	2 976	1 542
25 183	43 990	16 854	86 027	4 070	60 506	16 980	81 556	-4 471	53 500	3 122	1 611



# PRICE INDICES

Period	Wholesale price index 1949 = 100	Basic price index for domestic supply 1980 = 100						Building costs 1980 = 100		
		Total	Origin		Purpose			Total	Wages in building trade	Building materials
			Domestic goods	Imported goods	Raw materials	Consumer goods	Investment goods			
	1	2	3	4	5	6	7	8	9	10
1984	1 261	134.5	136.0	130.0	132.6	137.5	135.8	136.5	133.7	136.1
1985	1 324	140.5	143.1	132.8	137.5	145.8	142.4	144.3	144.4	142.8

1985

May	1 335	141.6	144.2	133.9	139.3	146.2	142.5	144.2	145.4	142.3
June	1 332	141.3	143.9	133.4	138.6	146.0	142.9	144.6	145.6	142.7
July	1 330	141.1	144.2	131.4	137.7	146.9	143.2	144.9	145.8	143.1
Aug.	1 324	140.2	143.7	129.4	136.1	146.8	143.5	145.6	146.0	144.0
Sept.	1 326	140.8	143.6	132.3	137.0	146.7	143.9	145.8	146.2	144.2
Oct.	1 319	140.0	143.3	129.8	135.4	146.7	144.2	145.9	146.4	144.3
Nov.	1 314	139.5	143.1	128.7	134.5	146.8	144.6	146.1	146.0	144.7
Dec.	1 316	139.5	143.1	128.7	134.3	147.2	144.6	146.4	146.2	145.0

## Consumer prices 1981 = 100

Period	Total	Food	Beverages and tobacco	Clothing and footwear	Rent, heating and lighting	Household goods and services	Health and medical services	Transport and communication	Education and recreation	Other goods and services
	1	2	3	4	5	6	7	8	9	10
1984	127.1	129.1	132.5	119.5	124.5	123.0	145.2	125.4	126.4	130.8
1985	134.6	139.1	140.3	126.1	130.9	129.7	155.7	130.3	132.5	140.4

1985

May	135.0	140.0	139.7	126.6	132.6	129.2	154.7	130.6	131.8	139.9
June	135.3	141.1	139.7	126.4	132.6	129.4	154.4	130.8	132.0	140.3
July	135.4	141.3	139.7	125.2	132.6	129.6	154.4	131.1	132.2	140.4
Aug.	135.6	141.4	139.7	126.4	132.6	130.4	157.1	129.8	133.1	141.7
Sept.	135.8	140.0	141.4	128.0	132.8	131.1	157.2	130.1	134.0	142.1
Oct.	136.0	140.0	141.4	129.7	132.9	131.8	158.3	129.7	134.4	142.2
Nov.	136.1	140.0	141.4	130.2	133.0	132.0	159.0	129.4	134.9	142.7
Dec.	136.2	139.8	141.4	130.3	133.0	132.1	159.0	130.1	135.0	142.8

## WAGES

Index of wage and salary earnings 1980 = 100										
Period	By industries				By institutional sectors			All salary earners	All wage earners	All employees
	Wage earners in			Employees in services	State employees	Municipal employees	Employees in private sector			
	Agriculture	Industry	Construction							
	1	2	3	4	5	6	7	8	9	10
1982	124.1	125.1	124.3	124.8	123.8	125.5	124.8	124.9	124.6	124.8
1983	132.1	137.3	138.2	138.8	137.3	140.0	137.3	138.4	136.9	137.8
1984*	148.5	149.9	152.8	152.4	147.1	154.7	150.5	151.4	149.7	150.8
1984*										
July-Sept.	150.9	151.1	153.0	153.6	147.5	155.9	152.0	152.9	150.8	152.1
Oct.-Dec.	154.6	152.7	158.0	154.9	149.2	156.6	154.2	154.3	153.4	154.0
1985*										
Jan.-March	150.3	157.0	164.3	159.9	154.2	162.5	157.3	158.2	157.2	157.8
Apr.-June	163.2	163.0	168.7	165.3	159.2	167.2	164.3	164.5	163.6	164.2
July-Sept.	165.1	161.7	169.8	165.6	159.2	167.5	164.2	164.7	163.1	164.1

## 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
	1	2	3	4	5	6	7	8	9	10
1983										
July-Sept.	108	99	206	41	119	103	108	105	112	113
Oct.-Dec.	117	116	88	101	148	104	121	117	114	121
1984*										
Jan.-March	104	110	76	89	82	93	103	98	114	113
Apr.-June	109	114	84	90	84	104	109	108	114	121
July-Sept.	110	102	203	45	114	104	107	110	115	119
Oct.-Dec.	121	123	96	118	141	106	121	119	117	127
1985*										
Jan.-March	108	111	78	101	82	89	107	101	117	117
Apr.-June	114	120	84	107	86	105	112	111	117	127
July-Sept.	113	106	200	37	111	105	112	114	118	125

