BANK OF FINLAND
73RD YEAR BOOK

REPORT ON ACTIVITIES IN 1992

The figures in the Year Book
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The Governor's Review

In 1992, Finland's economic environment was characterized by sluggish international demand and unrest in the international currency and money markets. These factors further impeded the restructuring of the Finnish economy and compounded the problems associated with the credibility of economic policy.

Although the recession in the world economy continued, Finland's exports developed favourably as a result of a substantial improvement in competitiveness. Underlying this improvement were the devaluation of 1991, a reduction in indirect labour costs, pay settlements involving no contractual wage increases, a fall in roundwood prices and a marked improvement in productivity. The change in the exchange rate led, however, to the emergence of a serious dichotomy in the economy and a worsening in unemployment.

The weakening of the markka deepened the domestic recession more than might have been expected on the basis of the experience of past decades. It worsened the prospects for output in the domestic sector on account of a rise in import costs and reduction in consumers' purchasing power. The devaluation also increased financing costs both as a result of large exchange rate losses and a rise in interest rates. Both short-term and long-term interest rates were, in real terms, more than 2½ percentage points higher after the devaluation of 1991 than they had been before.

Owing to the depressed state of domestic demand, the cost pressures generated by import prices and by taxes and public sector charges have only partially shown up in domestic prices; a significant part of the rise in costs has instead been reflected in a squeeze on companies' profit margins. While Finland's rate of inflation has stayed below the international level, bankruptcies in the domestic sector have increased and unemployment has risen. The difficulties encountered by small and medium-sized companies in the domestic sector have been a major factor behind the growth of unemployment and banks' credit losses.

After the devaluation of November 1991, the Bank of Finland sought to bring down interest rates by restoring confidence in the exchange rate. Given a fixed exchange rate, the possibilities of the central bank to influence market confidence, currency flows and market interest rates through its own actions alone are, however, virtually non-existent. For most of the year, the markets showed little confidence in the prospect of balance being restored to the central government budget, despite several decisions on major spending cuts by the Government. The Bank of Finland concluded currency swap agreements with European central banks and supported the exchange rate through currency sales. In addition, the central government borrowed heavily abroad. Interest rates nevertheless remained high, and the markka was the first European currency to be floated, in early September.

The floating of the markka helped to keep conditions in Finland's financial markets fairly stable when tensions within the EMS intensified after mid-September. But because of the rapid growth of foreign debt, there has been no room in economic policy – even after the decision to float – to relax the tight rein on government spending. Market confidence in economic policy increased after the Government decided, in October, to take steps, in addition to those already announced, to reduce the budget deficit and after a pay settlement was reached under which wages were also to be kept unchanged for the second year of the current agreement period. The differential between short-term domestic market interest rates and their European counterparts disappeared completely, and the gap with respect to long-term rates narrowed significantly. This, in turn, made it possible to cut the base rate with effect from the beginning of 1993.

In principle, the floating of the markka provides the central bank with some room for manoeuvre and autonomy in interest rate policy, provided it is accepted that the exchange rate could weaken further. In Finland, however, the leeway in policy is severely limited by the growth of foreign debt, the sheltered sector's vulnerability to exchange rate risks and the inflationary pressures that have already built up as a result of the devaluation. Low inflation is also a key goal of economic policy now that the markka is floating.

To ensure the availability of adequate foreign financing, it will be necessary to pursue a policy that safeguards the country's creditworthiness. This implies the need for low inflation and fiscal consolidation. When, in the course of time, demand starts to recover, an acceleration of inflation would halt the current process of cost adjustment and strengthening of exports and would add a permanent risk premium to domestic interest rates. It would then be necessary to conduct a highly restrictive economic policy for a long period of time, with adverse consequences for employment.

The year 1993 will be a very difficult one for the economy. The slump in domestic activity will continue and no improvement is expected in the employment situation. There will be extremely little room for manoeuvre in economic policy. Nonetheless, everything possible should continue to be done to lower the level of interest rates. Above all, it is essential that the final decisions concerning the Government's plan for balancing the budget over the medium term should be taken as quickly as possible. Only in this way can we avert the danger of being forced to tighten budgetary policy still further in 1993. Moreover, it is important that the run-up to next autumn's wage talks should not be marked by any overdramatization or uncertainty that would push interest rates higher. The re-emergence of turbulence in the money market would have disastrous consequences for employment.

The application for EC membership implies the acceptance of the economic policy objectives entailed by integration. The objectives appear to be demanding in the light of Finland's history and the current economic situation. However, it should be borne in mind that Finland is not committing itself to something that is not in its own immediate economic interests. Even if Finland were to remain outside the EC, adjustment of the economy and of economic policy would be unavoidable and in accord with the country's interests.

Sirkka Hämäläinen

Economic Developments

The economy remained weak in 1992

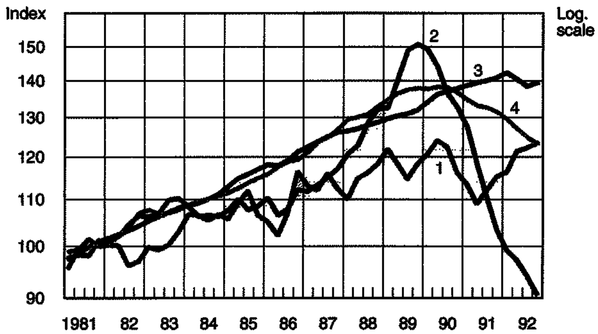
After a severe recession in 1991, the export industries recovered in 1992. By contrast, the recession in domestic markets deepened further (Chart 1). Though the devaluation of November 1991 contributed to the rapid revival in exports, it also depressed domestic demand and exacerbated the position of companies dependent on domestic markets. The output of these companies declined, employment weakened drastically and financial difficulties mounted. The central government deficit grew sharply, and increasing credit losses and falling asset values weakened bank profitability. In order to safeguard the banks' solvency, the state had to provide them with financial assistance, which further increased the central government's borrowing requirement. The measures taken to curb the growth of central government debt proved to be inadequate and this, together with the deterioration in the economic situation, continued to undermine in the external value of the markka. The measures aimed at improving the central government's fiscal position announced by the Government in mid-October and the reaching of a pay settlement involving no change in negotiated wages eventually calmed the money and foreign exchange markets, and interest rates fell towards the end of the year.

The recession in the industrial countries continued and currency disturbances increased

The western industrial countries remained in recession, despite the fact that the United States, Japan and the United Kingdom have eased monetary policy significantly since 1991. The recession was prolonged by the high indebtedness of companies and households, falling asset values and the difficulties encountered by banks. Economic growth in Europe was also dampened by the high level of interest rates. This, in turn, was due to the increase in the general government budget deficit and inflationary pressures in Germany caused by reconstruction in the eastern part of the country. In the summer, interest rates also rose in response to the rejection of the Maastricht Treaty in the Danish referendum, as the result was judged to endanger the plans for European economic and monetary union. Uncertainty in the money and foreign exchange markets became so intense prior to the French referendum in September that the European Community's Exchange Rate Mechanism (ERM) broke down, despite intervention by central banks. In mid-September, the pound sterling and the Italian lira were floated and the Spanish peseta was devalued. However, calm was restored to the currency markets only briefly, and towards the end of November uncertainty mounted again. Despite massive support, the Swedish krona

Chart 1.
KEY DEMAND COMPONENTS

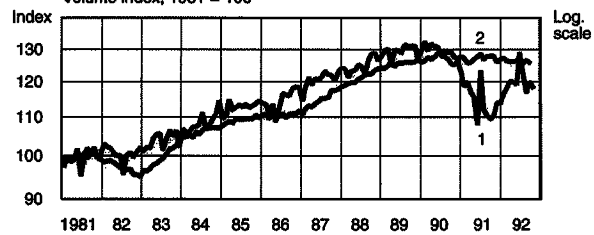
Volume index, 1981 = 100, two-quarter moving average, plotted at the latter quarter



1. Exports
2. Fixed investment
3. Public consumption
4. Private consumption

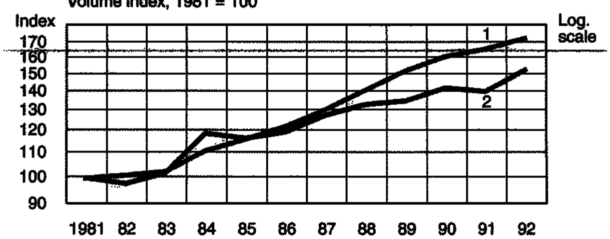
Chart 2.
DOMESTIC AND INTERNATIONAL ECONOMIC DEVELOPMENTS

Industrial production
Volume index, 1981 = 100



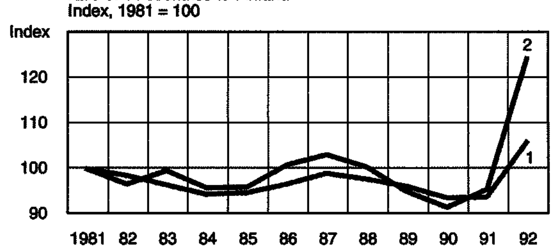
1. Finland
2. OECD countries

Finnish export markets and exports to western markets
Volume index, 1981 = 100



1. Finnish export markets
2. Finnish exports to western markets

Relative unit labour costs in manufacturing, ratio of 14 countries to Finland
Index, 1981 = 100

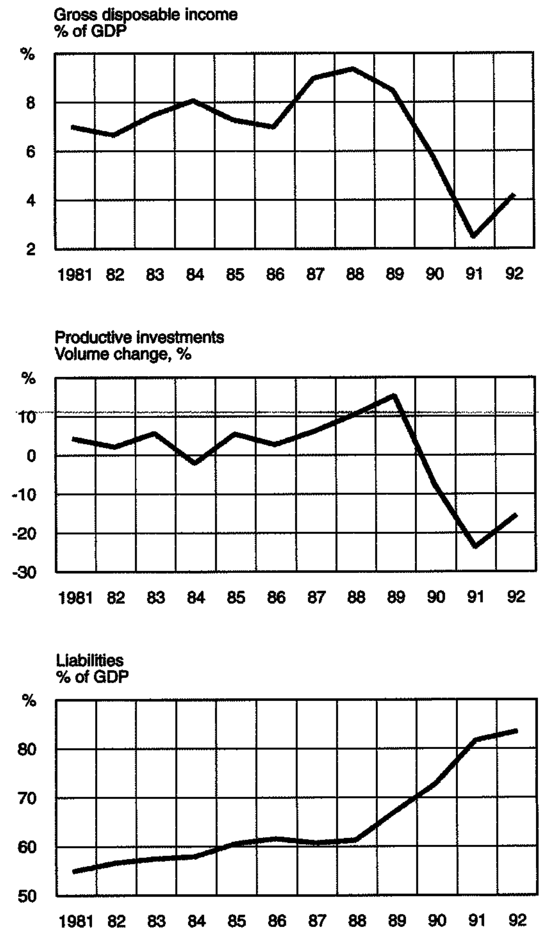


1. In national currencies
2. In common currency

had to be floated, and Spain, Portugal and Iceland devalued their currencies. In December, the Norwegian krone was also floated.

In most European countries interest rates fell after September's currency crisis, but the uncertainty prevailing in the foreign exchange markets worsened the economic atmosphere. Despite a modest recovery in activity in the United States, total output in the OECD area grew by only 1½ per cent in 1992, and, for example, in the United Kingdom and Sweden output declined for the second year in succession. World trade nevertheless increased by about 5 per cent. This was partly due to the expansion of the developing countries' trade. Finland's export markets grew by some 4 per cent.

Chart 3.
BUSINESS SECTOR



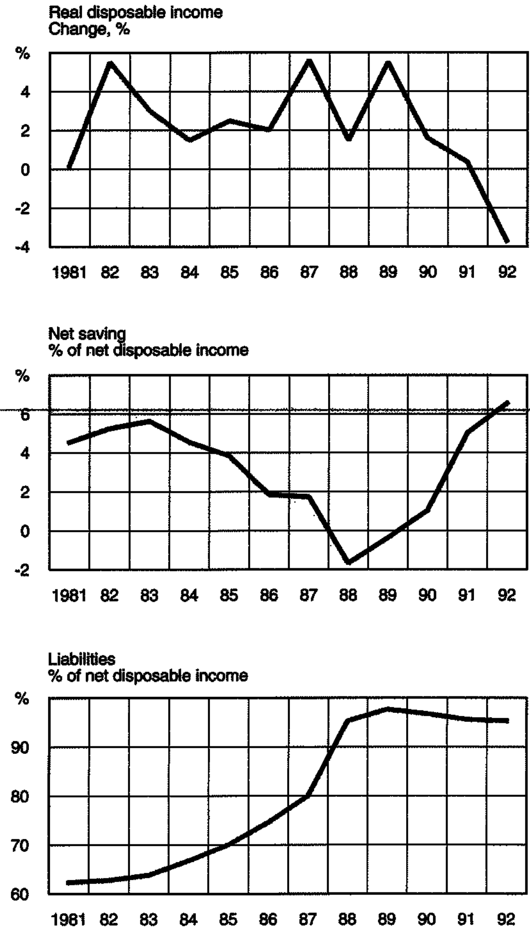
Improved competitiveness boosted exports

In addition to the recovery in export markets, the upturn in Finnish exports benefited from a marked improvement in price competitiveness (Chart 2). In keeping with the two-year incomes settlement reached in November 1991, contractual wages were kept unchanged in 1992, and the social security contributions of employers in the private sector were lowered slightly. As there was heavy labour shedding, unit labour costs in manufacturing dropped by nearly 10 per cent. Furthermore, the markka's 12.3 per cent devaluation in November 1991 and more than 10 per cent depreciation after it was floated improved price competitiveness in relation to Finland's main competitor countries by some 30 per cent on average in 1992 compared with the previous year. In addition, the contraction in domestic demand led to efforts to increase sales abroad.

The volume of total merchandise exports expanded by 9 per cent, and so Finland was able to regain part of the share of world trade it had lost in previous years. There was also an upturn in the volume of exports of services. Because of subdued market conditions at home and abroad, foreign trade prices rose by only just under half the change in exchange rates. The export unit value index rose by 6 per cent and the import unit value index by 10 per cent, so that the terms of trade weakened.

The value of merchandise exports increased by 16 per cent, partly as as a result of the weakening in the exchange rate. Among the main product

Chart 4.
HOUSEHOLD SECTOR



groups, the biggest increase was recorded by exports of metal and engineering industry products. Exports of electrical machinery and equipment and cars increased by one-third in value. The value of exports of the basic metals industry grew by one-fifth and that of exports of the chemicals industry by one-sixth. By contrast, exports of forest-based products continued to be hampered by global oversupply; both volumes and prices rose only slightly, and, for example, the value of pulp exports remained at the previous year's level.

As regards the geographical distribution, exports to EC countries inreased by one-fifth. Exports to Russia and other parts of the former Soviet Union remained at a low level owing to the region's worsening economic problems.

Industries in the domestic sector in great difficulties

The recovery in exports was not sufficient to offset the deepening in the recession in the domestic sector where the unavoidable adjustment to the overheating and rise in indebtedness that had occurred at the end of the 1980s continued. Though profitability in the export industries improved, many companies were still operating at a loss. The contraction in domestic demand contributed to the weakening in the income of companies supplying domestic markets. There was a further substantial fall in the volume of output in, *inter alia*, construction and many service sectors, such as wholesale and retail trade. Profitability was squeezed by the heavy debt burden, high interest rates and a marked increase in companies' debt-servicing costs on their foreign currency loans. Moreover, producers could not pass the higher cost of imported inputs through in full to domestic prices because of the recession. The decline in output, low level of capacity utilization and rise in financing costs led to a drop in business fixed investment (Chart 3). Housing investment decreased by 17 per cent.

As the profitability of companies in the domestic sector weakened and bankruptcies increased, the amount of non-performing loans and credit losses increased sharply. This, in turn, bore down heavily on bank profitability. The Government strengthened the banks' capital structure both through a direct infusion of capital and via the

Government Guarantee Fund, which it had set up earlier in the year. By these actions it sought to prevent a reduction in credit supply. Borrowing by the private sector nevertheless decreased on account of poor profitability and economic uncertainty. Moreover, the fall in asset values and increase in credit losses made banks cautious about advancing new credit.

The deepening in the recession in domestic markets was also clearly reflected in the household sector. Heavy unemployment and the large stock of debt accumulated in the late 1980s, together with the high level of interest rates, weakened the position of the household sector; households' real disposable income declined by nearly 4 per cent (Chart 4). Economic uncertainty led to an increase in household saving, and this, in turn, depressed domestic demand still further. Private consumption decreased by over 5 per cent, after having already declined by almost 4 per cent in the previous year. Sales of consumer durables fell by one-fifth for the second year in succession.

Households also reduced their indebtedness to a slight extent; the stock of both consumer credits and housing loans started to decline. More and more households were unable to service their loans, and this was a minor factor contributing to the banks' credit losses. The recession in the housing market deepened further. The number of new dwellings completed was 15 000 fewer than in 1991, and starts were down clearly from the previous year. Similarly, dwelling prices continued to fall. In October 1992, prices of old dwellings for the country as a whole were about 20 per cent lower than a year previously and about 45 per cent below their peak in spring 1989. Production costs in the construction sector were also lower than in the previous year.

The volume of total domestic demand contracted by 5.7 per cent in all. The volume of imports nevertheless remained unchanged as the revival in exports led to a substantial increase in imports of raw materials. Gross domestic product declined by 3.5 per cent. Manufacturing output increased by 4 per cent, and so its share in total output started to expand, reversing the downward trend that had continued throughout the 1980s.

