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To: Members of the Executive Board  
From: The Secretary  
Subject: Finland - Change in Exchange Rate Arrangement

There is attached for the information of the Executive Directors a paper on a change in the exchange rate arrangement of Finland.

Mr. B. Drees (ext. 38817) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:  
Department Heads



INTERNATIONAL MONETARY FUND

FINLAND

Change in Exchange Rate Arrangement

Prepared by the European I Department and  
the Monetary and Exchange Affairs Department

(In consultation with the Legal Department)

Approved by Massimo Russo and V. Sundararajan

September 9, 1992

In the attached press release issued by the Bank of Finland and communicated to the Fund by the Executive Director for Finland, the Finnish authorities have announced, with effect from September 8, 1992, the temporary floating of the Finnish markka which had been previously pegged to the ECU. On the day following this decision, the markka depreciated by about 13 percent against the ECU.

The decision to float was triggered by large-scale speculation against the markka in the foreign exchange market in recent weeks and the consequent loss in official reserves, which persisted despite increases in the Bank of Finland's tender interest rate (equivalent to a rediscount rate) in three steps from 14.6 percent in early August to 18 percent on September 3, 1992.

The Finnish authorities expect the new exchange rate arrangement to be temporary, and have reaffirmed their commitment to policies aimed at keeping inflation low and at reducing financial imbalances. They intend, as necessary, to conduct smoothing interventions in the foreign exchange market. The Fund staff are in continuous contact with the Finnish authorities concerning the exchange rate system and economic policies. The next Article IV consultation discussions are scheduled for early 1993.

Press release

#### FLOATING OF THE FINNISH MARKKA

On account of the serious disturbance prevailing in the foreign exchange market, the Bank of Finland has decided to temporarily abandon the limits of the fluctuation range set for the external value of the markka. This decision has been made jointly with the government in accordance with the Currency Act.

Despite the economic policy measures taken and the favourable developments in exports, uncertainty has continued in the money and foreign exchange markets. Recently, disturbances in the international currency markets, in particular, have increased nervousness.

In spite of the current high level of interest rates, the Bank of Finland has continually had to support the markka by selling foreign currency. The foreign exchange reserves have, in recent days, been supplemented by means of international swap arrangements.

In the present situation, the conditions necessary for maintaining a fixed exchange rate do not exist. It has therefore been decided to temporarily float the markka.

A strengthening of the present economic policy strategy is a prerequisite for stable economic development and employment. Reducing the borrowing requirement of the public sector is more important than ever. The main task of monetary policy will continue to be monetary stability.

As hitherto, the Bank of Finland will continue to implement monetary policy through open market operations. The Bank may also intervene in the foreign exchange market to smooth movements in the external value of the markka.

Finnish participation in European integration requires that Finland restore fixed exchange rates with other European currencies when the economic situation so permits.

For further details, please contact Mr Matti Vanhala, Member of the Board, tel. 183 2300, or Mr Johnny Åkerholm, Head of Department, tel. 183 2217.