# PRODUCTION

Index of industrial production 1980 = 100

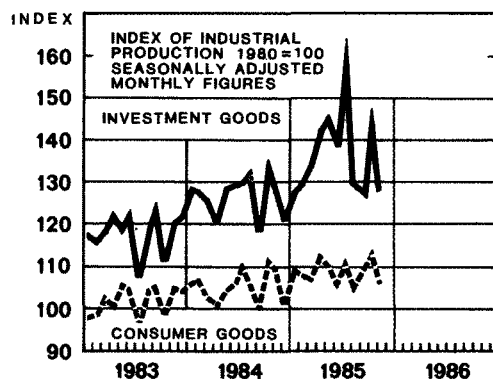
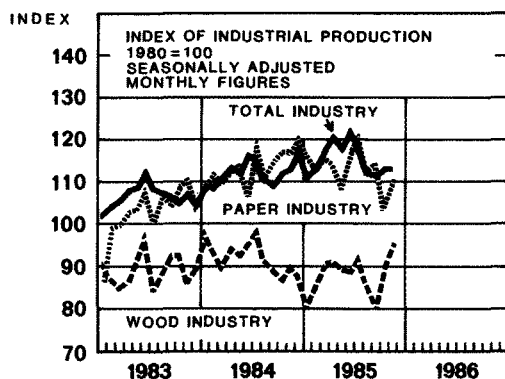
Period	Total	Investment goods	Consumer goods	Other producer goods	Special indices of manufacturing						Total adjusted for seasonal variations
					Food industry	Wood industry	Paper industry	Chemical industries	Non-metallic mineral industry	Metal industry	
	1	2	3	4	5	6	7	8	9	10	11
1982	103.6	122.9	100.5	101.5	106.0	82.4	94.7	98.8	110.0	113.9	103.8
1983	107.1	118.9	102.6	107.1	108.9	89.9	103.5	106.2	115.0	114.5	107.1
1984*	112.4	127.8	106.0	112.5	110.1	92.4	114.3	110.8	109.2	121.6	112.7

1984\*

Nov.	125.7	143.7	123.6	123.2	134.2	95.0	124.4	122.1	118.2	138.4	113.4
Dec.	104.8	120.7	98.5	104.8	104.3	65.4	110.8	103.5	94.7	116.6	117.9

1985\*

Jan.	118.5	131.9	115.6	117.3	103.3	78.7	119.0	108.8	109.2	128.8	111.5
Feb.	109.9	127.4	105.8	108.5	89.9	77.1	110.3	107.1	88.2	120.7	113.7
March	121.7	146.8	113.3	121.1	105.5	98.0	123.3	123.6	113.1	136.6	118.2
April	120.2	147.6	112.0	119.1	106.7	107.6	105.4	128.7	103.9	139.5	121.3
May	128.2	172.5	117.4	125.3	114.1	115.9	108.2	126.3	125.3	158.7	118.7
June	115.2	153.2	103.2	114.0	102.8	93.7	106.7	106.7	115.5	138.5	122.7
July	81.2	67.5	72.0	87.9	102.5	40.2	127.5	78.3	71.6	68.1	118.8
Aug.	115.1	127.6	108.7	115.8	112.5	81.9	119.7	122.3	132.3	123.6	112.3
Sept.	118.0	133.6	111.8	117.9	107.8	94.5	112.9	121.2	137.0	131.8	111.9
Oct.	129.4	156.4	124.8	126.6	136.6	108.1	113.0	128.5	138.5	149.9	113.5
Nov.	122.7	141.7	120.2	120.2	127.9	95.8	117.7	117.7	116.4	138.1	113.4





# 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	Unemploy- ment, % of total labour force	Commercial timber fellings, 1 000 solid cu. m	Retail sales volume index 1980 = 100	Whole- sale volume index 1980 = 100
	1	2	3	4	5	6	7	8
1983	3 681	2 546	2 390	156	6.1	39 324	107	110
1984*	3 700	2 572	2 414	159	6.2	41 288	109	109
1984*								
Oct.	3 706	2 520	2 370	150	6.0	3 561	113	121
Nov.	3 704	2 517	2 358	159	6.3	4 269	111	117
Dec.	3 705	2 544	2 386	158	6.2	5 134	130	113
1985*								
Jan.	3 706	2 531	2 360	171	6.8	4 241	102	99
Feb.	3 707	2 534	2 363	171	6.7	4 581	98	96
March	3 706	2 528	2 355	173	6.8	6 031	108	109
April	3 707	2 565	2 394	171	6.6	5 882	110	111
May	3 709	2 611	2 461	150	5.7	4 598	121	115
June	3 708	2 761	2 594	167	6.1	2 407	115	102
July	3 708	2 780	2 621	159	5.7	1 121	120	95
Aug.	3 712	2 631	2 481	150	5.7	1 212	117	108
Sept.	3 714	2 563	2 405	159	6.2	1 951	111	113
Oct.	3 714	2 556	2 396	160	6.3	2 962	..	..
Nov.	3 714	2 580	2 409	172	6.6	3 768	..	..

## CONSTRUCTION OF BUILDINGS

Period	Building permits granted					Buildings completed					Building- works under con- struction
	Total	Residen- tial buildings	Farm buildings	Industrial and business buildings	Public buildings	Total	Residen- tial buildings	Farm buildings	Industrial and business buildings	Public buildings	
Million cubic metres											
	1	2	3	4	5	6	7	8	9	10	11
1983	51.77	19.67	6.43	18.33	3.64	47.37	18.43	5.91	16.32	3.53	51.44
1984*	49.68	19.93	5.65	17.44	3.13	44.24	17.65	5.13	15.75	2.83	52.13
1984*											
Apr.—June	17.32	7.77	2.44	5.01	0.77	10.79	4.26	0.75	4.63	0.58	51.59
July-Sept.	12.91	4.85	1.28	4.68	1.03	9.70	3.66	1.67	2.74	0.90	55.86
Oct.-Dec.	10.28	3.44	0.81	4.65	0.72	14.40	5.84	1.96	5.00	0.65	52.13
1985*											
Jan.-March	9.15	3.44	1.09	3.17	0.86	8.46	3.77	0.54	2.87	0.73	48.36
Apr.—June	17.09	7.24	3.08	4.80	0.75	9.82	3.96	0.70	3.39	1.02	52.99
July-Sept.	11.82	4.37	1.60	4.00	0.93	9.27	3.51	1.63	2.78	0.71	56.74

# EXPLANATIONS RELATING TO THE STATISTICAL SECTION

## BANK OF FINLAND

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

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

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

## MONETARY POLICY INDICATORS

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

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

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

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

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

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

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

## FORWARD EXCHANGE MARKETS IN FINLAND

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

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

## FOREIGN EXCHANGE RATES

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

## DEPOSITS BY THE PUBLIC -

### ADVANCES TO THE PUBLIC - MONEY SUPPLY

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

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

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

Postipankki's advances do not include loans granted by the State Investment Fund (INRA). Domestic credits in foreign currency are mainly granted by the commercial banks and the rest by Postipankki.