Chart 5.
LABOUR MARKET, WAGES AND PRICES

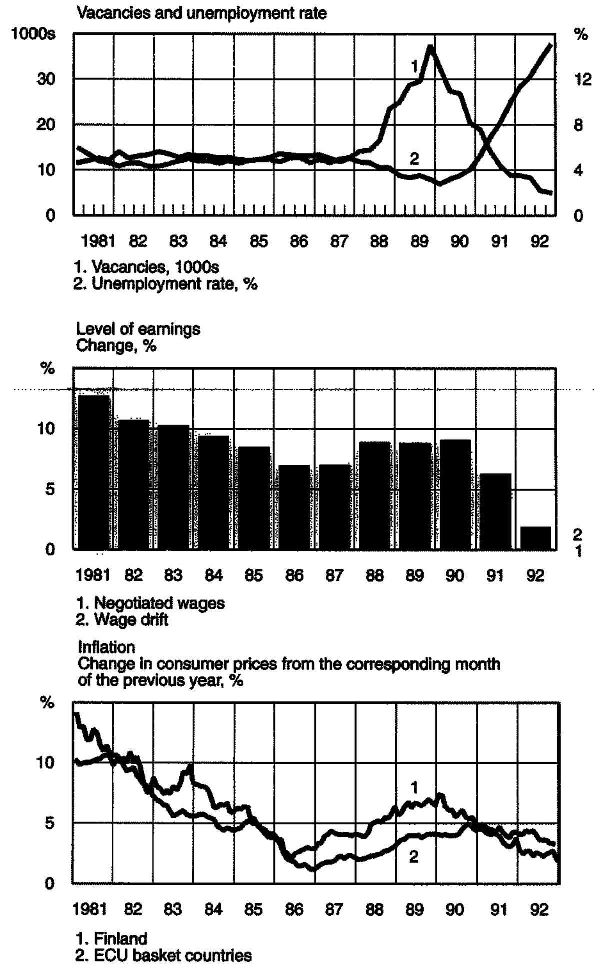
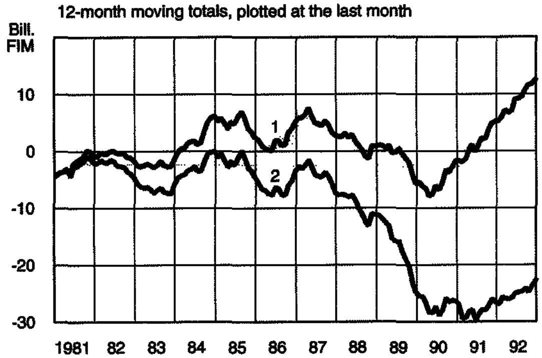


Chart 6.
EXTERNAL BALANCE
12-month moving totals, plotted at the last month



1. Trade balance
2. Current balance

Unemployment at record levels

The recession in the labour-intensive industries supplying domestic markets led to a sharp reduction in the sector's demand for labour. As there was also further labour shedding in manufacturing, unemployment climbed to record levels. Towards the end of the year, the unemployment rate rose to over 15 per cent and the average rate for the year was 13 per cent (Chart 5). According to the labour market survey conducted by Statistics Finland, the number of unemployed totalled 365 000 at the end of the year, and there were large numbers of lay-offs in many sectors. The number of long-term unemployed increased manyfold and climbed to over 50 000 in the last months of the year. Youth unemployment also increased substantially; the unemployment rate for this group was twice the average for the whole population.

Inflation remained low

Despite the depreciation of the markka, prices did not rise significantly. This mainly reflected the slackness of demand in goods and labour markets. A fall in world market prices and subdued market conditions at home helped to contain the rise in import prices; they increased by only 11 per cent between October 1991 and October 1992 even though the markka's value in relation to European currencies declined by 25 per cent during the same period. Import prices did not rise markedly until the autumn following the renewed weakening of the markka. Another factor, along with higher import prices, contributing to the rise in consumer prices was the measures taken in the public sector. Their computed effect was about 2½ percentage points, but only about just over half of this is estimated to have been passed through to prices in 1992 owing to the weakness of demand. Inflation was also dampened by a marked slowdown in the rise in labour costs. The 12-month rate of increase in consumer prices slowed from 3.9 per cent in December 1991 to 2.1 per cent in December 1992 (Chart 5).

In keeping with the comprehensive incomes policy agreement reached in November 1991, contractual wages were kept unchanged in 1992. As, moreover, wage drift was minimal on account of the slack demand for labour, the level of earnings of all wage and salary earners rose by 1.8 per cent on average from the previous year (Chart 5). Real wages fell by 2 per cent.

External balance improved

Reflecting the rapid recovery of exports and decline in domestic demand, the trade surplus grew to FIM 12.2 billion in 1992 (Chart 6). The deficit on the services account narrowed markedly, amounting to FIM 6.5 billion. The increase in foreign debt and depreciation of the markka led to a rise in investment income payments abroad; net interest payments rose to FIM 23.8 billion. There was no change in the deficit on the transfers account. The current account deficit shrank by about FIM 4 billion from the previous year and totalled FIM 22.8 billion (4.6 per cent of GDP). As a result of the current account deficit and the rise in the value of foreign currencies caused by the markka's depreciation, Finland's net foreign debt rose to FIM 235 billion (48 per cent of GDP).

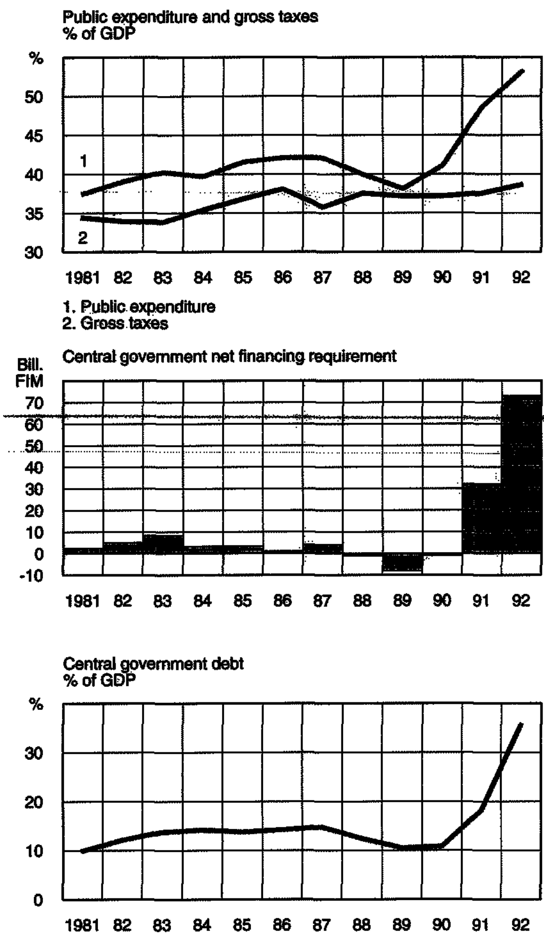
Consolidation of central government finances the main concern of fiscal policy

The main aim of fiscal policy was to redress macroeconomic imbalances and reduce the general government deficit. However, the central government's budget deficit and borrowing requirement both grew sharply in the course of the year. The greater-than-expected deterioration in economic activity not only reduced tax revenue but swelled expenditure, both on unemployment benefits and financial support for the banks. One-third of central government expenditure had to be covered by borrowing. The trend growth of central government indebtedness seemed unsustainable as far as the years ahead were concerned.

Domestic economic performance

	average				
Exports	1.9	1.6	1.6	–6.7	9.1
Private investment	2.7	16.3	–7.1	–22.6	–16.0
Private consumption	3.4	4.2	0.2	–3.7	–5.3
Total domestic demand	3.8	7.4	–0.3	–8.1	–5.7
– of which: public	3.4	1.8	5.6	2.1	–1.3
Imports	4.6	8.8	–0.9	–12.1	0.4
GDP	3.0	5.4	0.3	–6.4	–3.5
Earnings	8.5	8.9	9.2	6.3	1.9
Export unit value index	3.2	7.5	–1.2	0.3	6.3
Import unit value index	0.8	3.5	1.7	2.3	10.5
Terms of trade	2.3	3.9	–2.8	–1.9	–3.8
Consumer prices	5.6	6.6	6.1	4.1	2.6
– December to December	. .	6.5	4.9	3.9	2.1
Unemployment rate, %	5.1	3.5	3.5	7.6	13.1
			per cent of GDP		
Gross investment	25.3	30.3	28.4	21.6	18.3
Gross saving	22.7	25.3	23.4	16.3	13.7
Current account = financial balance	–2.7	–5.0	–5.0	–5.3	–4.6
– business sector	–5.2	–8.3	–9.3	–7.2	–4.9
– financial institutions	4.3	4.9	6.1	6.3	4.9
– households	–1.7	–4.7	–3.1	1.2	4.1
– public sector	0.0	3.1	1.3	–5.5	–8.8

Chart 7.
PUBLIC FINANCE



On 5 April, in response to the crisis that had emerged in the money and foreign exchange markets, the Government announced an economic policy package aimed at cutting central government spending by FIM 10 billion (2 per cent of GDP) in 1993. Many of the proposed cuts were such that they would curb central government expenditure in subsequent years as well.

In order to enhance the credibility of economic policy the Government published the 1993 budget proposal already in June. The proposal sought to support the restoration of equilibrium to the economy and to improve the financial position of both the central government and the rest of the public sector by reducing the growth of statutory expenditure components. The budget provided for spending cuts of FIM 7.5 billion in 1993 on top of those already announced. Excluding support for the banking sector, total expenditure was estimated to decrease by 2 per cent in real terms. The central government's net financing requirement was estimated to decline in 1993.

In the course of the summer, it became apparent that unemployment and hence also the central government's financing requirement were growing faster than expected. To calm the financial markets, on 6 August, the Government published an eight-point programme in which it asserted that economic policy was based on a fixed exchange rate and was aimed at reducing the general government budget deficit. In the same context, the Government announced that it would safeguard the functioning of the banking system under all circumstances.

Market doubts about the state of public finances led to the decision to float the markka. This, however, failed to restore the confidence of the foreign exchange market in economic policy, and in mid-October the Government proposed further measures for consolidating public finances. The Government announced that the proposed cuts in expenditure and increases in revenue were designed to reduce the structural deficit in the central government budget in the period 1993–1995. The Government proposed that changes be made to the already clearly restrictive budget for 1993 it had submitted to Parliament in September. It was estimated that the changes would trim the central government deficit by a total of FIM 8.5 billion, of which FIM 5.3 billion represented additional cuts and FIM 3.2 billion additional revenue. Excluding support for the banking sector, central government expenditure was estimated to decrease by 5 per cent in real terms. Expenditure is estimated to fall by FIM 16 billion in 1994 and by FIM 20 billion in 1995. The package also includes far-reaching proposals concerning pension insurance, which, if implemented, would have long-term savings effects on central government expenditure.

At the end of November, in connection with the incomes policy negotiations and facing the threat of a general strike, the Government had to abandon some of its planned savings for 1993. The resulting shortfall was, however, covered by various increases in employees' social security contributions, and so there was no change in the target for reducing the central government deficit.

In 1992, the central government revenue deficit grew to FIM 42 billion (8.5 per cent of GDP). The net financing requirement, which also includes central government lending and other financial investments (incl. capital support for banks), amounted to FIM 73 billion (Chart 7). The central government's gross debt grew to FIM 175 billion at the end of 1992 (36 per cent of GDP).

A change of vital importance as regards the conduct of fiscal policy was an amendment to constitutional law which enabled laws providing for cuts in central government spending to be passed by a simple majority in Parliament. Among other measures taken in 1992 to enhance economic efficiency and the public sector's fiscal position were the introduction of new competition legislation and the reform of the state-aid system for local government. Capital taxation was reformed and restrictions on foreign ownership of Finnish shares lifted with effect from the beginning of 1993.

Central Bank Policy

Monetary and exchange rate policy

A state of nervousness prevailed in the foreign exchange and money markets in 1992, and it was characterized by heavy pressure against the markka. Following the devaluation in November 1991, the Bank of Finland's prime objective was to create conditions that would be conducive to a fall in interest rates. However, it proved difficult to restore confidence, and the effort was further hampered by the continuing deterioration in the economic situation. The markets remained unsettled despite the fact that price competitiveness improved markedly, the Government made far-reaching decisions concerning spending cuts and bilateral swap arrangements were agreed between the Bank of Finland and other European central banks. Uncertainty increased in the latter part of the summer in response to the restlessness in European currency markets.

As confidence in the country's economic policy and in the markka's external value had not – despite the above measures – been restored by the beginning of September, the markka's fixed parity in relation to the European Community's accounting unit, the ECU, was abandoned and the currency was allowed to float for an unspecified period. The decision to float the markka was seen as the best alternative because, under the prevailing conditions, the defence of a fixed exchange rate would have been difficult and expensive for the economy. The decision did not, however, mark the abandonment of the objective of keeping the value of the currency as stable as possible.

The publication by the Government in mid-October of a multi-year programme for the consolidation of central government finances calmed the markets and the currency outflow was reversed. The markka's external value remained fairly steady for the rest of the year. Domestic interest rates declined as market confidence increased and rates abroad came down.

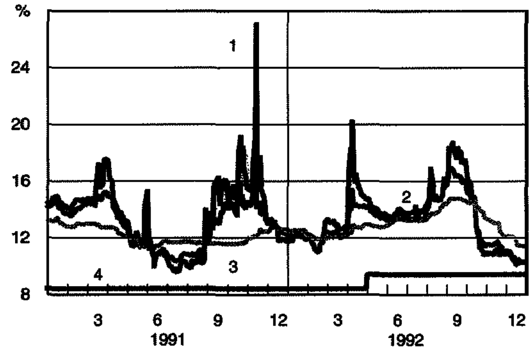
A restless year in the foreign exchange and money markets

Interest rates declined in the early part of the year – but only temporarily

Following the devaluation of November 1991, the maintenance of a stable exchange rate continued to be a prime objective of the Bank of Finland. At the same time, allowance was made for the fact that any pressures against the currency would be reflected in interest rates and the foreign exchange reserves.

In the opening weeks of 1992, the markka's exchange rate against the ECU stabilized around the midpoint of the currency band. Currency had started to flow back into the country, thus paving the way for a decline in domestic interest rates. In early February, it began to be clear that Finland would apply for membership of the European Communities and the Government made a decision in principle to curb the growth of public spending. Market interest rates declined further (Chart 8). The Bank of Finland allowed rates to come down and the differential with respect to foreign rates to narrow (Chart 9). Nevertheless, at the end of February, the currency outflow resumed and interest rates rose again.

Chart 8.
KEY INTEREST RATES



1. 1-month HELIBOR
2. 3-month HELIBOR
3. 5-year market rate
4. Bank of Finland's base rate

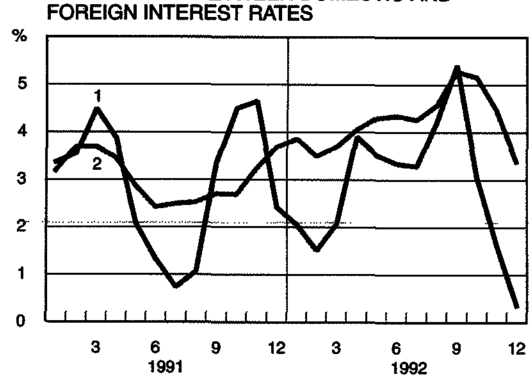
Restlessness in the markets increased at the end of March

In March, the Government and the Bank of Finland announced a comprehensive plan for supporting the banks. The plan sought to ensure that the banks' burgeoning credit losses would not restrict lending. It also included a proposal to raise the base rate by one percentage point to 9.5 per cent with effect from the beginning of May (for details of the support package and the interest rate decisions, see p. 28). In the same context, the interest rate paid on banks' cash reserve deposits was raised by one percentage point.

The markets responded positively to the announcement, but the effect proved to be short-lived. Market unrest intensified following a public disagreement between Prime Minister Esko Aho and the Governor of the Bank of Finland, Rolf Kullberg. After consulting with the President of the Republic, the Governor announced his intention to retire the following summer.

The announcement only served to increase uncertainty and nervousness in the markets. The Bank of Finland supported the markka by selling foreign currency and allowing interest rates to rise (Chart 10). One-month HELIBOR rose to nearly 17 per cent and three-month HELIBOR from 12.8 per cent to 13.4 per cent. Despite the Bank's intervention in the currency market and the rise in interest rates, the markka weakened markedly against the ECU.

