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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 Band 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 appreciation 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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