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

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

## STATE FINANCES

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

## FOREIGN TRADE

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

## BALANCE OF PAYMENTS

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

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

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

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

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

## FOREIGN ASSETS AND LIABILITIES

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

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

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

Columns 22 and 23 during the year and the quarter.

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

## PRICE INDICES

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

## WAGES - PRODUCTION

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

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

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

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

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

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

# SOME PARTICULARS ABOUT FINLAND

## FORM OF GOVERNMENT

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

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

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

## INTERNATIONAL ORGANIZATIONS

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

## LAND

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

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

## POPULATION

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

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

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

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

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

EDUCATION (1985): Practically all persons over 15 years of age are literate. There are 8 universities (the oldest founded in 1640) and 12 colleges of university standard.

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

## TRADE AND TRANSPORT

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

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

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

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

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

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

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

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

## FINANCE AND BANKING

CURRENCY. Since 1860, Finland has had its own monetary system. From 1877 until 1914 the country was on the gold standard, and returned to it in 1926. In 1931, the Central Bank's duty to redeem bank notes in gold was suspended and at the end of 1962 was entirely cancelled. The monetary unit is the markka (plural: markkaa), which is divided into 100 penniä (singular: penni). The abbreviation used for the markka is FIM. The last par value of the markka was set on Oct. 12, 1967 and was 0.21159 grams of fine gold per markka (equivalent, at the time, to 4.20 markkaa per U.S. dollar). Since Nov. 1, 1977 the external value of the markka has been officially expressed in terms of a currency index. This index is tradeweighted and as from Jan. 1, 1984 indicates the average change in the convertible currencies which are important in Finnish foreign trade. The present currency weights are SEK 19.7, DEM 18.8, GBP 15.6, USD 10.2, other currencies 35.7. 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 107.3.

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

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

RATES OF INTEREST (Jan. 1, 1986). The Bank of Finland's base rate is 8 ½ %. The interest rates for domestic lending other than bank financing by the Bank of Finland vary between 6 % and 11 %. Other credit institutions: time deposits 4 ½ %, 6 month deposits 5 ½ %, 12 month deposits 7 %, 24 month deposits 8 ½ % and sight deposits 1 ½ %.

# THE IMPACT OF THE RATE OF INTEREST AND OTHER FINANCIAL FACTORS ON INVESTMENT IN FINLAND

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## BACKGROUND

In the 1960s and 1970s, the investment ratio (investment as a proportion of total output) in Finland was one of the highest among the OECD countries. Cyclical variations in investment were nevertheless exceptionally sharp, particularly in manufacturing. Since the latter half of the 1970s, however, the investment ratio has fallen in Finland as in other parts of the world. Moreover, the growth of investment seems to have remained fairly sluggish during the latest upswing. On the other hand, investment did not decline to any marked extent during the downswing of the early 1980s.

In recent years, the factors affecting investment, and particularly the role of financial and taxation factors, have been the subject of a spirited debate in Finland as elsewhere. Accordingly, the discussion and research have been primarily addressed to the question of what is the role of monetary and fiscal policies from the point of view of changes in investment over time. The debate has also been fuelled by the high real rates of interest prevailing in western industrial countries.

Interest rates in Finland have also risen to historically-high levels during the past few years (see below), partly as a result of the monetary policy pursued and partly because of the diminishing importance of interest rate regulation. Consequently, both the household sector and, in particular, the corporate sector have sought to strengthen their financial positions. At least to some extent this has been achieved at the expense of fixed investment and inventory investment. Thus, it seems that the recent developments in investment activity have been partly affected by the rise in the level of real interest rates and other changes in financial markets.

## FINANCIAL FACTORS AND INVESTMENT BEHAVIOUR IN THE LIGHT OF SOME THEORETICAL CONSIDERATIONS

In general microeconomic theory relating to the behaviour of the corporate and household sectors, financial factors can influence investment activity through a number of different channels. As a rule, the analysis sets out from the assumption that financial factors affect investment decisions primarily through the rate of interest. The rate of interest is also a key variable entering into firms' own investment appraisal calculations, such as the methods of net present value and the internal rate of return. Together with other factors like taxes and the rate of inflation, it determines the rate of return required from an investment project. Other financial factors, by contrast, comprise a highly heterogeneous and partly overlapping set of variables and concepts, among which are commonly included credit terms other than the rate of interest, the availability of debt finance and internal financing i.e. retained earnings. Their impact on investment is generally thought to arise in financial and capital markets which function imperfectly and thus under restricted competition. Such conditions are considered to have prevailed in Finland until very recently.

The rate of interest affects investment mainly through the cost of capital services, frequently referred to as the user cost of capital. The user cost of capital takes into account the interest earnings forgone because of the tying up of monetary assets - i.e. the opportunity cost - the economic and physical depreciation of capital goods as well as capital gains and losses, of which the most important in conditions of inflation is the inflation gain deriving from a fall in the real value of liabilities. The standard formula for the user cost of capital is:

$$c = q (r - g + \delta),$$

where

$q$  = price index for investment goods

$r$  = rate of interest

$\delta$  = economic depreciation rate

$g$  = expected rate of inflation

This formula for the user cost of capital ( $c$ ) includes only the so-called basic factors. In addition to these, the cost of capital services is affected by various taxation factors and investment incentives (see, e.g., Koskenkylä, 1985). In Finland, it has generally been concluded that variations in the user cost of capital depend primarily on the rate of inflation and to a much lesser degree on taxation factors, even if the latter are not insignificant. According to the investment theory of the firm, the user cost of capital affects mainly the long-run optimal level of the capital stock.