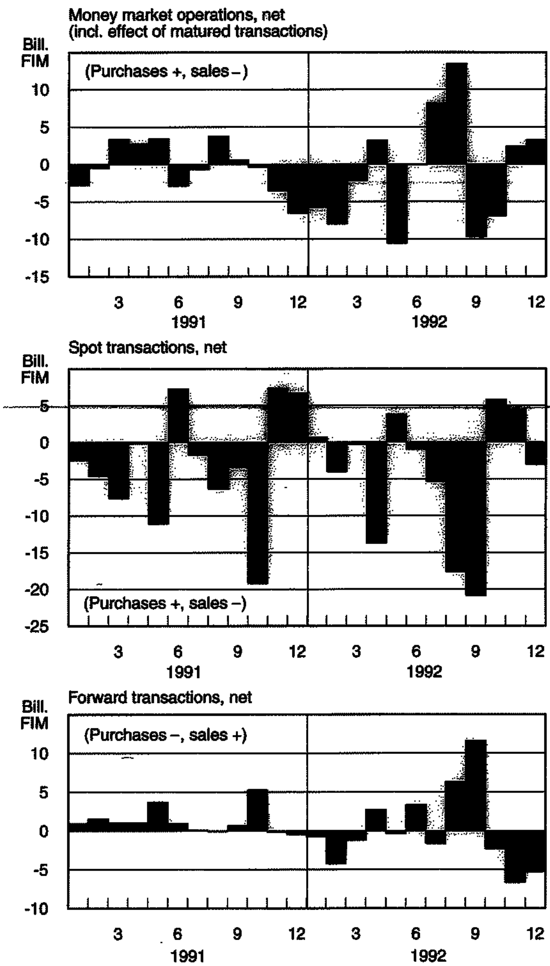
Chart 9.
DIFFERENTIAL BETWEEN DOMESTIC AND FOREIGN INTEREST RATES



1. 3-month HELIBOR less 3-month ECU rate
2. 5-year market rate less 5-year ECU rate

On 5 April, the Government announced an economic package providing for cuts in central

Chart 10.
THE BANK OF FINLAND'S MONEY MARKET OPERATIONS AND INTERVENTION IN THE FOREIGN EXCHANGE MARKET



government spending. The programme's credibility was strengthened by the fact that the constitutional amendment being prepared at the time would make it possible for the Government to implement nearly all the measures involved without the support of the opposition in Parliament.

On the same day, Governor Kullberg announced that, because of the inflamed situation regarding economic policy, he had asked the President of the Republic to relieve him of his duties immediately. At the same time, it was announced that the President had appointed Dr Sirkka Hämäläinen, a member of the Bank's Board of Management, as the new Governor of the Bank of Finland.

In the same context, the Bank of Finland concluded swap agreements with the central banks of Sweden, Norway, Denmark and Germany. Under these agreements, the central banks of these countries undertook to lend the Bank of Finland their own currency for a specified period in order to finance currency outflows caused by an acute currency crisis.

The Parliamentary Supervisory Board of the Bank of Finland extended the interest rate powers of the Bank's Board of Management for an indefinite period. Under these powers, the call money credit rate levied on the banks could, if necessary, be raised to 40 per cent, implying a maximum penalty rate of 80 per cent.

Markets calmed but foreign exchange reserves did not increase

The measures taken by the Government calmed the situation but were insufficient to reverse the currency outflow. At the end of March, the Bank of Finland's net foreign exchange position (including its forward position) amounted to FIM 31.2 billion. During the first reporting week of April, the reserves fell to FIM 17.9 billion. The continuing uncertainty throughout the spring and summer is reflected in the fact that the foreign exchange reserves for the third reporting week of August were still below the level they had been prior to the disturbance in April. The reserves were maintained almost entirely by the central government's capital imports. Domestic companies and banks, as too foreign investors, ran down their markka claims.

After the April crisis, interest rates fell only slightly. In an effort to reduce uncertainty, the Government brought forward the preparation of its budget proposal for 1993. One of the fears in the markets was that the wage negotiations in the autumn would prove to be difficult. Moreover, the local elections in October were expected to increase political tension. The uncertainty present in expectations was particularly evident in six-month interest rates, which were the highest of all in June and July. There was clearly uncertainty in the economy regarding the sustainability of the exchange rate. Anxiety was heightened by the fact that the Bank of Finland's foreign exchange reserves remained at a relatively low level.

In order to reduce uncertainty concerning the adequacy of foreign exchange reserves, the Bank of Finland negotiated an extensive network of bilateral swap agreements with the central banks of all the EC countries in the early summer. These substantial currency support agreements were announced on 15 July. The permanent network of swap arrangement thus created replaced the existing fixed-term agreements with Germany and Denmark. The swap agreements with the Norwegian and Swedish central banks remained in force. In addition, similar arrangements had been agreed with the central banks of Austria and Switzerland. Thus the network of swap arrangements covered the central banks of all EC and EFTA countries except Iceland. The announcement calmed the markets, and nearly all interest rates fell by about one percentage point to between 13.3 and 13.6 per cent.

A few days after the announcement, there was public discussion on the economic policy pursued and on support for the banks. This was reflected immediately in the money and foreign exchange markets: interest rates rose again and the currency outflow accelerated.

There was also restlessness in the international markets. The rejection of the Maastrict Treaty in the Danish referendum held in June, together with concern about the outcome of the French referendum due to be held in September, sustained uncertainty in the money and foreign exchange markets throughout the latter part of summer. The increase in the Bundesbank's discount rate in mid-July also pushed interest rates up in other European countries. Underlying the problems of the European Monetary System (EMS) were pressures that had been building up for some years. Many countries had for long been conducting economic policies that were at odds with the EMS's exchange rate objective.

Markka floated

The currency outflow accelerated towards the end of the summer, even though the Bank of Finland allowed the tender rate to rise and raised the rate itself on two occasions through fixed-rate tenders (for details of the liquidity system, see p. 34). Uncertainty was also reflected in market interest rates: the differential between three-month HELIBOR and the corresponding ECU rate widened to four percentage points in early August.

As a result of currency sales undertaken in support of the markka, the Bank of Finland's net foreign currency position weakened and was below FIM 20 billion at the end of August. The Bank of Finland made use of the swap arrangements concluded with other central banks for the first time, raising currency support loans to the value of FIM 1.9 billion. The purpose of the move was to ensure room for manoeuvre in monetary policy and to prevent market reactions based on concern about external liquidity.

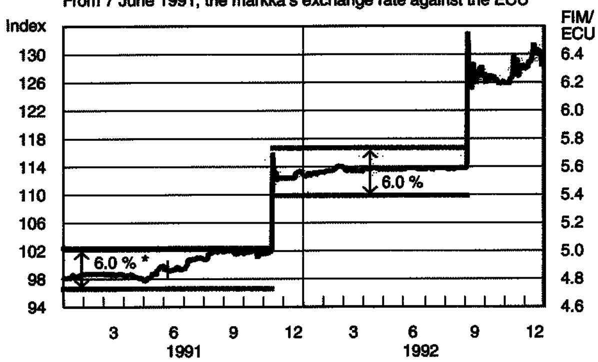
The markka's rate against the ECU was kept stable throughout the first week of September. On Friday, 4 September, the money market was nervous: interest rates fluctuated and the spread between bid and offer rates widened. One-month HELIBOR stayed above 18 per cent and three-month HELIBOR close to 17 per cent. The reasons for the nervousness were the Government's budget proposal – due to be published that afternoon – a rise in Swedish interest rates and unrest in other international currency markets. The Bank of Finland supported the markka by selling foreign exchange.

The Bank decided to raise additional currency support loans but refrained from other measures in order to see how the markets would react to both the budget proposal and the communiqué to be issued by EC ministers at their weekend conference. The EC countries decided to uphold the existing exchange rates and to use all available means to support EMS currencies.

The information on the budget and news from the EC conference were not enough to calm the Finnish markets. On Monday, 7 September, interest rates rose sharply. The Bank of Finland injected liquidity into the money market and supported the

Chart 11.
EXTERNAL VALUE OF THE MARKKA

Until 6 June 1991, the Bank of Finland currency index
From 7 June 1991, the markka's exchange rate against the ECU



* Fluctuation range

markka through sales of foreign currency amounting to nearly FIM 5 billion, but currency flowed out of the country. The interest rate on one-month maturities climbed above 20 per cent and that on three-month maturities touched 17.3 per cent.

There was nothing on the horizon in the coming days or weeks that would have calmed the situation. On the contrary, nervousness was expected to continue all the way up until the French referendum. Thus, it was felt that further increases in interest rates would not, under the circumstances, calm the markets or reverse the currency outflow. It was uncertain whether defending the markka by recourse to swap arrangements would have been successful in these conditions and it might have been very costly to the economy. Hence, it was decided to float the markka. An announcement to that effect was issued on Tuesday, 8 September, just before the markets opened.

In September, up until the decision to float, a total of FIM 22 billion worth of foreign exchange was sold, of which forward sales accounted for FIM 12 billion. Currency support loans were raised to the value of FIM 10.6 billion, and the Bank of Finland's net foreign exchange position showed a liability of some FIM 8 billion.

The floating of the markka meant that there was no longer an explicit intermediate target for monetary policy; the fixed exchange rate had provided explicit guidelines for the formulation of policy. Slow and stable price developments nevertheless remained the ultimate objective of monetary policy. The Bank of Finland reaffirmed that this was still the ultimate goal but did not announce a new intermediate target. In practice, success in achieving the ultimate goal is monitored by a number of indicators, such as base money and other monetary aggregates, interest rates and exchange rates. The instruments of monetary policy remained the same as before.

October's programme of spending cuts calmed the markets

After the markka was floated, its value declined by some 11–13 per cent and remained fairly steady for the rest of the year (Chart 11). Domestic firms repatriated their foreign currency receivables; in contrast, foreign investors continued to unwind their markka positions. The foreign exchange reserves grew only slowly, however, because of repayments of banks' and companies' debts and of the Bank of Finland's currency support loans.

In September, interest rates turned down, partly because of declines elsewhere in Europe. In mid-October, on the eve of the local elections, the Government announced its plan for measures to improve the balance in public finances in the period 1993–1995. The programme of spending cuts calmed the markets and paved the way for a reduction in interest rates.

Immediately after the programme of spending cuts was announced, short-term interest rates fell by about 1½ percentage points and long-term rates by ½ percentage point. By the end of the year, the differential between short-term domestic and ECU interest rates had virtually disappeared. The decline in long-term rates was slower, however, and the differential with respect to foreign rates was still some 2½ percentage points. This was a reflection of continuing inflationary expectations and hence uncertainty about the future value of the markka.

At the end of November, the tensions which led to the floating of the Swedish krona and brought pressure to bear on the currencies of other small European countries further unsettled the international money and currency markets. They had little impact on domestic interest rates or the markka's external value, however. Once the threat of a general strike in connection with the wage negotiations had receded and an agreement had been reached, long-term interest rates, in particular, declined and the markka remained steady until the end of the year.

The decline in long-term interest rates also paved the way for a cut in the base rate. The Bank of Finland lowered the base rate by one percentage point, to 8½ per cent, with effect from 1 January 1993.

Following its decision to float the markka, the Bank of Finland purchased foreign currency in order to rebuild its foreign exchange reserves and repay currency support loans. It was considered important to build up the reserves both as a means of dampening sudden swings in exchange rates and as a necessary – albeit not the only – condition for a return to fixed exchange rates.

As interest rates fell and the foreign exchange reserves grew, the Bank of Finland absorbed large amounts of liquidity through CD deals. As a result, the Bank of Finland's outstanding CD liabilities rose by some FIM 8 billion to FIM 15 billion in the period from 1 September to 30 November. Some of the liquidity was tied up in the form of cash reserve deposits in the last months of the year. The cash reserve requirement was raised in steps from 3.7 per cent to 5.5 per cent in the period from October to December. The rate of interest paid on cash reserve deposits was cut by one percentage point at the beginning of 1993. Cash reserve deposits amounted to FIM 13.1 billion at the end of 1992.

Bank lending declined

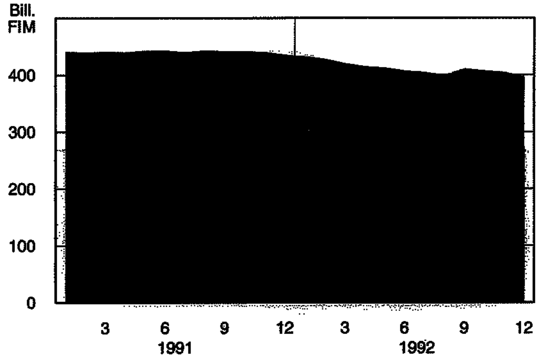
The deepening of the economic recession together with high interest rates restrained the public's willingness to borrow in 1992. On the other hand, growing credit losses and shrinking asset values induced banks to tighten their collateral requirements, thus restricting the supply of credit. Despite the financial assistance the banks received, the demand for credit was so subdued that the total amount of outstanding loans, which had already stopped growing in the previous year, began to decline markedly in 1992. Markka bank lending fell by almost 5 per cent and foreign currency lending by some 10 per cent (Chart 12). The depreciation of the markka after it was floated increased the markka value of outstanding foreign currency loans, which amounted to some FIM 100 billion at the end of the year. The public's markka deposits with banks declined by almost 1 per cent, whereas the stock of foreign currency deposits increased.

There was also a change in the structure of markka borrowing. Only the public sector increased its borrowing in 1992. Companies, households and financial institutions raised loans in substantially lower amounts than in 1991. The recession was clearly reflected in the amount of companies' new markka borrowing, which declined by over 15 per cent. Households reduced their borrowing by some 20 per cent. Both housing loans and consumer credits were raised in smaller amounts than in the previous year.

The average interest rate on new markka bank loans rose along with market rates in the course of the year, although towards the end of the year rates on new loans also turned down. In the early part of the year, the rise in the average interest rate on housing loans was clearly more moderate than that on consumer credits (Chart 13). Companies' profitability problems and debt restructurings were also reflected in interest rates. The average rate on loans to companies remained practically unchanged in the early part of the year, being about one percentage point below the average rate on loans to households.

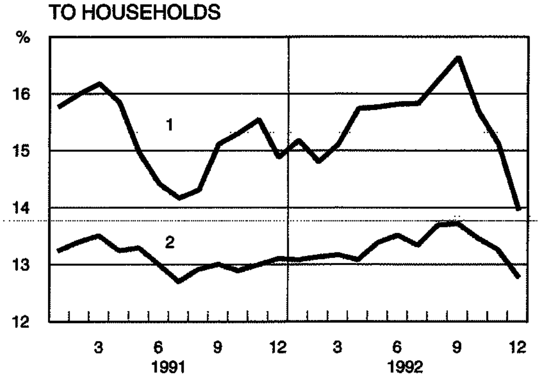
The banks' own reference rates, the most important of which are the prime rates applied by Postipankki and by OKOBANK and the cooperative banks, followed market rates with a lag. The average rate on loans tied to a reference rate rose by almost 2 percentage points in the course of the year.

Chart 12.
OUTSTANDING BANK CREDIT



1. Markka lending to the public
2. Foreign currency lending to the public
3. Funds intermediated through banks' trust departments
4. Outstanding commercial paper

Chart 13.
RATES OF INTEREST ON BANK LOANS TO HOUSEHOLDS



1. New consumer credits
2. New housing loans

Capital market marked by uncertainty

In 1992, the share market was almost as quiet as in the previous year, although activity in the secondary market picked up somewhat in the final quarter. Share prices fluctuated considerably in the course of the year. Prices declined up until autumn but started to rise after the markka was floated. There were no public offerings of new shares in 1992 (Chart 14). Total turnover on the stock exchange was boosted by the fact that some securities broking firms began reporting their bond transactions on the stock exchange. Overall, turnover on the stock exchange increased substantially on the previous year.

Activity in the capital market focused on the bond market. The need for financing led to an increase in markka bond issues by the central government and local authorities (Chart 15). The central government raised FIM 13 billion and the local authorities nearly FIM 3 billion in this way. Liquidity in the bond market improved substantially. The commencement of the primary dealer system for benchmark government bonds improved the functioning of the secondary market for these bonds and increased their liquidity (for details of the primary dealer system, see p. 34).

High interest rates and slack investment discouraged companies from raising debt capital; new bond issues amounted to only just over FIM 7 billion, or about the same as in 1991. Bond issues by banks and other financial institutions plunged by about 40 per cent to FIM 15 billion. The problems besetting the banks dampened investors' interest in banks' long-term debt.

Structure of foreign debt changed

In 1991, the size of Finland's private foreign debt had reached major proportions by international standards. By contrast, the central government's foreign debt was still relatively small. However, as the growth in its financing needs, which started in 1991, continued at a rapid pace in 1992, the net financing requirement increased to more than FIM 70 billion. Of this amount, about three-quarters was covered by borrowing from abroad. Since, at the same time, banks reduced their outstanding foreign debt, the structure of Finland's foreign debt changed significantly. The share of the central government in net foreign debt increased from 29 per cent to 48 per cent.

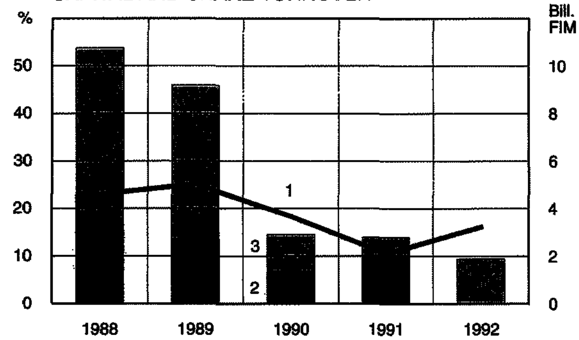
The banks' foreign debt declined to some FIM 25 billion. This was partly due to the fact that banks and companies found it more difficult to obtain loans from abroad. The reduced availability of credit was due to the downgrading of the banks' own credit ratings as well as heavy borrowing by the central government and other Nordic countries.

The banks repaid some FIM 12 billion worth of the foreign currency loans which they had raised on behalf of companies. This sum corresponds to the total amount of five-year bullet bonds issued in 1987. By contrast, the amount of foreign currency loans raised directly by companies abroad remained practically unchanged. The amount of short-term trade-related credits grew, whereas investments abroad were of the same order of magnitude as in 1991.

