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EBD/84/105

March 29, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Finland - Recent Developments and Policy Measures

The staff has received the following communication dated March 28, 1984, from Mr. Lindä on behalf of his Finnish authorities:

1. On March 5, the major employers' and employees' unions reached a two-year centralized incomes agreement. Within this agreement, wage rates were increased from March 1, 1984, by 3.2 percent with a 0.2 percent increase reserved for sectoral adjustments, in particular in the low-income sectors. The agreement provides for a second wage increase of 3.6 percent in March 1985. The settlement also includes a threshold indexing should the wage revision index (CPI adjusted for terms of trade movements) exceed 5.8 percent between February - December 1984 and again 5.8 percent between December 1984 - December 1985. The agreement is compatible with the inflation target set by the Government.

2. On March 27, the Bank of Finland issued the following press release regarding new policy measures:

"The liquidity position of the banks is improving noticeably because of a strengthening in the foreign exchange reserves and a weakening in the central government's cash position. To preserve monetary control and to curb the growth of lending, it is essential that an excessive easing can be forestalled.

"In order to sterilize liquidity, the Bank of Finland has therefore decided to raise the cash reserve requirement applied to the stock of deposits from 5.0 to 5.4 percent at the end of March and to rescind the upper limit on call money deposits with the Bank of Finland of 20 percent of each bank's balance sheet total.

"The removal of the upper limit on call money deposits will further intensify the link between the Bank of Finland call money rate and the unregulated money market rate. So as to prevent a significant increase in the banks' funding costs as a result of this step, the Bank of Finland has at the same time decided to lower the call money rate from 17.5 to 17.0 percent as from the beginning of April 1984.

"In addition, the Bank of Finland has decided to reduce its share in the financing of domestic suppliers' credits from 40 to 30 percent and to lower the upper limit on each firm's short-term export credits from Fmk 50 million to Fmk 30 million.

"To support its monetary policy measures, the Bank of Finland has decided to strengthen the external value of the markka by about one percent. The fluctuation limits on the currency index number will remain unchanged."

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