In imperfect capital markets, the role of the rate of interest with respect to investment activity may differ somewhat from that presented above. Interest rates may, for example, rise in line with the level of indebtedness. The costs of alternative financial sources may also differ from each other, in which case the interest rate component of the user cost of capital is calculated as a weighted average rate of interest, with the relative shares of different financial sources as the weights. In the case of debt finance, the relevant rate of interest for investment decisions is usually the rate of interest on new loans. In Finland, however, bank loans bear variable interest rates, and therefore the relevant rate is the expected average rate of interest over the loan period.

If the firm or the household is subject to a binding credit constraint, the total amount of finance available depends on lenders (banks). In that case, investment activity is subject to liquidity constraints and the firm is not necessarily able to implement all the projects it would like to.

In Finland, the availability of loans or external finance in general has been measured by some

kind of variable describing the overall tightness of financial and capital markets. As a rule, either the marginal rate of interest on the commercial banks' central bank debt or the difference between the marginal rate of interest and the average lending rate has been chosen for this purpose. Because the average lending rate is administratively controlled and usually below the market clearing level, the demand for credit exceeds the supply and banks have to resort to credit rationing to protect their profitability. In this framework, the marginal rate of interest is also thought to indirectly measure the impact of credit rationing on investment, and thus its effect should be distinguished from the usual effect of interest rates, which is manifested through the user cost of capital variable and affects the rate of return required from an investment project.

In practice, the importance of credit rationing in Finland is diminished by the fact that particularly firms have access to other financial sources besides debt finance, such as, for example, retained earnings and equity finance. If the constraint on the availability of bank loans can be circumvented, then credit rationing has only an indirect effect on investment. A company or a household might utilize other sources of finance to a greater extent than planned. The cost of this alternative finance could, however, differ from the rate of interest on rationed credit. In that case, credit rationing might indirectly increase the total financial costs of investment, even though it does not prevent the implementation of desired investment.

Assessing the importance of credit and liquidity constraints for investment activity is not a straightforward issue. The significance of other credit terms is perhaps an even more difficult question to tackle. Other credit terms include such things as required prior savings, the repayment schedules of loans and credit costs other than the rate of interest (guarantees, commissions, service charges). Their importance for investment decisions has been studied very little in Finland or elsewhere. A tightening in other credit terms may be man-

ifested partly as a rise in debt costs and partly as reduced credit availability.

Together with the rate of interest, other financial factors may also affect both the long-term optimal capital stock as well as short-term cyclical fluctuations in investment and the timing of investment projects. Credit availability and retained earnings are often regarded as factors affecting primarily the timing of investment over the business cycle.

The influence of financial factors on investment also depends on expectations. For example, attempts can be made to avoid liquidity constraints expected in the future either by bringing forward the implementation of some projects or by accumulating internal finance, i.e. by investing in liquid assets. On the other hand, expectations concerning inflation are also of fundamental importance for the real rate of interest since they determine the expected long-term level of real interest rates important for investment decisions.

The effects of interest rates and other financial factors on investment activity are very complex. Individual economic agents can face very different conditions in financial and capital markets, where the availability of debt finance, the rate of interest and other credit terms vary according to, for example, the length of the credit period, the income and solvency position of the prospective borrower and even to the size of the firm. Indeed, the complexity and diversity of financial markets is one of the major problems in the empirical analysis of the importance of financial factors for investment. Moreover, both the deregulation of financial and foreign exchange markets and financial innovations may have altered and could further alter in the future the linkages between financial factors and investment.

#### TRENDS IN SOME FINANCIAL VARIABLES IN MANUFACTURING AND THE TOTAL CORPORATE SECTOR

Chart 1 shows three different estimates of the ratio of debt to shareholders' equity (net

worth) in the Finnish manufacturing sector over the period 1970 - 1984. As can be seen, the ratio receives its highest value when debt and equity are measured using their book (balance sheet) values ( $e_3$ ). Much lower values are obtained when equity incorporates various "hidden reserves" created as a result of tax allowances and valuation adjustments (see Koskenkylä, 1985). In the case of  $e_1$ , all reserves and valuation adjustments are included in equity, while in the case of  $e_2$ , about half of these items are added to debt and the other half to equity. All three debt-equity ratios have certain features in common, however. They have all shown an upward trend but they also display cyclical variations. During the most recent upswing phase, the ratios have declined somewhat because of improved profitability and rather modest developments in investment activity.

**CHART 1. ESTIMATES OF THE RATIO OF DEBT TO EQUITY IN MANUFACTURING 1970 - 1984.**

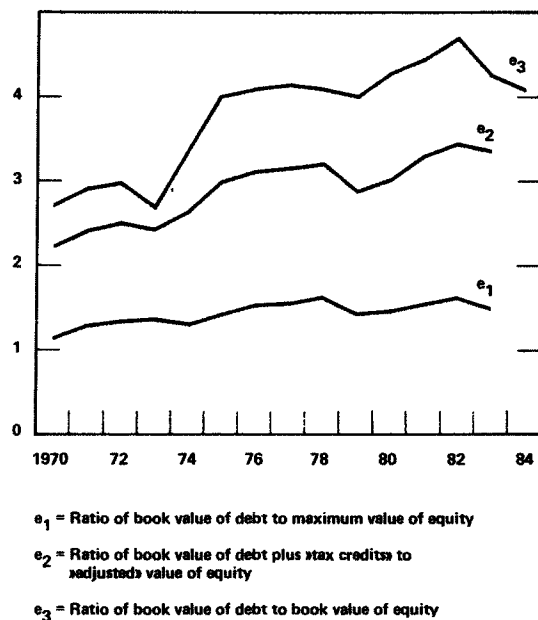


Table 1 presents some other financial ratios for the manufacturing sector. The debt to sales ratio has risen secularly as have also the ratios of interest expenses and interest income to sales. The most rapid increase in relative terms