The structure of foreign debt also changed in that the share of foreign currency debt increased and that of markka debt decreased. The bulk of capital imports was in the form of portfolio investment, ie sales of securities. These consisted primarily of sales abroad of foreign currency bonds by the central government, which amounted to some FIM 49 billion in net terms. Sales of markka bonds and Treasury bills amounted to only FIM 0.8 billion. At the end of the year, foreigners held markka bonds and Treasury bills amounting to FIM 15.7 billion, which was FIM 4.4 billion less than a year earlier.

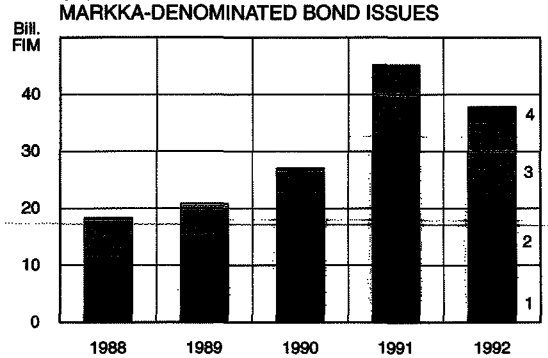
Capital was exported from Finland in large amounts in 1992 as banks hedged their forward exchange sales. Companies purchased forward exchange from banks, especially in early April and from late July to early September when the markka

Chart 14.
LISTED COMPANIES: ACQUISITION OF RISK CAPITAL AND SHARE TURNOVER



1. Turnover of listed shares in relation to market capitalization, %
2. New risk capital: financial institutions, bill. FIM
3. New risk capital: other companies, bill. FIM

Chart 15.
MARKKA-DENOMINATED BOND ISSUES



1. Companies
2. Financial institutions
3. Central government
4. Local government

Financing of the current account, FIM million

		I	II	III	IV	I–IV
Trade balance	4 974	2 059	2 258	4 142	4 169	12 628
A. CURRENT ACCOUNT	–26 696	–8 133	–6 736	–3 528	–4 381	–22 777
B. CAPITAL IMPORTS	20 292	6 491	5 687	–2 638	3 987	13 528
Loans (non-negotiable)	12 107	–1 281	754	–238	3 034	2 269
Direct investment	–5 300	–1 149	–121	–1 067	–1 225	–3 562
Portfolio investment (shares and bonds), net	38 375	3 737	11 774	6 333	14 921	36 765
Other capital transactions	–24 890	5 184	–6 720	–7 666	–12 743	–21 945
A.+B. CHANGE IN FOREIGN EXCHANGE RESERVES	–6 404	–1 641	–1 049	–6 165	–394	–9 249
Memorandum item: Central government's capital transactions, net	22 839	8 004	15 673	8 613	18 335	50 625

was floated. Between the beginning of August and 8 September, domestic companies purchased forward currency from the banks to the equivalent of FIM 17.8 billion in net terms. During the same period, foreigners sold forward markkaa totalling nearly FIM 9 billion. During the final quarter, when the markka was floating, firms unwound their forward positions.

Heavy capital flows caused swings in the Bank of Finland's foreign exchange reserves in the course of the year (Chart 16). Between 9 September and the end of the year, the reserves increased by FIM 3.9 billion. There was still some FIM 2.3 billion worth of currency support loans outstanding at the end of the year, but the reserves were FIM 9.2 billion below their level a year earlier. Thus capital imports were not sufficient to finance the current account deficit.

Currency Act amended

The decision to float the markka provoked some discussion on the interpretation of section 2 of the Currency Act. In its existing form, the Act authorized the Bank of Finland to temporarily disregard the fluctuation limits in the event of a major disturbance in the foreign exchange markets. To make it more precise, the Act was amended on 13 November so as to allow the Government to extend the right to float the markka for an unspecified period on the recommendation of the Bank of Finland. The Government may also cancel the Bank's right if conditions in the money and foreign exchange markets so permit. Before such a cancellation, however, the Government must seek the opinion of the Bank on the matter. The Bank would then be obliged to either propose new fluctuation limits or to resume observing the limits in force prior to the float.

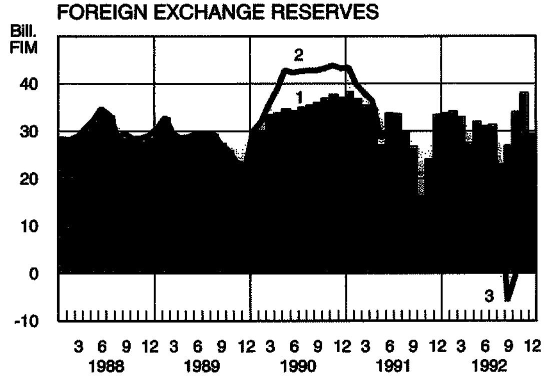
It was not possible to restore the markka's fixed parity in the autumn. Ending the float would have required that there were no factors on the horizon likely to cause disturbances and that the foreign exchange reserves had grown to the point where a fixed exchange rate could be effectively defended. Fixing the exchange rate was also hindered by continuing uncertainty in Europe.

Swap agreement among Nordic central banks revised

Just before the end of the year, the Nordic central banks decided to revise their agreement on mutual currency support. The updating of the agreement marked a continuation of the long-standing cooperation between the Nordic central banks in foreign exchange policy. The new agreement entered into force on 1 January 1993 for an indefinite period. It represents a substantial enlargement of the previous agreement, which had been in force since the beginning of 1984. Under the new agreement, the central banks of Norway, Sweden, Finland and Denmark can obtain currency support from the other Nordic countries up to the equivalent of ECU 2 000 million; for Iceland's central bank, the limit is ECU 200 million. Each bank is also obliged to provide support up to the equivalent of ECU 1 000 million; for Iceland, the obligation is ECU 100 million.

According to the agreement, the participating central banks are also obliged to treat requests for support in excess of these amounts in a positive spirit. Currency support is conditional on the borrowing country's undertaking intervention and monetary policy measures to stabilize the value of its currency prior to using such support.

Chart 16.
THE BANK OF FINLAND'S
FOREIGN EXCHANGE RESERVES



1. Convertible reserves
2. Convertible reserves + forward market transactions
3. Net reserves (incl. forward position + currency support loans)

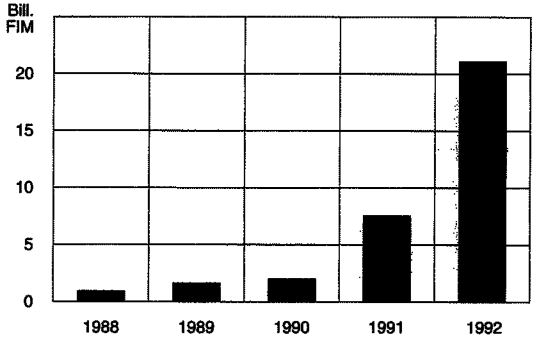
Financial markets

Bank profitability weakened

The public's growing debt-servicing problems were reflected in banks' operations in many ways in 1992. The combined amount of non-performing and other non-interest-bearing claims and claims arising from bank guarantees, which had totalled FIM 40 billion at the end of 1991, almost doubled in the course of 1992 (excluding write-offs on outstanding loans and guarantees). These problem loans were a burden on the banks' interest margin. The increase in company bankruptcies was reflected directly in the growth of banks' credit losses. Banks' write-offs on loans and guarantees amounted to over FIM 21 billion in 1992 (Chart 17). The collapse in collateral values compounded the banks' problems.

As a result of the growth of non-performing loans and the high costs of funding, banks' net in-

Chart 17.
DEPOSIT BANKS' CREDIT AND GUARANTEE LOSSES



terest income fell by nearly one-third from the previous year. Moreover, the decline in securities trade reduced banks' other income. The banks were not able to cover these losses in income by cutting operating costs.

During the last two years, the Bank of Finland and the Government have sought in different ways to safeguard the stability of the banking system and the banks' ability to lend. The first such measure was the Bank of Finland's takeover of Skopbank in September 1991 in order to preserve the bank's liquidity and restore confidence in its operations. The Bank of Finland found itself obliged to assume this role because no other authority with a mandate to carry out such an operation existed at the time. The Bank of Finland subscribed FIM 2 billion worth of new Skopbank shares and acquired 52.91 per cent of the bank's share capital. At the same time, problem assets totalling FIM 12 billion were transferred from the bank's balance sheet to separate asset management companies owned by the Bank. One of these asset management companies, Scopulus Oy, purchased FIM 1.5 billion in capital certificates issued by Skopbank in April 1992. In March 1992, the Government decided to provide the banking sector with a capital injection totalling FIM 8 billion. In addition, the state established the Government Guarantee Fund to take care of banks in difficulty. The Fund has, in fact, borne the responsibility for supporting the banking system since May 1992.

Support for the banking system

Already at the beginning of 1992, it was clear that banks' losses would grow substantially during the year and that their solvency would weaken significantly. When a bank's solvency ratio weakens to a point that is close to the minimum level laid down in the Deposit Bank Act, the bank's creditworthiness weakens and hence its funding costs rise. In order to keep its capital at the prescribed level, the bank must either reduce its net claims or off-balance-sheet commitments or it must raise new equity capital from the market. A reduction in bank lending would further depress economic activity.

In order to head off the threat of such a credit crunch, the Government set up a working group in January to prepare proposals for safeguarding and

~~improving the banks' ability to operate effectively.~~ Dr Sirkka Hämäläinen, then a member of the Board of Management of the Bank of Finland, was asked to chair the group, which published its programme for supporting the banking sector in March.

Nearly all banks received a capital injection

To strengthen the banks' solvency, the state offered to make available a total of FIM 8 billion for investment in banks' capital. All banks, regardless of their capital ratios, were offered the capital injection in proportion to their risk-weighted assets.

The banks were given two dates by which they were required to announce whether they would accept the offer. By the first closing date, in mid-August, four commercial banks and 53 savings banks had applied for a total of FIM 4.6 billion in capital support. Two commercial banks, 14 savings banks and 57 cooperative banks applied for a total of FIM 3.3 billion by the closing date for the second offer in December.

The capital provided by the state is eligible for inclusion in a bank's core (Tier 1) capital. If a bank has resources available for profit distribution, it must pay a rate of return on the capital injection which initially corresponds to the state's own refinancing costs. Later, the rate of return rises in steps. The state is entitled to convert the capital into the bank's voting shares if the bank fails to pay interest for three years running or its capital ratio falls below the legally prescribed minimum.

A bank may use the capital injection, together with its own share capital, to cover its losses only after its distributable equity capital and reserve fund have been used up. In the case of bankruptcy, the capital provided by the state ranks behind other debt but ahead of all shares. The bank can pay dividends only after paying the total interest due on the capital injection.

Non-symmetric changes made in loan and deposit rates tied to the base rate

The support package for the banks also included a percentage point increase in the Bank of Finland's base rate to 9.5 per cent with effect from 1 May. However, the Bank of Finland requested that only interest rates on low-interest loans be raised; ie the increase did not apply to loans with interest rate of 12 ~~per cent or over. The Bank requested~~ that lending rates between 11 and 12 per cent be raised to no more than 12 per cent.

The aim was to reduce the gap between interest rates on loans tied to market rates and those tied to the base rate. Despite a substantial rise in market interest rates, the base rate has remained virtually unchanged for many years. This has led to a situation where the interest rates on most loans tied to the base rate have become very low compared to rates on loans granted in recent years.

A large proportion of interest-subsidy loans were among those loans to which the rise in the base rate applied. The state assumed responsibility for 50 per cent of the additional interest costs on most interest-subsidy loans. In addition, the state granted a 50 per cent guarantee on outstanding interest-subsidy and interest-ceiling loans that had not previously been guaranteed by the state. Thus banks' capital was made available for other lending.

The adjustment in the base rate was aimed at widening the banks' interest rate margins, which had been squeezed. As deposits have increasingly shifted into high-interest accounts, banks' markka funding has become more expensive. It was considered of vital importance that banks' funding costs should not be raised in connection with the base-rate rise. Thus, interest rates on tax-exempt deposits were kept unchanged by amending the law on the tax relief of deposits and bonds as well as the law on income and wealth taxes. The maximum tax-exempt interest rate on transactions accounts was set at 4.5 per cent, and the link with the base rate was severed.

The maximum rate on tax-exempt 24-month deposits was lowered from one to two percentage points below the base rate. Thus, the maximum rates on tax-exempt deposits did not change despite the rise in the base rate. At the same time, the law on the tax relief of deposits and bonds was extended for one year to the end of 1993.

The law on the tax relief of deposits and bonds was amended once again in October so as to enable banks to offer customers the opportunity to make 36-month tax-exempt deposits until the end of 1993 at a maximum interest rate of one percentage point below the base rate. In addition, the right to offer 24-month deposits was extended until the end of 1994.

Interest rate on cash reserve deposits changed

In order to support bank profitability, the Bank's Parliamentary Supervisory Board decided to raise the rate of interest paid on banks' cash reserve deposits by one percentage point from the beginning of April. After the change, the rate was two percentage points below three-month HELIBOR, but not less than 8 per cent. In December, it was decided to cut the rate payable on these deposits. With effect from the beginning of 1993, the rate is three percentage points below three-month HELIBOR, but not less than 8 per cent.

Government Guarantee Fund established

In its report, the working group set up to consider ways of improving the banks' operating conditions recommended that the state should set up its own bank guarantee fund without delay, a matter that had, in fact, already been under consideration. The Act on the Government Guarantee Fund entered into force in April and the Fund commenced operations at the beginning of May. In the same context, the minimum contribution payable by banks to their own guarantee funds was raised fivefold to 0.05 per cent of their combined balance sheet total; the maximum contribution was doubled to 1 per cent.

The Fund's Board of Management comprises representatives of the Ministry of Finance, the Banking Supervision Office, the Bank of Finland and the member banks. The Fund's support measures are determined by a Section of the Board consisting of representatives of the Ministry of Finance, the Banking Supervision Office and the Bank of Finland. Practical matters are handled on a part-time basis by a commissioner. As it has no permanent staff of its own, the Fund draws on the staff resources of the Banking Supervision Office and the Bank of Finland.

The Fund's task is to safeguard the stability of deposit banking and safeguard depositors' claims. In a statement issued on 6 August 1992, the Government confirmed that the state would act specifically through the Government Guarantee Fund to safeguard the stability of the banking system.

The Government Guarantee Fund has the authority to grant support loans and guarantees to the banks' own guarantee funds. It can also provide support directly to a member bank by subscribing the bank's shares. In addition, it can guarantee loans raised by the bank or provide other forms of financial assistance. The Government Guarantee Fund is permitted to borrow in order to finance its operations. The combined sum of the support it provides in the form of loans, guarantees and other financial assistance must not exceed FIM 20 billion.

The conditions attached to support granted by the Fund may be notably stricter than those attached to the FIM 8 billion capital injection provided by the state because the Fund's support is intended expressly for banks in difficulty. The Fund can only grant support if it is necessary for safeguarding the stability of the banking system or depositors' claims on an individual bank. The conditions attached to support are set on a case-by-case basis but they must be based on the general principles regarding such support approved in October by the Fund's Supervisory Board.

These general principles relate to various aspects of support: purpose of support, general requirements applicable to support, forms of support, application procedures and information required in that context, handling of applications, financing of support and supervision of compliance with the conditions attached to support. Support measures are subject to the following general requirements:

1. Bank support is to be open and public.
2. The attractiveness of bank support and the commitment of public funds to such support should be minimized. The owners of a bank receiving support should be made financially responsible to the greatest possible extent.
3. The terms and conditions of support should promote efficiency and necessary structural changes in the banking system.
4. The distortive effects of support measures on competition should be minimized.
5. The public authorities must be assured the possibility to supervise the reorganization of a bank receiving support.
6. The terms and conditions of employment of the management of a bank receiving support must be reasonable.

These general principles are intended to serve mainly as guidelines for the Section of the Fund's Board and are thus not necessarily complete in their coverage. The principles are also meant to help ensure the consistency and fairness of support programmes.

Act on the Government Guarantee Fund to be amended

The need to increase the Government Guarantee Fund's borrowing powers and the emergence of certain problems in everyday decision making resulted in a bill amending the Act on the Government Guarantee Fund being presented to Parliament at the beginning of January 1993.

The bill provided for the transfer of responsibility for the Government Guarantee Fund from Parliament to the Government. The Banking Supervision Office and the Bank of Finland were no longer to be required by law to have representatives on the Fund's Board of Management; their participation in decisions regarding the granting of support had proven to be troublesome for reasons of incapacity.

The Government bill would also have increased the Fund's authority to grant support from FIM 20 billion to FIM 50 billion and allowed the Fund to purchase assets from a bank receiving support via a separate asset management company (bad bank).

Parliament refused to treat the bill as urgent, a procedure which is comparable to that for amending constitutional law and subject to qualified-majority rules. Consequently, the Government presented another bill arranging for the support to be financed by means of a supplementary budget. In the same context, a separate bill was prepared regarding the administrative reorganization of the Government Guarantee Fund.

Support measures taken by the Government Guarantee Fund

Government Guarantee Fund acquires Skopbank from the Bank of Finland

The measures taken by the Bank of Finland to restructure Skopbank since the takeover of 19 September 1991 have been of the kind that the Government Guarantee Fund would have been obliged to undertake had it existed at the time. In June 1992, the Parliamentary Supervisory Board approved a deal whereby Scopulus Oy, owned by the Bank of Finland, sold its holdings of Skopbank shares with a par value of FIM 2 billion and capital certificates with a par value of FIM 1.5 billion to the Government Guarantee Fund for a total price of FIM 1.5 billion. At the end of the year, the Fund provided Skopbank with capital support totalling FIM 1.5 billion. The transfer of the ownership of Skopbank from the Bank of Finland to the Fund reflected the new division of responsibility following the establishment of the Fund.

