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EBD/89/90

March 22, 1989

To. Members of the Executive Board

From The Acting Secretary

Subject Finland - Change in Exchange Arrangements

The Secretary has received the following memorandum dated
March 21, 1989 from Mr Fogelholm

For your information, I have received the following
communication from the Bank of Finland regarding a change of the
fluctuation range of the currency index

Effective March 17, 1989, the Government of
Finland has decided to lower both the upper and the
lower bound of the fluctuating range for the Finnish
currency basket by 4 percent. The maintenance of high
domestic interest rates has attracted capital inflows
which have reduced the effectiveness of monetary
policy in containing domestic demand. The
Government's ability to tighten fiscal policy rapidly
in order to obtain a large enough budget surplus that
would dampen domestic demand is limited. An appre-
ciation of the exchange rate has been judged to be the
fastest and most effective way to reduce inflationary
pressures in an overheated domestic economy.

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