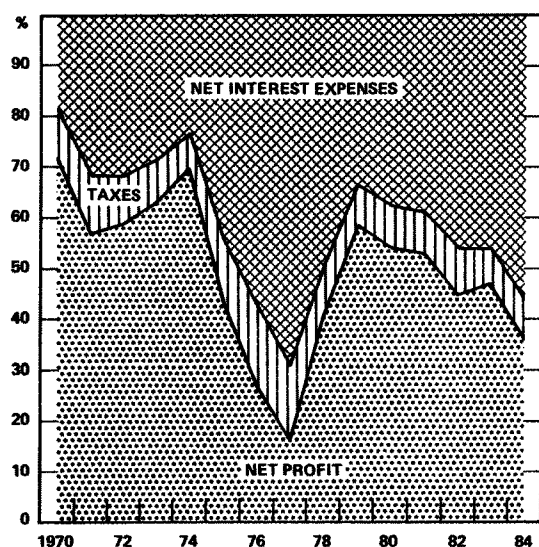
**TABLE 1. VARIOUS FINANCIAL RATIOS IN MANUFACTURING 1974 - 1984, PER CENT**

	Debt/Sales	Interest Expenses/Sales	Interest income/Sales	Net interest Expenses/Sales
1974	66.0	3.5	0.8	2.7
1975	74.0	4.1	0.9	3.2
1976	75.3	4.4	1.0	3.4
1977	76.0	4.8	1.1	3.7
1978	74.1	4.8	1.1	3.7
1979	67.4	4.2	1.0	3.2
1980	65.9	4.3	1.0	3.3
1981	66.9	4.8	1.1	3.6
1982	72.6	4.9	1.2	3.6
1983	74.4	5.2	1.6	3.6
1984	71.8	5.2	2.0	3.2

has been in the interest income to sales ratio, reflecting the sharp rise in the nominal short-term (marginal) interest rate. In fact, this ratio has doubled in the first half of the 1980s and this also explains why the ratio of net interest expenses to sales has not been rising recently. Clearly, high nominal interest rates have motivated firms to increase their financial investments and this has partly been at the expense of investments in physical assets.

Chart 2 shows the percentage distribution of operating income into its three components, which are net profit, taxes and net interest

**CHART 2. DISTRIBUTION OF OPERATING INCOME IN MANUFACTURING INTO ITS COMPONENTS 1970-1984, PERCENTAGE SHARES.**



payments. Operating income is estimated using current cost true economic depreciation values. There have been very large fluctuations, especially in the shares of net profit and net interest expenses. The share of net profit has shown a downward trend while that of net interest expenses has been rising. The high level obtained by the net profit share in the 1969-70 and 1973-74 upswings was not repeated during the last two upswings in 1979-80 and 1983-84.

Table 2 shows movements in various nominal and real interest rates in the period 1960 - 1984. These interest rates can be thought to be relevant for both manufacturing and the total corporate sector. The average bank lending rate ( $r_L$ ) has been on an upward trend with only small fluctuations owing to the administrative (controlled) nature of this rate. By contrast, the marginal interest rate (i.e. short-term interest rate) on the central bank

**TABLE 2. VARIOUS INTEREST RATES 1960 - 1984, PER CENT**

Year	Nominal interest rates		Real interest rates		Real after-tax interest rates	
	$r_L$	$r_m$	$r_L - g$	$r_m - g$	$(1-u)r_L - g$	$(1-u)r_m - g$
1960	6.9	8.2	—	—	—	—
1961	7.0	9.6	4.9	7.5	1.4	2.7
1962	7.0	13.8	1.0	7.8	-2.8	0.2
1963	7.1	12.3	3.9	9.1	0.4	2.9
1964	7.3	12.2	3.8	8.7	-0.4	1.7
1965	7.5	8.7	3.5	4.7	-1.1	-0.6
1966	7.5	20.0	4.1	16.6	-0.5	4.4
1967	7.6	7.0	2.1	1.5	-2.6	-2.9
1968	7.7	7.0	-4.9	-5.6	-10.4	-10.6
1969	7.7	7.1	3.8	3.2	-1.0	-1.2
1970	7.8	15.1	-1.2	6.1	-5.9	-3.1
1971	8.7	8.8	-2.1	-2.0	-7.1	-7.1
1972	8.2	7.9	-3.9	-4.2	-8.6	-8.8
1973	9.0	13.9	-5.1	-0.2	-10.3	-8.2
1974	9.8	18.6	-14.7	-6.0	-20.4	-16.8
1975	10.0	22.3	-6.9	5.4	-12.8	-7.7
1976	10.1	19.3	-0.8	8.3	-6.8	-3.1
1977	10.0	19.4	-3.2	6.2	-9.1	-5.2
1978	8.5	13.1	2.7	7.2	-2.4	-0.5
1979	8.5	9.5	0.5	1.5	-4.5	-4.1
1980	10.2	14.9	-3.6	1.1	-9.6	-7.7
1981	10.2	14.8	2.4	7.0	-3.7	-1.9
1982	9.6	14.2	1.9	6.5	-3.8	-2.1
1983	9.9	15.4	3.3	8.9	-2.6	-0.4
1984	10.6	16.5	4.8	10.7	-1.6	0.8

$r_L$  = average bank lending rate

$r_m$  = marginal rate on central bank financing

$g$  = rate of inflation (investment goods prices)

$u$  = corporate income tax rate

$(1-u)r_L - g$  and  $(1-u)r_m - g$  are real after-tax interest rates

financing of the commercial banks has fluctuated very heavily and no clear trend is discernible. During the 1960s and 1970s, it was commonly thought that these two interest rates affected investment behaviour in quite different ways. The average interest rate  $r_L$  was the concept relevant for the capital cost variable of companies whereas the marginal interest rate  $r_m$  was assumed to influence the banks' optimal supply of credit and hence it had only an indirect effect on investment decisions through the credit rationing channel.