The Bank of Finland has incurred losses totalling FIM 4.3 billion in connection with the rescue of Skopbank. Of this total, FIM 2.6 billion was written off in 1991 and FIM 1.7 billion was capitalized in the 1992 balance sheet to be written off later. In addition, some FIM 1 billion in imputed interest income had not been received by the end of 1992. There is still some FIM 9.5 billion in financing and over FIM 0.6 billion in guarantees tied up in the Bank's own asset management companies.

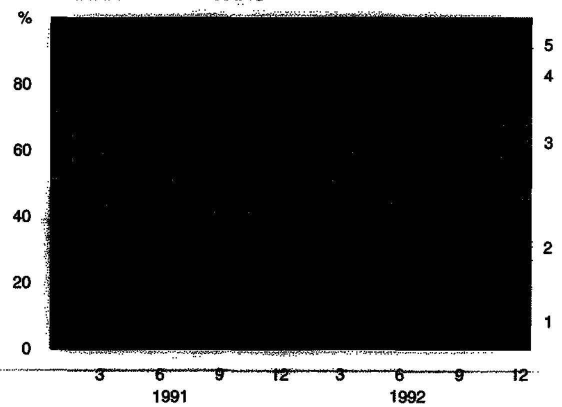
Support provided to the Savings Bank of Finland

In June, the position of a number of savings banks had become so precarious that their continued operation would have been impossible without support from the public sector. Accordingly, the Government Guarantee Fund decided to grant a total of FIM 7.2 billion in capital support to the Savings Bank of Finland (SBF), which was to be formed through the merger of 41 savings banks. SBF commenced operations in September. Before receiving the support, the bank had to submit a restructuring programme to the Fund.

A condition laid down for the support was that the SBF be reorganized as a limited company and that its preferred capital certificates be convertible into shares. After the bank had reestablished as a limited company in December, the Government Guarantee Fund purchased SBF shares, preferred capital certificates and subordinated debentures. The Fund also acquired the right to appoint its own representatives to the SBF's administrative bodies. One representative was appointed to the board of directors and five to the supervisory board.

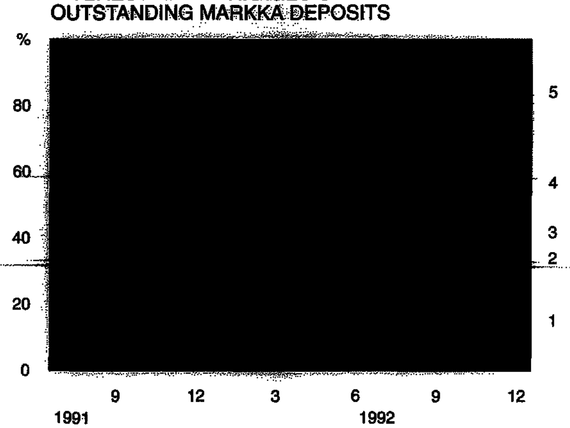
At the end of the year, the Government Guarantee Fund provided the SBF with an additional capital injection of FIM 4.7 billion to enable the bank to meet international capital adequacy requirements. Together with capital support

Chart 18.
INTEREST RATE LINKAGES OF NEW MARKKA BANK LOANS



1. Tied to the Bank of Finland's base rate
2. Fixed-rate
3. Tied to HELIBOR
4. Tied to the Bank of Finland's long-term reference rates
5. Tied to banks' own reference rates and other interest rates

Chart 19.
INTEREST RATE LINKAGES OF OUTSTANDING MARKKA DEPOSITS



1. Tied to the Bank of Finland's base rate
2. Tied to HELIBOR
3. Tied to banks' own reference rates
4. Fixed-rate
5. Other

~~provided previously, the Fund has provided the~~ SBF with assistance totalling FIM 11.9 billion. Of this sum, shares account for FIM 2.9 billion, preferred capital certificates for FIM 7.1 billion, subordinated debentures for FIM 1.4 billion and the support loan extended through the savings banks' own guarantee fund for FIM 500 million. After the share subscription, the Government Guarantee Fund held some 99 per cent of the SBF's shares and voting rights.

STS-Bank merged with Kansallis-Osake-Pankki

The Government Guarantee Fund also played an active part in negotiations between Kansallis-Osake-Pankki (KOP) and STS-Bank which led to the sale by the STS Foundation of its holdings of STS-Bank's shares to KOP at the end of November. In the same context, the Fund and KOP signed a letter of intent according to which they would jointly set up an asset management company to manage STS-Bank's problem loans, amounting to some FIM 2 200 million. It was intended that the Fund would subscribe 90 per cent of the company's share capital and KOP 10 per cent. But as Parliament did not approve the amendment to the Act on the Government Guarantee Fund that would have enabled the Fund to own shares in an asset management company, this part of the merger agreement will probably be renegotiated in the near future. The joint guarantee fund of the commercial banks and Postipankki Oy announced in November that it would participate in the management of STS-Bank's problems by making available its accumulated resources, totalling some FIM 300 million.

Share of deposit rates tied to market rates increased and pressure mounted on banks to rationalize their operations

The slackening of economic activity and high interest rates depressed the public's demand for credit while the banks' problems restricted the supply. As a result, bank lending to the public declined. The banks' combined balance sheet total remained practically unchanged, despite the fact that the weakening of the markka raised the markka value of their foreign currency assets and liabilities.

Virtually the only new bank loans that are still tied to the base rate are interest-subsidy and interest-ceiling loans. Consequently, the share of new lending tied to the base rate fell further in 1992 (Chart 18). An increasingly large proportion of new lending was tied to banks' own reference rates. On the other hand, the use of market-based HELIBOR rates and long-term rates as reference rates diminished. The share of fixed-rate loans, mainly bills of exchange, has remained fairly steady since 1990. Though the share of outstanding loans tied to the base rate has been declining continually, it was still 44 per cent at the end of the year.

The share of outstanding deposits accounted for by market-based deposits subject to the withholding tax grew from the previous year (Chart 19). The marked fall in deposits tied to the base rate in May is due to the fact that, since 1 May, rates on tax-exempt transactions accounts have no longer been tied to the base rate. Rather, the maximum permissible rate is prescribed in the legislation on income and wealth taxes. With the entry into force in October of the amendment to the law on the tax relief of deposits and bonds, there was some movement of funds from market-rate accounts into accounts tied to the base rate.

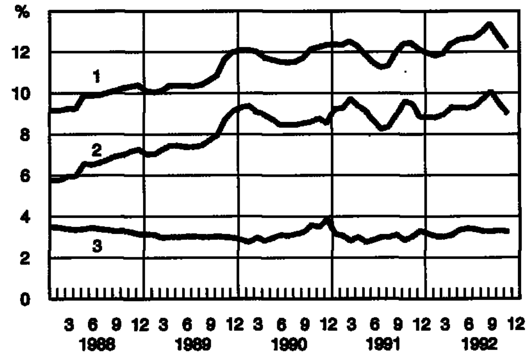
The average spread between banks' uses and sources of markka funds, ie the interest rate margin, widened slightly in 1992 (Chart 20). The interest rate margin does not, however, indicate the effect of interest rates on banks' net interest income because the interest lost due to non-performing claims is not reflected in it.

Improvements in banks' efficiency and reductions in their operating costs have grown in importance as bank profitability has weakened. In an effort to improve their efficiency, banks have cut back excess capacity built up during the period of regulation. In 1992, the number of bank branches was cut by nearly 300 and the number of bank employees by some 3 000. Although the number of local (cooperative and saving) banks was substantially reduced through mergers, the number of branches declined by less than 10 per cent.

Operating conditions in securities markets enhanced

The rules and regulations of the Helsinki Money Market Center, which was established in June 1989 by the Bank of Finland, the state and the five largest

Chart 20.
AVERAGE INTEREST RATES ON BANKS' USES AND SOURCES OF MARKKA FUNDS AND THE INTEREST RATE MARGIN



1. Average interest rate on uses of markka funds (1)
2. Average interest rate on sources of markka funds (2)
3. Interest rate margin = (1) – (2)

commercial banks, were approved in October 1991, and the Center's clearing and settlement operations commenced at the end of April 1992. The Center provides custodial and clearing and settlement services relating to book-entry securities. At present, the system handles CDs and Treasury bills. The Center plans to extend its operations to include bonds in 1993.

The transfer of listed companies to the book-entry system began in May 1992. In the course of the year, the shares of eight listed companies were transferred to the registration system of the Central Share Register of Finland Co-operative. These companies accounted for 35 per cent of share turnover on the Helsinki Stock Exchange in 1992. In addition, one OTC company and one from the brokers' list joined the system.

In connection with the bank support programme, a bill was passed in spring 1992 abolishing the 1 per cent stamp duty levied on share transactions on the stock exchange with effect from May 1992. The stamp duty was also lifted in respect of transactions in derivatives (options and futures). Finally, in November, the stamp duty was abolished in respect of the sale of securities on the OTC list.

In the summer, a primary dealer system for benchmark government bonds was established in Finland. At the end of June, five Finnish commercial banks (Kansallis-Osake-Pankki, OKOBANK, Postipankki, Skopbank and Union Bank of Finland) concluded an agreement with the State Treasury covering arrangements for the issue of government bonds and the maintenance of a secondary market. The banks, in their role as market makers, undertook to participate in tenders of benchmark government bonds, ie serial and Housing Fund bonds, and to quote binding two-way prices to each other and binding bids to customers. In August, an agreement was signed by the Bank of Finland and the primary dealers on the code of conduct to be observed in the secondary market for government bonds. In setting up the market making arrangement, the State Treasury, the primary dealers and the Bank of Finland sought to increase liquidity in the Finnish bond market.

Changes in the operating environment of the financial markets

New system for regulating bank liquidity introduced in July

With effect from 3 July, the Bank of Finland's call money facility was replaced by a new liquidity system (Chart 21). The liquidity system comprises call money deposits and liquidity credits. Under the new system, the interest rates on both deposits and credits are now closer to market rates and move in line with changes in the latter. Moreover, the maturity of liquidity credits can range from one day to four weeks, as determined by the Bank of Finland.

The rates on both call money deposits and liquidity credits are tied to the tender rate, which is determined in the Bank of Finland's money market tenders. The tender rate is based either on the banks' bidding in terms of both rates and quantities of liquidity or it is set by the Bank of Finland (fixed-rate tender), in which case the banks bid for quantities only. The current tender rate, the margins for deposit and credit rates and the maturity for liquidity credit are displayed continuously on electronic information systems.

Initially, the call money deposit rate was set at one percentage point below and the liquidity credit rate at one percentage point above the tender rate. As a result, the call money deposit rate rose from 4 per cent to 13.5 per cent, which increased the banks' incentive to hold deposits at the Bank of Finland. This effect was reinforced by the banks' expectations that interest rates would rise in the autumn. The volume of call money deposits grew to over FIM 10 billion after mid-August and remained at a high level until the beginning of September.

In order to reduce the volume of call money deposits, the Bank of Finland widened the spread between the call money deposit and tender rates; initially, at the end of August, to two percentage points, and later, on 3 September, to five percentage points. After the markka was floated, banks' call money deposits fell to within the range of FIM 1–3 billion; as a result, the spread between the call money deposit rate and the tender rate was reduced to three percentage points in late October.

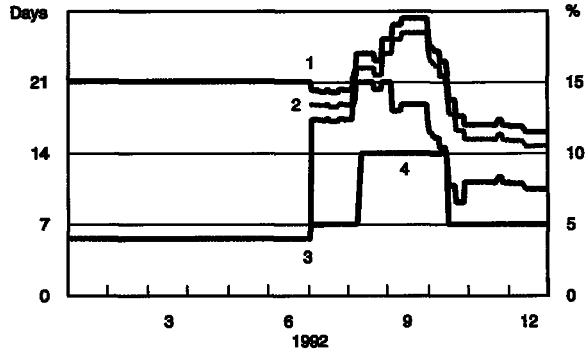
Initially, the maturity of liquidity credits was seven days, but the Bank lengthened it to 14 days on 10 August and then shortened it again to seven days in mid-October. Liquidity credit was used in the latter part of the year and also in the unstable conditions that prevailed in early September. Hence, the system has functioned, as intended, solely as a last-resort source of financing for the banks.

Legislation governing financial institutions revised again

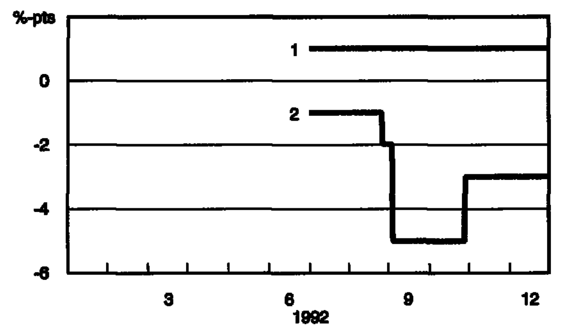
The Financial Activities Act, which regulates financial activities pursued on a professional basis, came into force at the beginning of 1992. Professional activities in this context refers to the provision on own account of financing that has been acquired from the public and is repayable (incl. credit card financing, factoring and hire purchase financing). The Act does not, however, apply to financial activities pursued by deposit banks, which are covered by the Deposit Bank Act. The pursuit of financial activities for professional purposes requires a licence. Under the Financial Activities Act, the capital adequacy of a credit institution engaged in financial activities is determined on the same basis as that of deposit banks. The Act will probably be in force only temporarily. When the European Economic Area (EEA) agreement comes into force, the activities of all credit institutions, including deposit banks, will be regulated by a new law governing the activities of credit institutions.

A commission of review on financial legislation is preparing the law on credit institutions and the reform of certain related laws, as well as the law governing the activities of foreign credit and financial institutions in Finland. In its report published in January, the commission recommended that all credit and financial institutions be brought under a single law that would provide for uniform treatment of all financial activities pursued on a professional basis. This law, which is to replace the Deposit Bank Act, which came into force on 1 January 1991, and the Financial Activities Act, which entered force one year later, will bring Finnish financial legislation into line with EC directives as required by the EEA agreement. The law, which is scheduled to enter into force simultaneously with the EEA agreement, incorporates the principles of the single licence and home country supervision. The main changes concern the setting of more precise licensing requirements, easing of ownership restrictions, accounting, unification of supervision and limitation of customer risk.

Chart 21.
THE BANK OF FINLAND'S LIQUIDITY FACILITY



1. Liquidity credit rate (prior to 3 July 1992 call money credit rate)
2. Tender rate
3. Call money deposit rate
4. Maturity of liquidity credit, days (left scale)



1. Spread between liquidity credit rate and tender rate
2. Spread between call money deposit rate and tender rate

The tightening of capital adequacy requirements in accordance with the bill will entail higher costs for banks. Claims on Finnish insurance institutions are to be transferred from the second risk category to the fourth category. For savings banks and cooperative banks, in particular, this will mean a need for additional capital as they have insured a part of their outstanding loans through mutually-owned insurance companies. The need for additional capital also arises from a change in the classification of the adjustment reserve by which it will be transferred from core (Tier 1) capital to supplementary (Tier 2) capital as well as by a reduction in the amount of reserves that can be counted towards capital. Banks that fail to meet EEA capital adequacy requirements when the agreement comes into force will be given until 1 January 1995 to comply with the new regulations.

According to the Government's bill on credit institutions the combined total of a credit institution's large exposures to individual customers would be limited to eight times the institution's own funds. The exposure to an individual customer is considered large if it amounts to at least 10 per cent of the institution's own funds. The financial effects on banks of limiting their large exposures is difficult to estimate. Adjustment problems will, however, be alleviated by a fairly long transition period extending until the end of 2001. For small banks, the transition period runs until the end of 2006. Small banks, as understood here, are banks whose total capital is at most FIM 43 million.

The bill provides for an easing of restrictions on credit institutions' ownership rights. Under the current Deposit Bank Act, a bank's right to own shares or other equity in a non-banking firm is limited to 10 per cent of the firm's total equity or associated voting rights. The bill on credit institutions, by contrast, allows a credit institution to hold more than 10 per cent of the equity of a firm that is not a credit institution as long as the holding does not exceed 15 per cent of the institution's own funds. In addition, the institution's total holdings in such firms cannot exceed 60 per cent of its own funds.

There are no restrictions in the bill on foreigners' rights to own shares in Finnish credit institutions. However, the Banking Supervision Office has to be informed in advance in the event that a single owner is about to acquire shareholding or voting rights of at least 10 per cent in a credit institution. The bill does not draw any distinction in this respect between domestic and foreign purchases. The Banking Supervision Office will, however, be entitled to intervene in an acquisition after the event if it is likely that the change in ownership would hinder the institution's ability to operate according to sound and prudential business principles.

A law on the activities of foreign credit and financial institutions in Finland is to take effect at the same time as the law on credit institutions. The law contains the principles set out in the EEA agreement according to which only those credit institutions domiciled outside the EEA would need a Finnish licence to establish branches in Finland. Credit institutions from EEA countries will be able to establish branches in Finland without a separate licence. Moreover, only credit institutions from EEA countries will be freely allowed to provide services in Finland.

An amendment to the Bookkeeping Act entered force at the beginning of 1993. The old provisions of the Act may, however, still be applied in respect of accounting periods ending at the latest on 30 April 1993. The rules regarding financial statements were brought into line with EC legislation. The law also applies to banks and other credit institutions, but special rules governing these institutions are included in the law on credit institutions.

In November, a law enabling the conversion of savings banks into limited banks came into force. According to the law, a savings bank can be converted into either a limited liability savings bank or a commercial bank. The aim of the law is to provide savings and commercial banks with equal opportunities to raise capital. The share capital of a savings bank re-established in this way is formed from the savings bank's original capital and reserve fund. The bank's shares are assigned to one or more foundations, whose primary purpose is to promote saving. The principles and special features of savings banks' operations were changed only to the extent necessary.

Securities market legislation developed

Foreigners obtained the right to acquire units in Finnish unit trusts when the amendment to the Unit Trust Act came into force at the beginning of 1992. This gave foreigners the possibility of investing in-directly in restricted shares. The new Unit Trust Act, which complies with the EC directives on undertakings for collective investment in transferable securities, is due to come into force at the same time as the EEA agreement.

Changes in securities market legislation necessitated by the EEA agreement were specified in a report issued by the committee on securities trade in December 1991.

The working group on marketplaces completed its work in April 1992. Its report examined the notion of public trading from the standpoint of market development and legislative change. The group recommended that the major part of the rules regarding disclosure requirements for issues and insider information be extended to cover the money market. The Securities Market Act contains provisions that limit the public trading of listed securities to a single domestic marketplace. The group recommended the abolition of these provisions as well as the provisions that prevent a stock exchange from organizing public trading in securities other than those listed on the stock exchange. It was further recommended that the right to act as an intermediary in the marketing of offers concerning securities be restricted to securities brokers. It is the aim that these recommendations be effected together with those of the committee on securities trade.

It is intended that all legislative recommendations regarding securities markets come into force concurrently with the EEA agreement.

Capital taxation overhauled

According to the revised income tax law which came into force at the beginning of 1993, capital income is distinguished from earned income for purposes of taxation. For the most part, capital income is taxed at a flat rate of 25 per cent. The same rate is also applied in corporate taxation.

The withholding tax on interest income is to be raised in steps to 25 per cent. The timetable for implementing the increases was brought forward: the withholding tax on deposits was raised from 15 per cent in 1992 to 20 per cent already from the beginning of 1993, and will be raised further to 25 per cent from the beginning of 1995. Transactions accounts, on which the maximum interest rate payable is 4.5 per cent, remain tax-exempt. The withholding tax law became permanent from the beginning of 1993.

Reorganization of financial supervision prepared

In December 1991, the Ministry of Finance appointed a working group to prepare a proposal concerning the regulations needed for the establishment of a supervisory authority for the financial markets – financial supervision – as recommended by the committee on financial conglomerates. In April 1992, the Ministry assigned the group the additional task of preparing the legislative proposals needed for linking the functions of the Banking Supervision Office to the Bank of Finland. The administration of financial market supervision was to be organized so as to be completely independent of the Bank's other functions. The working group gave an interim oral report to the ministerial committee on economic policy in June. After that, the group focused on drafting proposals, in the form of a Government bill, for regulations concerning the linking of the functions of the Banking Supervision Office to the Bank of Finland, in accordance with the position on this issue taken by the ministerial committee on economic policy.

In its report completed in September, the working group recommended that the overall supervision of the financial markets be centralized at the Bank of Finland. A special unit, called financial supervision, would be established under the auspices of the Bank and the Banking Supervision Office would be disbanded. In December, the Government presented a bill to Parliament based on the working group's proposal.

The purpose of linking the Banking Supervision Office to the Bank of Finland is to ensure that the resources available for the supervision of financial markets be allocated to those areas that are judged important and essential. Another aim is to clarify the division of responsibility between the Bank of Finland and the Banking Supervision Office and to improve the efficiency of decision making.

In order to execute its functions, financial supervision would have its own decision making organization. Supervisory principles would be determined by a three-member board of directors. The board would consist of the head of financial supervision and two members selected by Parliament on the recommendation of the Bank of Finland and the

Ministry of Finance. Other decision making authority in respect of supervision would rest with the head of financial supervision. Financial supervision would be independent of the Bank of Finland's other functions with respect to decision making in its own area of authority. As appeals against the decisions of the present Banking Supervision Office can be made to the Supreme Administrative Court, the same right would apply in respect of decisions made by the new financial supervision entity. According to the working group's proposal, the new organizational structure for financial supervision would come into force on 1 April 1993.

Need for legislative changes
in the Bank of Finland's status considered

A working group appointed by the Ministry of Finance investigated the changes that would be needed in regard to the status of the Bank of Finland as a result of Finland's possible membership of the EC and participation in Economic and Monetary Union (EMU). The plans call for a transition to EMU in three stages in the course of the 1990s. The group focused especially on the need for changes in the legislation governing the Bank that is likely to arise in connection with the European System of Central Banks, which is to be established in the third stage.

The System will comprise the European Central Bank and the national central banks. The Maastricht Treaty places special emphasis on the independence of the national central banks vis-à-vis the political decision making process. The working group noted that the Bank of Finland's current legal status provides a good basis for adjusting to the requirements set out in the Maastrict Treaty. In the future, however, Parliament's indirect influence on the Bank's decision making through the Parliamentary Supervisory Board will have to be reduced. Preparing for the creation of the European System of Central Banks thus requires a clear delineation of authority such that the Bank's decision making would be centred in the Board of Management while the Parliamentary Supervisory Board would function as a supervisory body.

The working group recommended that further preparatory work be done on the legislation governing the Bank of Finland. The task of the committee set up for this purpose would be to prepare legislative changes necessitated by participation in the process of economic integration. The committee would also prepare legislation to replace the current regulations pertaining to the Bank of Finland and would consider ways in which the current complex body of laws and regulations could be simplified.

Payment system developed

The functioning and efficiency of payment systems in different countries and their arrangements for risk management have attracted increasing attention in recent years, especially in the EC. The development of payment and clearing systems is considered to be one of the prime tasks of central banks. According to the Bank of Finland's regulations, the Bank's tasks include the promotion of the reliability and efficiency of payment systems. Special attention was paid in the year under review to the security and systemic-risk aspects of large-value payment systems. Large-value payments occur mainly in interbank and securities transactions.

During the year under review, four new users joined the Bank of Finland's cheque-account system for processing interbank payments on a real time basis. It is noteworthy that two clearing centres for securities transactions were granted the right to hold cheque accounts at the central bank. The Helsinki Money Market Center joined the system in May and the Helsinki Stock Exchange in August.

As part of the development of payment systems, work was started on clarifying the central bank's criteria for admittance to the Bank of Finland's cheque-account system, on limiting access to intraday credit and on collateral requirements for borrowers. The Bank of Finland's own banking and payment services systems were also modified in 1992.

The handling of currency was enhanced by developing the arrangements for the distribution of notes and coin. The sharing of costs between the Bank of Finland and the banks was modified by raising the banks' base amounts (the share of their till-money holdings which they finance themselves) with effect from 30 November (for details of maintenance of the currency supply, see p. 42). In order to improve the efficiency of transactions involving small payments, a new company – Toimiraha Oy – was established to provide payment services based on prepayment (stored-value) cards (for details, see p. 43).

Other Official Activities

International organizations

International Monetary Fund (IMF)

The Ninth General Review of Quotas came into force in November 1992. Quotas were increased by 50 per cent on average. On 23 November, the Bank of Finland paid the increase in Finland's quota of SDR 286.9 million on behalf of the Finnish government. Hence, Finland's quota increased to SDR 861.8 million (about FIM 6.2 billion).

Among the main issues addressed at the meeting of the Interim Committee of the International Monetary Fund in April were the economic situation in Russia and other countries of the Commonwealth of Independent States and the preparation of their applications for membership. By September, when the joint annual meetings of the Fund and the World Bank were held, most of these countries had already become members. At the annual meetings, the effectiveness of earlier economic programmes pursued in other former socialist countries was assessed. Other important topics discussed included the inefficient coordination of economic policies in the major industrial countries and the resultant pressures in the international currency markets.

The International Monetary Fund supervises technical assistance provided by the international community mainly in the areas of central bank policies and operations. The Bank of Finland, together with the other Nordic central banks, funnelled a substantial part of its technical assistance to the Baltic states through the Fund. The Bank of Finland's experts were also sent to many other countries in need of assistance.

At the end of August, the Managing Director of the International Monetary Fund, Mr Michel Camdessus, visited Helsinki in connection with his visit to the Baltic states. In March and November, a team of IMF officials visited Finland to review the state of the Finnish economy. During these visits, the effects of fiscal policy measures and the floating of the markka were discussed.

Ms Sirkka Hämäläinen, who is Chairman of the Board of Management of the Bank of Finland, was elected as Finland's representative on the Fund's Board of Governors after the resignation of the former Chairman, Mr Rolf Kullberg. Mr Matti Vanhala, Member of the Board of Management, continued to serve as deputy member.

The Nordic countries have a joint representative on the Fund's Executive Board. Since 1 November 1991, the two-year position of Executive Director has been held by Mr Ingimundur Fridriksson of the central bank of Iceland. The Bank of Finland prepared the Nordic countries' joint statements of opinion until the end of June. After this, the responsibility for preparing the statements was assumed by the Norwegian central bank. Since the beginning of November, Latvia, Lithuania and Estonia have participated in the Nordic countries' constituency and thus also in the joint preparation of issues.

Bank for International Settlements (BIS)

The Bank for International Settlements continued to focus its attention on financial arrangements related to European integration. The monthly meetings served as a forum for the exchange of information on market developments and discussions on issues related to the stability of the money and foreign exchange markets. The BIS maintains a data bank on technical assistance provided to former socialist countries in the field of central bank policy. Industrial countries submit detailed reports to the BIS on assistance that they have provided in this field.

Integration

The European Economic Area (EEA) agreed on by the European Free Trade Association (EFTA) and the European Community (EC) did not come into force at the beginning of 1993 as planned because Switzerland rejected the agreement in a referendum. The Finnish Parliament approved the EEA agreement in October and the President of Finland ratified it in December. Negotiations on the revision of the agreement were started at the beginning of 1993.

On 18 March, Finland submitted her application for membership of the European Coal and Steel Community (ECSC), European Economic Community (EEC) and European Atomic Energy Community (EURATOM) to the Council of the European Communities. On 4 November, the EC Commission issued a statement supporting negotiations on Finland's membership.

Membership of the EC would also require that the Bank of Finland join the European central bank that is to be established at a later point of time. The establishment of a joint central bank will greatly affect the position of national central banks. This and related issues were discussed at the annual meeting of Nordic central bank governors.

Bank of Finland representatives participated along with other officials in the preparatory work concerning the EEA carried out within EFTA and jointly between EFTA and the EC and dealing with the liberalization of capital movements, financial services and ownership rights. Bank of Finland representatives also participated in the work of EFTA's Economic Committee and in discussions held between the Economic Committee and the EC Commission.

The Bank of Finland was represented on the consultative committee overseeing the progress of integration in Western Europe and related negotiations by Mr Kalevi Sorsa, Member of the Board of Management; Mr Matti Vanhala, Member of the Board of Management, served as deputy member.

The Bank of Finland was represented on the committee set up by the Ministry of Foreign Affairs to monitor the effects of integration on Finland by Mr Esko Ollila, Member of the Board of Management; Mr Matti Vanhala, Member of the Board of Management, was the Bank's deputy member. Several subcommittees worked under the monitoring committee. The Bank of Finland was represented on the subcommittees dealing with capital movements, financial services, foreign ownership, taxation, cooperation in the compilation of statistics, cooperation in economic and monetary policy and administrative issues.

The possibility of closer cooperation in economic and monetary policy between Finland and the EC was investigated in the course of the year. In keeping with an agreement reached between the Bank of Finland and the Committee of Governors of EC Central Banks, data on Finland were included in the monthly report of the Committee's secretariat starting in the autumn. Bank of Finland representatives had discussions with secretariat representatives in connection with the monthly meetings of the Bank for International Settlements.

Other international cooperation

The Nordic Financial Commission (NFU) prepared, *inter alia*, issues dealt with at the IMF. It sought to agree on common positions that could serve as a clear basis for the stand taken by Nordic countries on matters handled by the Fund's Executive Board. The principles and practical aspects of Nordic coordination for the IMF were explained to representatives of the Baltic countries on various occasions. Mr Matti Vanhala, Member of the Board of Management, served as chairman of the Commission until the end of the year. The International Office of the Central Bank Policy Department was responsible for the secretariat tasks. At the NFU meeting held in September, Mr Kjell Storvik, the Deputy-Governor of the central bank of Norway, was elected chairman of the Commission.

Within the Organization for Economic Cooperation and Development (OECD), the Bank of Finland participated in the meeting of the Council at ministerial level and in the work of, *inter alia*, the Economic Policy Committee, the Committee on Financial Markets, the Committee on Capital Movements and Invisible Transactions and their working parties.

The OECD reviewed the Finnish economy in the summer. On the basis of this review, a country report prepared by the secretariat was published.

The OECD's Economic Policy Committee focused its attention on issues concerning macroeconomic development and the coordination of economic policies.

The Bank of Finland also participated in OECD meetings of experts dealing with the economic situation in Eastern Europe.

The conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) was deferred several times during the year. In these negotiations aiming at the liberalization of international trade and some areas of services, an agreement as recommended by the negotiators was finally reached in November. However, it will take time before the agreement reached in the negotiations is finally approved.

Bank of Finland representatives participated in groups of experts involved in the preparatory work for the GATT negotiations in Finland. Mr Esko Ollila, Member of the Board of Management, represented the Bank on the GATT trade negotiations committee; Mr Matti Vanhala, Member of the Board of Management, served as deputy member.

The Bank of Finland organized a number of training and other visits for experts from central banks in the transition economies (former socialist countries).

Payments agreement terminated

The payments agreement between Finland and Bulgaria was terminated on 16 October 1992. Immediately after this, the effecting of clearing payments was discontinued, the clearing accounts were closed and there was a changeover to the use of convertible currencies in trade between the two countries.

Finland's claims on Russia

At the end of the year under review, Finnish banks' credit claims on Russia amounted to about FIM 5 billion. Overdue principal payments on credits totalled about FIM 1 billion. In addition, the Finnish state had a special account claim of FIM 0.4 billion and Finnish companies had claims of about FIM 2.1 billion consisting of arrears on cash and advance payments. Altogether, claims based on agreements with the former Soviet Union totalled about FIM 7.5 billion.

Negotiations on the repayment of official credits, ie those advanced by Finnish commercial banks or other financial institutions to the former Soviet Union and guaranteed by the state as well as those advanced by the state itself, take place in the Paris Club. All creditors can participate in these negotiations. Finland is represented in the meetings of the Paris Club by the Finnish Guarantee Board.

The repayment of credits that are not guaranteed by the state are negotiated in the London Club. Thirteen creditor banks have been invited to be participants of the consultative committee of the London Club, which represents about 600 commercial banks. The committee is headed by Deutsche Bank. The Nordic banks are not among the participants of the consultative committee. In relative terms, Finnish banks are the most exposed after Germany and Austria. The Finnish banks' claims on Russia are coordinated by Kansallis-Osake-Pankki.

In December 1992, both the Paris and London Clubs agreed on the rescheduling of credits extended to the Soviet Union before 1991. Principal payments that were overdue or scheduled to fall due between 5 December 1991 and 31 March 1993 were deferred for payment until 31 March 1993. Negotiations on the rescheduling of remaining claims are being continued.

Management of the foreign exchange reserves

In 1992, uncertainty in both the domestic and foreign markets influenced the strategy employed in the investment of the foreign exchange reserves. Thus emphasis was placed on the need to secure the availability of reserves for intervention purposes.

As before, the Bank of Finland's convertible reserves were invested mainly in government securities, foreign currency deposits, gold and special drawing rights in accordance with safety and liquidity requirements. The gold reserves remained unchanged.

The most important investment currencies were the US dollar, the deutschmark, the French franc, the pound sterling, the Dutch guilder and the Japanese yen.

Investment was focused on Europe. Investments in ECU were gradually run down because the liquidity of the ECU markets was expected to weaken as a result of the changed outlook for European integration. The decision to abandon the markka's fixed rate against the ECU did not, as such, lead to changes in the management of the foreign exchange reserves.

The main items of the convertible reserves at the end of 1991 and 1992 and changes in the course of the year are shown below:

	Reserves 31 Dec 1992	Reserves 31 Dec 1991	Change
	FIM million		
Gold	2 180	2 180	–
Special drawing rights	564	932	–368
IMF reserve tranche	1 732	1 136	+597
Convertible currencies, net	24 940	29 336	–4 396
Total	29 416	33 583	–4 167

Maintenance of the currency supply

The amount of currency in circulation remained virtually unchanged in 1992. At the end of 1992, notes in circulation amounted to FIM 13 209 million and coin in circulation to FIM 1 299 million. During the year, the amount of notes decreased by FIM 97 million while the amount of coin increased by FIM 77 million. Commemorative coins accounted for FIM 257 million of the total coin in circulation. In relation to GDP, currency held by the public increased while cash held in banks' tills decreased (Chart 22).

In November 1991, new notes were issued (1986 Litt. A series). About 80 per cent of the 1000 markkaa notes in circulation had been replaced by Litt. A notes by the end of 1992. The corresponding figures for the other notes were as follows: 85 per cent of 500 markkaa notes, 60 per cent of 100 markkaa notes and 75 per cent of 50 markkaa notes.