During recent years, however, Finnish financial markets have been undergoing structural change towards a more market-oriented system and the marginal interest rate or call money rate has largely dictated the level of market interest rates in Finland. The financial system has had a dual-rate character and it is likely that many companies have obtained part of their bank loans at the administered rate ( $r_L$ ) and part at the market rate ( $r_m$ ). For some companies, however, it is possible that all their borrowing from banks has been at one or other of the extreme rates. Furthermore, the marginal interest rate may still capture some credit rationing effects.

The real interest rates  $r_L-g$  and  $r_m-g$  have displayed very large fluctuations, with the average real rate recently regaining the level (about 4–5 per cent) it had in the 1960s. Particularly the real marginal rate has risen to a very high level. Nevertheless, neither of the two real interest rates are at an exceptionally high level as compared with the 1960s.

The most striking fact to emerge from Table 2 is that real after-tax interest rates, i.e.  $(1-u)r_L-g$  and  $(1-u)r_m-g$ , are still at a rather low level. They have, however, shown a clearly rising trend in recent years. For companies which are sufficiently profitable and which can thus deduct all interest payments when calculating their taxable income, the relevant interest rate concept is the real after-tax form. For companies which cannot deduct all interest costs, the relevant concept is probably the before-tax form, i.e.  $r_L-g$  or  $r_m-g$ . Hence it seems likely

that firms are very heterogeneous with respect to the relevant interest rate level, which may vary from the very high value of  $r_m-g$  to the still fairly low value of  $(1-u)r_L-g$ . Furthermore, the marginal interest rate,  $r_m$ , has become relevant for firms as a measure of interest costs only in the last few years.

All in all, the foregoing statistical analysis reveals many important and interesting aspects concerning developments in financial variables which may be thought to be significant for the investment decisions of Finnish firms. However, the quantitative impact of such factors on investment can only be assessed with the aid of econometric investment equations.

#### THE QUANTITATIVE IMPACT OF INTEREST RATES AND OTHER FINANCIAL FACTORS ON INVESTMENT IN FINLAND

The contribution of interest rates, capital costs and other financial factors to variations in investment has been examined in a fairly large number of studies in Finland. The results of some recent empirical investment studies carried out mainly at the Bank of Finland (see Koskenkylä 1985, Tarkka and Willman (eds.) 1985, Peisa and Solttila 1985) are briefly reviewed here. A more detailed analysis can be found in the Bank of Finland publication series A:61, 1985.

On the whole, the estimates, particularly of the effect of interest rates, differ very little from each other in different studies, although exceptional estimates do appear. The empirical results show very clearly that a rise in interest rates reduces both investment and the long-run demand for capital. The research results also indicate that the interest rate sensitivity of investment decisions does not differ significantly according to the institutional sector or type of capital goods examined.

The impact of the rate of interest on corporate investment is usually captured through the user cost variable  $c$  and hence it is normally estimated jointly with corporate tax factors and



the rate of inflation. An increase in the rate of inflation is thought to capture the impact of the decrease in the real indebtedness of firms (i.e. capital gains), which has been of considerable magnitude. The relevant interest rate concept for corporate investment decisions has usually been assumed to be the expected after-tax real rate.

Most of the empirical estimates of the interest rate effect are also quite close to each other. A typical estimation result is that a rise of one percentage point in the real rate of interest will reduce firms' fixed investment in the short run by one to two per cent and the long-run optimal capital stock by about one per cent. However, an impact of this magnitude arises only when the interest rate operates through the user cost variable (i.e. rate of return effect). If the empirical investment equations also contain a cash flow (profit) variable, then especially the short-run impact may be larger. In this case, the increase in the interest rate reduces the financial liquidity of firms (i.e. the liquidity effect). In sum, the size of the overall effect of a rise in interest rates on investment may be substantial in the short run.

The empirical studies indicate, however, that the most important determinant of investment decisions is the expected demand (output) for the firm's products. Some results also show that the impact of wage costs on investment may be larger than that of capital costs.

The average level of interest rates also has a significant effect on inventory investment and housing investment by the household sector. The impact on inventories is generally greater than that on fixed investment. A rather unexpected finding in the empirical studies is that the marginal interest rate has only a negligible effect on companies' inventory purchases. Statistical deficiencies have, however, seriously hampered research on inventories in Finland.

As regards financial factors other than the rate of interest, the empirical studies give a rather varied picture. Attention has centered mainly

on the effect of cash flow (internal finance) and of the availability of debt finance or more generally of the tightness of financial markets. The problems relating to the formulation of theory and statistical data are even greater in the case of other financial factors than they are for interest rates. The overall tightness of financial markets as measured by the marginal rate of interest on central bank borrowing by commercial banks would seem to have only a fairly modest effect on corporate fixed investment and scarcely any impact at all on inventory accumulation. Moreover, these credit rationing effects are generally felt with a fairly long lag. The results also indicate that a tightening in credit availability has a greater impact on investment by the service sectors, i.e. commerce, trade, transportation etc., than on the investment decisions of manufacturing firms. The effects may also diverge between large and small companies, being greater in the latter case.

The tightness of financial markets has a more significant influence on the prices of dwellings and housing investment. It is possible that households have, on average, been in a weaker negotiating position vis-à-vis banks than have firms and furthermore that companies have had recourse to various alternative sources for financing their investment when credit conditions have tightened.

The empirical results cited above indicate that monetary policies have had a significant effect on capital formation in Finland both through the traditional interest rate channel and through the credit rationing effect. It is, however, possible that the effects of monetary policy changes have been felt only with a considerable lag and that the impact is concentrated more on the household sector than on the corporate sector. In recent years, the significance of the interest rate channel has increased relative to the credit rationing channel. The increase in fixed interest rate contracts in relation to variable rate contracts may have increased the importance of the expectational aspects of interest rate policy. Deregulation of financial markets and financial

innovations may also have increased the interest rate sensitivity of investment behaviour in general in the Finnish economy.

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# MONETARY AND FOREIGN EXCHANGE POLICY MEASURES FROM FEBRUARY 1985 TO JANUARY 1986

**1985**

## **February**

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

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

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

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

## **March**

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

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

Dividend receipts from foreign direct investment in Finland can be transferred abroad through an authorized bank without the Bank of Finland's special permission.

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

## **April**

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

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

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

## **June**

*Investment reserves.* On June 13, the Council of State decides to release, as from October 1, 1985, investment reserves made by companies

for accounting periods ending in 1983 or earlier. In the Greater Helsinki area, such reserves may not be used until April 1, 1986. The utilization period is to expire on December 31, 1987.

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

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

## **August**

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

## **September**

*Forward market.* The Bank of Finland issues new guidelines on operations in the forward market. Under these guidelines, firms are granted the right to hedge against the foreign exchange risk arising from the difference between their foreign currency claims and liabilities. Firms and private persons may still hedge against foreign exchange risks on an individual transactions basis as before. The new guidelines are to enter into force on September 1, 1985.

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

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

*Local government counter-cyclical deposits.* On September 19, the Council of State makes a decision according to which local authorities

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

## **October**

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

## **November**

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

## **December**

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

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

## **1986**

### **January**

*Interest rate policy.* The Bank of Finland lowers its base rate from 9.0 to 8.5 per cent as from January 1, 1986. In the same context, the upper limit on the banks' lending rates is rescinded. The Bank of Finland requires, how-

ever, that the rates of interest applied to loans granted for the acquisition of a dwelling intended for own use are not raised in relation to the base rate.

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

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

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

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

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

Among other things, the penalty surcharge scheme applied to short-term import credits is abolished; the maximum period for suppliers'

credit which does not require the special permission of the Bank of Finland is now six months. Investments in securities quoted abroad and in the form of funds held in accounts with foreign monetary institutions are permitted up to a maximum of FIM 10 000 a year per resident. The upper limit on foreign exchange which may be acquired for the purchase of a second home abroad is raised to FIM 600 000. Authorized banks are granted the right to surrender travel exchange without upper limit on the basis of a breakdown of costs drawn up by the purchaser of travel exchange. Securities brokers are accorded the same rights as the authorized banks to act as intermediaries in securities transactions between residents and non-residents.

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

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

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

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

# ITEMS

## **Protocol on the exchange of goods between Finland and the U.S.S.R. for 1986.**

Finland and the U.S.S.R. have agreed on their reciprocal trade for 1986, which is the first year of the new 5-year framework agreement on trade. The protocol concerning the exchange of goods was signed in Moscow on December 19, 1985.

Under the agreement, the total value of trade between the two countries in 1986 is set to reach about SUR 5.2 billion or about FIM 37.5 billion at 1985 prices. This represents a slight increase in the value of trade from the 1985 level.

The value of Finnish exports to the U.S.S.R. in 1986 will amount to about SUR 2.6 billion, an increase of about 4 per cent from the previous year. Shipments of Finland's main export goods, i.e. machinery and equipment and forest products will grow slightly. By contrast, there will be a clear decline in ship deliveries in 1986. Exports of raw materials, intermediate goods and consumer goods are set to grow most in relative terms. Construction project exports will remain at the same level as in 1985. A new and fairly significant quota in the agreement for 1986 is the export of prefabricated housing units to oil and gas prospecting areas in the U.S.S.R.

According to the protocol, which is based on the price level prevailing at the time of signing, the value of Finnish imports from the U.S.S.R. in 1986 will amount to about SUR 2.6 billion. The composition of imports will remain broadly unchanged. The import quota for crude oil has been set at 8.5 - 9.0 million tonnes. Last year, 7 million tonnes of crude oil was imported from the U.S.S.R. Imports of fuel oil are likely to remain at roughly the same level as in the previous year. Other energy imports, especially natural gas, will increase. The value of imports of Soviet machinery and equipment is expected to increase substantially, largely as a

result of an increase in industrial cooperation. The other import quotas in the agreement are not expected to show any great changes from the previous year.

At the beginning of 1986, the balance on the clearing account between Finland and the U.S.S.R. moved into a credit balance for Finland and is expected to show a credit balance in Finland's favour for the remainder of the year. The balance will, however, remain below the credit limit unless there are significant changes in world-market prices of oil or in the dollar exchange rate.

## **Board of Management of the Bank of Finland.**

The President of the Republic has appointed Mr. Esko Ollila, Member of the Board of Management of the Bank of Finland, Minister of Finance as from February 1, 1986. The former Minister of Finance, Mr. Ahti Pekkala, has been appointed Governor of the province of Oulu from the same date.

## **Publications of the Bank of Finland.**

A research report entitled "The BOF3 Quarterly Model of the Finnish Economy" has been published in series D:59. Edited by Juha Tarkka and Alpo Willman, the book gives a comprehensive presentation of the structure and properties of the simulation model constructed and operated by the Bank of Finland's research department. Helsinki 1985, 465 pp. ISBN 951-686-108-3, ISSN 0355-6042.

The BOF3 model is a mathematical equation system based on economic theories and statistical data and is designed to simulate the functioning of the Finnish economy. The model can generate estimates of some 200 economic variables and it can be used, among other things, for forecasting and policy evaluation. In addition, the model is Finland's contribution to the international research project, project LINK, which combines macroeconomic

models of different countries into a simulation system for the global economy. About 30 countries and a number of specialist agencies of the United Nations participate in project LINK, which is led by the Nobel prize winner in economics, Lawrence Klein.