At the end of 1993, a 10 markkaa coin will be introduced to replace the 10 markkaa note. At the same time, a new 20 markkaa note will be introduced to avoid there being a large gap between the highest-denomination coin and the lowest-denomination note. The front of the new note will bear a portrait of the author Väinö Linna. Notes in the denomination of 20 markkaa were used in all the banknote series between the 1860s and 1950s.

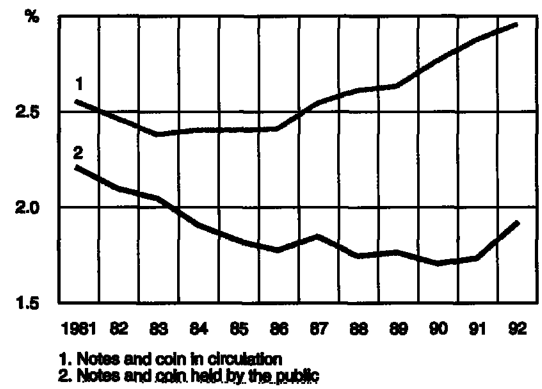
With the increased use of cash dispensers and automated teller machines (ATMs), the shares of different notes in circulation have changed. The 100 markkaa note, which is practically the only note used in cash dispensers and ATMs, accounted for 45 per cent of the markka value of notes in circulation at the end of 1992, as against 40 per cent at the end of 1987. Its share of the total number of notes in circulation also increased from 35 to 41 per cent in the same period. The only other note to increase its share is the 1000 markkaa note.

To commemorate the 75th anniversary of Finnish independence, a gold coin in the denomination of 1000 markkaa and a silver coin in the denomination of 100 markkaa were issued. The 1000 markkaa coin was the first gold commemorative coin issued in Finland. The 1000 markkaa issue comprised 35 000 coins and, in contrast to normal practice, the coin was sold to the public through advance orders.

The banks' base amounts, ie the share of their till-money holdings which is not financed by the Bank of Finland under the till-money credit agreement, were increased with effect from 30 November by raising the combined total of base amounts to 20 per cent of the total amount of currency held by the public. In accordance with previous practice, the base amounts, FIM 1 791 million in all, were allocated to the banks in proportion to their outstanding deposits in transactions accounts.

On the basis of the decision made by the Parliamentary Supervisory Board on 25 October 1991, the Joensuu, Mikkeli, Pori and Rovaniemi branches of the Bank of Finland were closed during the first half of 1992. In addition, the Kotka branch will be closed in 1993 and the Jyväskylä, Lahti and Vaasa branches in 1994.

Chart 22.
NOTES AND COIN IN CIRCULATION
% of GDP



Toimiraha Oy established

In October, the Bank's Board of Management decided to set up a company called Toimiraha Oy as a subsidiary of Setec Oy. Toimiraha Oy was established with the aim of creating "an electronic purse", an electronic money system based on prepayment cards for effecting small payments. Prepayment cards are especially suitable for replacing the use of coins in, for example, telephones, parking and public transportation. The function of the company will be to supply payment services related to prepayment cards and to implement a safe electronic money system in Finland. It is hoped that the introduction of a uniform system will help to avoid the costs associated with several incompatible and overlapping systems.

Other Activities

Economic analysis and research

In monitoring economic developments, special attention was paid to the problems caused by the recession, such as high debt levels, falling asset values, bankruptcies and their effects on the financial system. Future developments in the Bank's operational environment were assessed by means of economic forecasts and medium-term calculations. The macroeconomic model used in these forecasts and calculations was also developed to apply to conditions of floating exchange rates. For example, the effects of fiscal measures on interest rates and foreign exchange rates were assessed.

In 1992, research and analysis focused on the financial markets, economic policy and payment systems, particularly issues related to internationalization and integration of markets. In research on financial markets, priority was given to sectoral analysis, issues related to the functioning, supervision and risk monitoring of markets and the central bank's intervention and investment policies. In addition, studies were carried out on the banking crises in the Nordic countries and the measures taken by governments to solve the crises. The research project on the history of the Finnish financial markets was continued. Economic policy research focused on the assessment of the objectives and effects of central bank policy and on topics related to indebtedness in the economy, taxation and structural adjustment needs over the next few years. In research on payment systems, attention was mainly paid to the development of the systems and the central bank's role in this work, as well as to the demand for payment instruments and notes and coin, in particular.

During the year under review, a considerable amount of research and analysis was carried out at the Bank of Finland on the economies in transition in Central and Eastern Europe. Special emphasis was placed on monitoring and analyzing economic developments in Russia and the Baltic states as well as the process of change in their economic systems. Studies were carried out on subjects such as the dissolution of the Soviet Union, Russia's foreign trade, indebtedness, stabilization policy, privatization and financial and banking system. Studies were also made on Finland's trade with Russia and on the economic reform in Czechoslovakia. Both weekly and monthly summaries were drawn up on the main events in the transition economies to facilitate the monitoring of the current situation in these countries.

During the year, a number of visiting researchers worked at the Bank of Finland. They came from, *inter alia*, the Baltic states, Central and

Eastern European countries and countries of the Commonwealth of Independent States.

Information, publications and information services

The Bank of Finland's monthly English language publication Bank of Finland Bulletin appeared 11 times. The Yearbook and Finnish Bond Issues appeared in the early part of the year. Three publications were issued in series A, three in series B and one in series C.[1] In January, the Bank started to publish a monthly statistical review entitled Financial Markets in place of the former Statistics on financial and foreign exchange markets. The review includes time series and tables on, for example, daily developments in the financial markets. Forty-three papers appeared in the Discussion Papers series, which comprises research and analytical work done by the various departments of the Bank. A new publication, Review of Economies in Transition, prepared by the Bank's Unit for Eastern European Economies, appeared seven times. It included studies and reports on developments in the countries of Central and Eastern Europe.

As a result of negotiations proposed by the Bank of Finland, the various authorities producing statistical data which influence the financial markets adopted uniform principles governing the publishing and handling of such data in their organizations. On behalf of all the authorities, Statistics Finland informs the public in advance of the form in which data on key economic variables are published as well as their date of publication. At the same time, the authorities specified the insider rules applied in the handling of the data.

The amendment made at the beginning of March to the act defining the grounds on which the state can collect fees also enabled the Bank of Finland to start charging fees for its services. Thus, for example, statistical services can be sold to large-scale users and resale organizations against an annual fee. The Bank of Finland entered into the first such sales agreements with the Research Institute of the Finnish Economy and Statistics Finland.

[1] A list of Bank of Finland publications in 1992 is included in the Appendices.

Administration and staff

The organization of the Bank's senior management was streamlined as only five of the six posts on the Board of Management and one of the posts of director were filled at the end of the year under review. Consequently, the overall organization was streamlined by bringing departments mainly under the direct supervision of the members of the Board of Management.

The financial markets crisis was reflected in the organization of the head office. A special unit was separated from the Financial Markets Department to assist other authorities in the restructuring of financial institutions.

The Bank's information service was also reorganized at the beginning of September. The Information Unit was separated from the former Information Department to function directly under the supervision of the governor. The other sections of the former Information Department continued to function under the new name of Publications Services Department.

At the end of 1992, a total of 894 persons were employed by the Bank of Finland. Staff at the head office numbered 735 and that at the branches 159. The total number includes 48 persons on leave of absence for various reasons and 77 persons on fixed-term contracts. In the course of the year, the number of persons employed by the Bank decreased by 15.

In staff training, special emphasis was placed on training policies, management training and assessment of training needs among other staff groups. In addition, training continued to focus on information technology and developing the professional skills of the Bank's economists. Expenditure on training accounted for 2.9 per cent of the Bank's total wage bill.

Data processing

In 1992, the main project was preparing the installation of the ATLAS system. The system will be used for handling the investment of the Bank of Finland's convertible reserves, the execution of payments in foreign currencies and the effecting, registering and monitoring of the Bank's domestic money market operations. In January 1993, the system went live in respect of foreign exchange deals and deposits and foreign payments.

In May, the first phase of the clearing and settlement system for money market trades was inaugurated at the Helsinki Money Market Center. The wage and administration system started to use the service centre of TT-Personnel Systems Oy. Because the time series database used mainly by the Bank's economists was decentralized and transferred to the personal computer network, it was possible to reduce the use of the central unit to the extent that no new purchases regarding the central unit were necessary.

The office information system was upgraded by the acquisition of new hardware and software. Most of the 195 personal computers purchased replaced outdated equipment.

The focus of training in information technology was on the use of the ATLAS system and on training support persons in the relevant departments.

Financial Statements

Balance sheet, FIM

ASSETS

	[illegible]		[illegible]	
Gold and foreign currency claims (1)				
Gold	2 179 877 401.68		2 179 802 017.91	
Special drawing rights	563 785 166.54		931 535 284.74	
IMF reserve tranche	1 732 459 645.47		1 135 846 675.93	
Convertible currencies	25 040 927 391.80		29 381 274 595.27	
Tied currencies	–	29 517 049 605.49	34 014 146.20	33 662 472 720.05
Other foreign claims (1)				
Markka subscription to Finland's quota in the IMF	4 463 666 904.52		2 259 524 222.07	
Term credit	403 766 882.73	4 867 433 787.25	430 135 277.94	2 689 659 500.01
Claims on financial institutions (2)				
Liquidity credits	1 584 900 000.00		–	
Certificates of deposit	3 930 010 340.03		9 157 106 580.43	
Securities with repurchase commitments	4 407 845 271.56		2 725 101 521.48	
Term credits	100 000 000.00		–	
Till-money credits	2 871 523 000.00		3 527 812 000.00	
Bonds	1 462 345 000.00		1 765 305 000.00	
Other	237 908 278.82	14 594 531 890.41	237 900 000.00	17 413 225 101.91
Claims on the public sector (3)				
Bonds	–		3 094 000.00	
Loans to the Government Guarantee Fund	1 000 000 000.00		–	
Total coinage	1 446 494 864.20	2 446 494 864.20	1 372 399 014.20	1 375 493 014.20
Claims on corporations (4)				
Financing of domestic deliveries (KTR)	586 893 562.00		878 707 053.00	
Bonds: KTR credits	160 392 201.90		207 266 832.70	
Bonds: Other	500 000 000.00		1 700 000.00	
Other	210 864 254.71	1 458 150 018.61	200 625 708.81	1 288 299 594.51
Other assets (5)				
Loans for stabilizing the money market	9 474 000 000.00		1 730 000 000.00	
Accrued items	1 297 963 685.76		1 033 769 691.14	
Other	153 061 567.18	10 925 025 252.94	152 697 278.91	2 916 466 970.05
Capitalized expenditures and losses due to safeguarding the stability of the money market (6)		1 700 000 000.00		–
Total		**65 508 685 418.90**		**59 345 616 900.73**

LIABILITIES

	[illegible]		[illegible]	
Foreign currency liabilities (1)				
Convertible currencies	100 627 954.24		44 983 951.16	
Tied currencies	–	100 627 954.24	1 211 087.20	46 195 038.36
Other foreign liabilities (1)				
IMF markka accounts	4 463 728 887.35		2 259 578 811.41	
Allocations of special drawing rights	1 025 905 427.50		842 729 993.80	
Other	2 273 950 000.00	7 763 584 314.85	–	3 102 308 805.21
Notes and coin in circulation (7)				
Notes	13 208 702 865.00		13 305 922 567.00	
Coin	1 299 284 288.35	14 507 987 153.35	1 222 455 019.40	14 528 377 586.40
Certificates of deposit (8)		4 880 000 000.00		8 880 000 000.00
Liabilities to financial institutions (9)				
Call money deposits	2 134 813 756.66		2 206 043 997.70	
Term deposits	4 700 000 000.00		–	
Cash reserve deposits	13 164 695 506.00		10 361 028 771.00	
Other	–	19 999 509 262.66	358 760.99	12 567 431 529.69
Liabilities to the public sector (10)				
Cheque accounts	72 208 426.01		–	
Deposits of the Government Guarantee Fund	17 814 366.63		–	
Other	–	90 022 792.64	3 478 341.84	3 478 341.84
Liabilities to corporations (11)				
Deposits for investment and ship purchase	3 362 354 641.53	3 362 354 641.53	7 056 825 124.28	7 056 825 124.28
Other liabilities (12)				
Accrued items	4 242 231 865.72		1 583 977 117.33	
Other liabilities	156 302 287.97	4 398 534 153.69	97 882 453.24	1 681 859 570.57
Valuation account and reserves (13)		4 641 948 106.38		5 715 023 864.82
Capital accounts (14)				
Primary capital	5 000 000 000.00		5 000 000 000.00	
Reserve fund	764 117 039.56		764 117 039.56	
Net earnings	–	5 764 117 039.56	–	5 764 117 039.56
Total		**65 508 685 418.90**		**59 345 616 900.73**

Profit and loss account, FIM

INTEREST INCOME				
Domestic (1)				
Call money credits/liquidity credits	77 629 344.04		185 720 585.40	
Certificates of deposit	925 608 584.86		1 006 807 041.74	
Securities with repurchase commitments	351 323 083.64		623 074 956.79	
Net interest on forward transactions	911 827 702.84		156 922 446.41	
Term credits	705 890.41		147 986.30	
Financing of domestic deliveries (KTR)	92 050 871.16		117 655 533.68	
Bonds	173 567 026.84		169 383 990.41	
Loans to the Government Guarantee Fund	282 437 505.69		–	
Loans for stabilizing the money market	219 097 260.27		–	
Other	41 551 795.51	3 075 799 065.26	39 641 697.47	2 299 354 238.20
Foreign (2)				
IMF	118 066 433.83		119 443 451.40	
Securities	1 648 424 864.03		1 858 944 281.12	
Other currency claims	131 095 025.74	1 897 586 323.60	414 222 537.41	2 392 610 269.93
Total interest income		4 973 385 388.86		4 691 964 508.13
INTEREST EXPENSE				
Domestic (3)				
Call money deposits	– 239 126 088.23		– 34 779 421.65	
Certificates of deposit	– 1 937 470 702.00		– 371 424 185.27	
Term deposits	– 2 873 287.68		–	
Cash reserve deposits	– 1 104 769 924.85		– 1 432 771 980.21	
Investment deposits	– 312 792 072.76		– 510 143 830.59	
Other	– 27 308 858.31	– 3 624 340 933.83	– 33 512 455.35	– 2 382 631 873.07
Foreign				
IMF	– 57 762 879.76		– 60 619 512.63	
Loans under swap arrangements	– 190 465 465.02		–	
Other	– 2 845 174.71	– 251 073 519.49	– 1 394 407.66	– 62 013 920.29
Total interest expense		– 3 875 414 453.32		– 2 444 645 793.36
INTEREST MARGIN (4)		1 097 970 935.54		2 247 318 714.77
OTHER INCOME (5)				
Commissions and fees	10 175 594.18		8 456 830.27	
Other	59 666 458.54	69 842 052.72	82 237 696.51	90 694 526.78
OTHER EXPENSE (6)				
Salaries	– 157 713 693.96		– 158 254 512.64	
Social security costs	– 72 901 593.80		– 64 310 103.43	
Banknote printing	– 42 354 900.10		– 56 180 160.00	
Depreciation	– 91 070 000.37		– 90 401 712.80	
Other	– 104 399 610.55	– 468 439 798.78	– 214 087 957.14	– 583 234 446.01
COSTS DUE TO SAFEGUARDING THE STABILITY OF THE MONEY MARKET (7)				
Write-off on claims	–		– 1 900 000 000.00	
Write-off on share purchases	–	–	– 700 000 000.00	– 2 600 000 000.00
PROFIT BEFORE VALUATION ADJUSTMENTS AND RESERVES		699 373 189.48		– 845 221 204.46
Valuation gain/loss on foreign securities (8)		127 377 120.42		516 820 012.86
Exchange rate gain/loss (9)		– 1 768 207 012.83		2 761 015 199.35
Increase in pension reserve (10)		–		– 300 000 000.00
Increase (–) / reduction (+) in reserves in accordance with section 30 of the Regulations (10)		941 456 702.93		– 2 132 614 007.75
PROFIT FOR THE ACCOUNTING YEAR (11)		–		–

Appendices to the financial statements

Note issue, FIM				
Right of note issue	29 517 049 605.49		33 662 472 720.05	
Used right of note issue	13 418 309 607.85		15 574 996 360.11	
Unused right of note issue	16 098 739 997.64		18 087 476 359.94	
Markka/foreign currency forward contracts, FIM (middle rate as at 31 Dec)				
Forward purchase contracts	3 619 050 000.00		247 980 000.00	
Forward sales contracts	13 964 781 485.27		8 943 812 000.00	
Foreign currency/foreign currency forward contracts, FIM (middle rate of currency purchased as at 31 Dec)	7 080 504 173.89		4 339 533 736.51	
Shares and other interests, nominal value, FIM (Bank of Finland's holding in parentheses)				
Scopulus Oy	150 000 000.00	(100 %)	150 000 000.00	(100 %)
Sponda Oy	100 000 000.00	(100 %)	100 000 000.00	(100 %)
Solidium Oy	40 000 000.00	(100 %)	40 000 000.00	(100 %)
Setec Oy	40 000 000.00	(100 %)	40 000 000.00	(100 %)
Helsinki Money Market Center Ltd	35 300 000.00	(52 %)	35 300 000.00	(52 %)
Bank for International Settlements	58 767 998.07	(1,67 %)	48 274 970.80	(1,67 %)
Shares in housing companies	1 284 243.00		1 198 923.00	
~~Real estate shares~~	~~634 120.00~~		~~634 120.00~~	
Other shares and interests	1 013 433.50		1 012 523.50	
Total	426 999 794.57		416 420 537.30	
Guarantees, FIM				
Temporary guarantee commitments in connection with the transfer of risk exposures from Skopbank	486 884 000.00		11 883 000 000.00	
Guarantees issued on behalf of asset management companies	642 360 000.00		–	
Other guarantees	–		10 890 562.82	
Total	1 129 244 000.00		11 893 890 562.82	
Liability arising from pension commitments, million FIM				
The Bank of Finland's pension liability	1 611		1 525	
– of which covered out of reserves	1 150		1 150	