The BOF3 model represents the latest stage of development in this field of research, which has been carried on at the Bank of Finland since the beginning of the 1970s. Macroeconomic models are also in use in other Finnish research institutes. The publication now issued is the most comprehensive and detailed research report on this kind of model in Finland. It describes the modelling of the different sectors of the economy as well as the functioning of the overall model and the effects of economic policy in model simulations.

A collection of articles entitled "On the Effects of Interest Rates in the Finnish Economy" has been published in series A:61. The publication comprises three studies recently undertaken at the Bank of Finland. There is also a short

summary in English on each report. Helsinki 1985, 110 pp. ISBN 951-683-113-X, ISSN 0355-6042.

The first report investigates from the theoretical point of view the factors leading to changes in financial markets and the nature of the changes. It points out that the strengthening in the role of the interest rate mechanism influences both the channelling of finance and the prerequisites for the pursuit of monetary policy. The second report reviews empirical studies carried out in Finland in the 1970s and 1980s on the importance of interest rates and other financial factors for investment by firms and households. In addition, it surveys the picture given by economic theory as to the importance of financial factors for investment decisions. Finally, the third report uses the Bank of Finland's macroeconomic model BOF3 to examine the effects of interest rates on a number of phenomena, such as growth, employment, inflation, consumption, investment, financial markets etc. A more comprehensive report on the BOF3 model has recently been published in series D:59.







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# BANK OF FINLAND

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Ele Aienius

Harri Holkeri

Seppo Lindblom  
*Absent as Minister  
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Markku Puntila  
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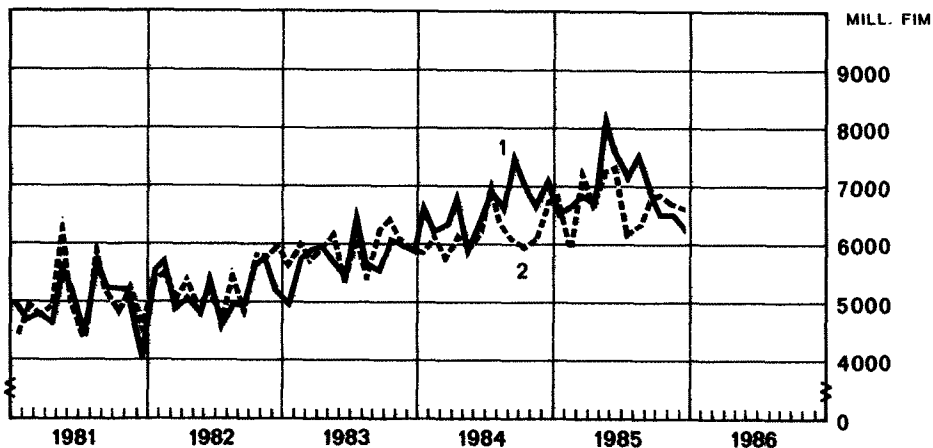
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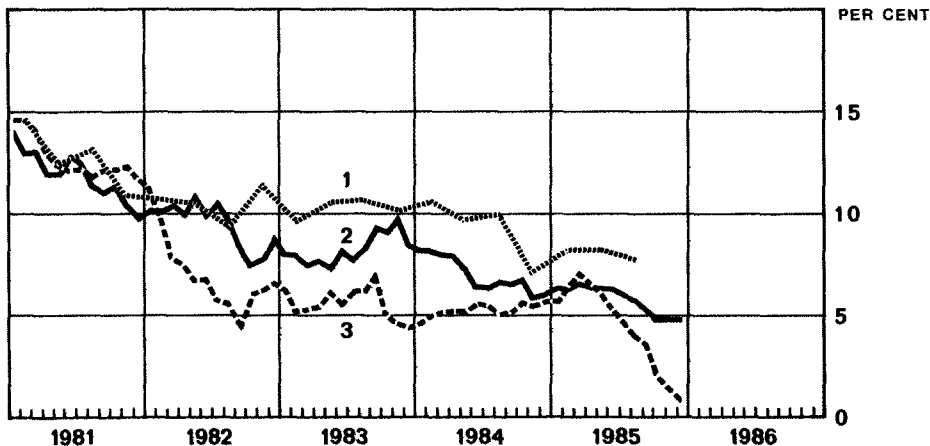
## FOREIGN TRADE, 1981-86

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



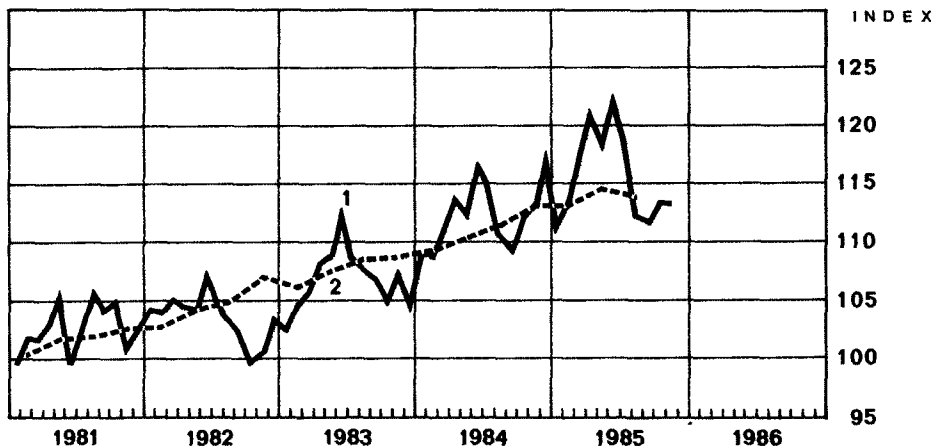
## PRICES AND WAGES, 1981-86

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



## PRODUCTION, 1981-86

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



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