The Bank of Finland's real estate

Building	Address	Year of completion	Volume cu.m (approx.)
Helsinki	Rauhankatu 16	1883/1961	49 500
	Rauhankatu 19	1954	33 000
	Unioninkatu 33	1848	17 500
	Snellmaninkatu 23	1896/1988	27 500
	Liisankatu 14	1928	48 500
	Ramsinniementie 7	1920/1983	4 500
Joensuu	Torikatu 34	1984	11 000
Jyväskylä	Kauppakatu 21	1950	32 000
Kotka	Keskuskatu 19	1910	9 000
Kuopio	Kauppakatu 25–27	1912	7 500
Lahti	Torikatu 3	1929	36 500
Mikkeli	Päiviönkatu 15	1965	7 500
Oulu	Kajaaninkatu 8	1973	17 000
Pori	Valtakatu 11	1853/1913	11 500
Rovaniemi	Valtakatu 10–12	1988	15 500
~~Tampere~~	~~Hämeenkatu 13~~	~~1942~~	~~36 000~~
Turku	Linnankatu 20	1914	10 500
Vaasa	Kirkkopuistikko 22	1952	55 500
Vantaa	Suometsäntie 1	1979	311 500
Inari	Saariselkä	1968/1976	2 000

Helsinki, 5 February 1993

THE BOARD OF MANAGEMENT OF THE BANK OF FINLAND

Sirkka Hämäläinen, Chairman

Harri Holkeri Esko Ollila Kalevi Sorsa Matti Vanhala

Notes to the financial statements

General accounting principles applied

The Bank of Finland's balance sheet follows a sectoral division, depicting the financial relations between the central bank and foreign and domestic sectors. The valuation principles applied in the balance sheet are explained in the notes to the various items. In keeping with the Regulations for the Bank of Finland, fixed assets and long-term expenditure are entered as expenditure in full in their year of acquisition, and thus do not show up in the balance sheet. Fixed assets are described in more detail in the appendices to the financial statements.

Foreign currency claims and liabilities have been translated into markkaa at the middle exchange rates as at 31 December 1992. All changes in the value of claims, liabilities and off-balance sheet commitments resulting from changes in exchange rates have been entered in the profit and loss account under exchange rate gain/loss.

In accordance with subsection 1, paragraph 2 of section 17 of the Regulations for the Bank of Finland, the Parliamentary Supervisory Board confirms the accounting principles applied.

Notes to the balance sheet

1 Gold and foreign currency items

As in previous years, gold has been entered at the value of FIM 35/g in the balance sheet. At the end of the year, the Bank's holdings of gold totalled 62 282 kilos, with a market value of FIM 3 497 million.

The item 'allocations of special drawing rights' under liabilities corresponds to the item 'special drawing rights' under foreign currency claims. Interest is paid on both items at a rate equivalent to the SDR interest rate.

The SDR-denominated reserve tranche and the markka subscription together form Finland's quota in the IMF. The counterpart of the markka subscription is included in the IMF markka accounts under foreign liabilities. The markka subscription and the corresponding markka accounts are linked to the exchange rate of the special drawing right (SDR) in accordance with the practice applied by the IMF. In November 1992, Finland's quota in the IMF rose from SDR 574.9 million to 861.8 million.

Convertible currencies consist mainly of foreign securities issued or guaranteed by governments and bank deposits. The item also includes foreign sight accounts as well as foreign means of payment held by the Bank of Finland.

Securities included under convertible foreign exchange reserves have been valued at the lower of nominal value and market value, in keeping with section 6 of the Regulations for the Bank of Finland.

The item 'other foreign claims' includes a term credit which is a claim of the Finnish government on the Vneshekonombank of the former Soviet Union. On 15 April 1992, the outstanding amount of this term credit was converted into US dollars. Repayments of this credit were deferred in accordance with the international agreement concerning the former Soviet Union's debts.

In 1991, tied currencies comprised the balance on the clearing account with Bulgaria. On 16 October 1992, Finland and Bulgaria decided to terminate the payments agreement between the two countries and the clearing account was closed.

Convertible foreign currency liabilities consist of convertible markka claims of international organizations and foreign banks on the Bank of Finland. In 1991, tied foreign currency liabilities consisted of the balance on the Soviet Union's closing account.

The item 'other' under other foreign liabilities consists of currency support loans raised to strengthen the foreign exchange reserves.

2 Claims on financial institutions

On 3 July 1992, the Bank of Finland's system of call money deposits and credits for banks was replaced by a new liquidity system. Banks with access to central bank financing can obtain liquidity credit with fixed maturities (for details see p. 34).

Certificates of deposit are market-priced securities issued by banks. They have been valued at acquisition cost. This item also includes interest of FIM 130 million accrued on certificates of deposit.

Till-money credits, which are used to finance the banks' holdings of notes and coin, are interest-free.

Holdings of bonds issued by banking institutions consist mainly of investments. They are valued at nominal value.

3 Claims on the public sector

Bonds comprise securities issued by local authorities; they are valued at nominal value. As at 31 December 1992, the Government Guarantee Fund had temporary credit of FIM 1 000 million from the Bank of Finland. The Government Guarantee Fund may have temporary credit or deposits with the Bank of Finland because the timing of its borrowing does not necessarily coincide with its support measures.

Total coinage shows the net amount of coin delivered by the Mint of Finland to the Bank of Finland.

4 Claims on corporations

Credits for financing domestic deliveries have been granted either in the form of loans or bonds, and are therefore entered separately on the balance sheet. Bonds are valued at nominal value. KTR credits are backed by bank guarantees. Interest is charged at a rate which ranges from the base rate to the base rate plus 2.5 percentage points.

Other bonds mainly consist of securities classified as investments and are valued at nominal value.

5 Other assets

A total of FIM 15.6 billion of Bank of Finland financing was committed to the take-over of Skopbank and the transfer of Skopbank's risk exposures during autumn 1991 and spring 1992. Of this amount, FIM 9.5 billion still remains in the Bank of Finland's balance sheet in the form of loans for stabilizing the money market. Of the original amount of financing committed, FIM 1.8 billion has been recouped through income from the sale of assets, FIM 2.6 billion was entered as expenditure in 1991 and FIM 1.7 billion was capitalized in the balance sheet to be written off in subsequent years.

Accrued items are mainly interest receivables. Other assets include FIM 126 million in staff housing loans. In 1992, the interest rate applied to housing loans was equivalent to the base rate.

6 Capitalized expenditures and losses due to safeguarding the stability of the money market

The Bank of Finland can expect to recoup the losses due to safeguarding the stability of the money market only within a fairly long period of time as the restructuring of the banking system proceeds. For this reason, expenditures and losses due to safeguarding the stability of the money market incurred in 1992 and possibly incurred in the future are entered as a separate item in the balance sheet and they will be written off in subsequent years.

7 Notes and coin in circulation

Notes and coin in circulation consists of notes and coin held by the public and banking institutions.

8 Certificates of deposit (CDs)

Certificates of deposit issued by the Bank of Finland are valued at nominal value. The difference between the nominal value and the issue price has been entered under accrued items and is allocated to interest expense over the maturity of the instrument.

9 Liabilities to financial institutions

Call money deposits constitute the credit balances on cheque accounts held by banking institutions entitled to central bank financing.

At the end of 1992, cash reserve deposits amounted to 5.5 per cent of the cash reserve base. The interest rate on cash reserve deposits at the end of the year was equivalent to 3-month HELIBOR less two percentage points, but not less than 8 per cent.

10 Liabilities to the public sector

This item comprises the Government Guarantee Fund's cheque account and deposit accounts at the Bank of Finland.

11 Liabilities to corporations

Deposits for investment and ship purchase comprise statutory deposits made with the Bank of Finland by companies which have made an investment or ship purchase reserve. The deposits are interest-bearing, and the rate of interest is determined on the basis of the date the deposit was made and the period during which the reserve is used. Interest is paid at a rate which ranges from 3 per cent to the base rate less 2.5 percentage points.

12 Other liabilities

Accrued items consist mainly of accrued interest payable.

Other liabilities include FIM 9 million of notes in circulation in the old denomination.

13 Valuation account and reserves

In previous years, the valuation account and the Bank's reserves were augmented in order to safeguard the real value of the capital accounts and to cover risks associated with foreign currency claims and safeguarding the stability of the money market. In the financial statements for 1992, the reserves were run down by FIM 941 million.

The Bank of Finland's pension liabilities total FIM 1 611 million; 71.4 per cent of this amount is covered by the reserve.

In keeping with the Regulations for the Bank, foreign securities included in the convertible foreign exchange reserves have been valued at nominal value in the balance sheet, if this is lower than acquisition cost or market value. The difference between the nominal value and "lowest value", the accounting principle applied in the profit and loss account, has been entered in the valuation account as a deduction.

14 Capital accounts

The Bank's capital accounts were unchanged in 1992.

	31 Dec 1992	31 Dec 1991	Change
	FIM million		
Primary capital	5 000	5 000	–
Reserve fund	764	764	–
Net earnings	–	–	–
Total	5 764	5 764	–

Notes to the profit and loss account

1 Domestic interest income

Domestic interest income increased by FIM 776 million on the previous year. Net interest income on forward exchange transactions totalled FIM 912 million. Interest income on call money credits amounted to FIM 78 million, that on certificates of deposits to FIM 926 million and that on securities with repurchase commitments to FIM 351 million. Interest paid on short-term credit by the Government Guarantee Fund amounted to FIM 282 million.

2 Foreign interest income

In 1992, foreign interest income amounted to FIM 1 898 million. This represented a decrease of FIM 495 million on the previous year.

3 Domestic interest expense

Interest expense on domestic liabilities increased by FIM 1 241 million. There were Bank of Finland CDs outstanding throughout the accounting period; they gave rise to interest expense of FIM 1 937 million, which is FIM 1 566 million more than in the previous year.

4 Interest margin

The interest margin amounted to FIM 1 098 million, or FIM 1 149 million less than in 1991.

5 Other income

Other income totalled FIM 70 million. The item includes FIM 36 million in rental income.

6 Other expense

The Bank's total wage bill remained at the 1991 level. Social security costs include FIM 56 million in pension payments.

In keeping with the Regulations for the Bank of Finland, fixed assets and long-term expenditure are entered as expense under depreciation in the year they were incurred to the Bank. Thus depreciation includes all acquisitions of fixed assets and other long-term expenses for the accounting year. Renovation of buildings accounted for FIM 57 million of depreciation and machinery and equipment for FIM 18 million.

7 Costs due to safeguarding the stability of the money market

In the financial statements for 1991, the costs due to safeguarding the stability of the money market arose from the measures taken to restructure Skopbank and the transfer of Skopbank's risk exposures to asset management companies owned by the Bank of Finland. Expenditures and losses incurred in 1992, totalling FIM 1.7 billion, were entered in the balance sheet and will be written off in subsequent years.

8 Valuation gain/loss on foreign securities

Valuation gain/loss on foreign securities includes exchange rate gains and losses realized on sales of securities and differences between the lower of acquisition cost and market value of securities in the portfolio.

9 Exchange rate gain/loss

Exchange rate gain/loss includes all net changes in the value of claims, liabilities and off-balance sheet commitments resulting from exchange rate changes as well as net earnings from foreign exchange dealings. In 1992, the Bank recorded an exchange rate loss of FIM 1 768 million.

10 Changes in reserves

The reserves in accordance with section 30 of the Regulations for the Bank of Finland were run down by FIM 941 million. The pension reserve was unchanged.

11 Result for the accounting year

A result of zero markkaa was shown for the accounting period.

Auditors' report

We, the Auditors elected by Parliament, have audited the accounts, including the financial statements, and the management of the Bank of Finland for 1992 to the extent required by good auditing practice.

In the course of the accounting year, the Internal Audit Department of the Bank of Finland has carried out the audit of the Bank's accounting and operations. We have examined the reports issued on the internal audit at the Bank.

We have read the Report on Activities of the Bank of Finland, and the Board of Management has provided us with information on the Bank's operations.

As a result of measures taken in the course of the accounting year to safeguard the stability of the Finnish banking system, particularly large expenses were incurred to the Bank of Finland and to society.

The financial statements of the Bank of Finland have been prepared in keeping with the principles on closing the accounts confirmed by the Parliamentary Supervisory Board and the Regulations for the Bank of Finland.

On the basis of the above and in the absence of any further comments raised by the audit, we propose that the profit and loss account and the balance sheet be confirmed and the Board of Management discharged from liability for the accounting year audited by us.

Helsinki, 11 February 1993

AUDITORS OF THE BANK OF FINLAND

Kauko Heikkinen

Olavi Ala-Nissilä
Authorized Public Accountant

Arja Alho

Paavo Lipponen

Ben Zyskowicz

./. Kalervo Virtanen
Authorized Public Accountant

Appendices

Monetary and foreign exchange policy measures in 1992

January

Cash reserve requirement

The Bank of Finland lowered the banks' cash reserve requirement from 4.0 per cent to 3.7 per cent of the cash reserve base at end-December 1991.

March

Bank support

In March, the Government working group on banking published a report which included a comprehensive package of measures for supporting the banking sector. The Government offered to make available a total of FIM 8 billion for investment in the banks' capital. In addition, a proposal was made for the establishment of the Government Guarantee Fund. As part of the support package, the Parliamentary Supervisory Board decided to raise the Bank of Finland's base rate by one percentage point to 9.5 per cent with effect from 1 May. The financial support package also included the decision to raise the rate of interest payable on the banks' cash reserve deposits at the Bank of Finland by one percentage point with effect from 1 April.

April

Interest on cash reserve deposits

The Parliamentary Supervisory Board raised the rate of interest payable on the banks' cash reserve deposits at the Bank of Finland by one percentage point with effect from 1 April. The new rate was 3-month HELIBOR less two percentage points, not however less than 8 per cent.

Call money credit rate

The Parliamentary Supervisory Board extends the powers of the Bank of Finland to set interest rates. The maximum call money credit rate was raised from 50 per cent to 80 per cent.

The Government Guarantee Fund

The law establishing the Government Guarantee Fund entered into force on 30 April. The function of the Fund was to help ensure the stability of deposit banking and secure depositors' claims. The Fund was authorized to use up to FIM 20 billion for these purposes. Decisions on possible support measures were to be taken by representatives of the Ministry of Finance, the Banking Supervision Office and the Bank of Finland in the section of the Fund's board.

May

Base rate

The Bank of Finland's base rate was raised by one percentage point to 9.5 per cent with effect from 1 May. As a result of this decision, the banks were allowed to raise low-rate loans tied to the base rate by one percentage point, but the Bank of Finland requested that the rise should not be applied to rates that were already 12 per cent or more. Owing to an amendment to the law on the tax relief of deposits and bonds, the rise in the base rate did not apply to interest rates on tax-exempt deposits. The maximum tax-exempt interest rate payable on deposits in transactions accounts was set at 4.5 per cent and was decoupled from the base rate.

June

Government Guarantee Fund new owner of Skopbank

On 12 June, the Parliamentary Supervisory Board approved a deal whereby Scopulus Oy, owned by the Bank of Finland, sold its holdings of Skopbank shares and preferred capital certificates to the Government Guarantee Fund.

Government offer of capital to banks

Based on the decision by the Government in March to make available FIM 8 billion for investment in banks' core capital, the Government made a formal offer of investment to the banks on 17 June. Capital was to be offered to Finnish deposit banks according to their size, as measured by risk-weighted assets and off-balance-sheet commitments calculated according to BIS standards. The capital was to be available at two dates, either in August or in December, depending on the preference of the bank.

Government Guarantee Fund support for the Savings Bank of Finland

On 26 June, the Government Guarantee Fund decided to grant capital support amounting to FIM 5.5 billion and a guarantee of FIM 1.7 billion to the Savings Bank of Finland. The latter was established in autumn 1992 by merging 41 savings banks.

July

Revision of the system for regulating bank liquidity

The Bank of Finland decided to replace the existing call money facility by a new system for regulating the supply of bank liquidity with effect from 3 July. The new system differs from that applied previously in that deposit and borrowing rates are now closer to market interest rates and move in line with changes in market rates. In addition, the Bank of Finland may, at its discretion, extend the maturity of liquidity credit from one day up to four weeks.

Strengthened cooperation between the central banks of Finland and the EC countries

The central banks of the European Communities and the Bank of Finland decided, on 15 July, to strengthen their monetary cooperation. The primary means of cooperation is a network of credits available whenever necessary to support the foreign exchange reserves.

August

Government offer of capital

Fifty-three savings banks and four commercial banks (Kansallis-Osake-Pankki, Postipankki, Skopbank and STS-Bank) accepted, by 14 August, the offer of capital made by the Government. The total amount of capital raised was FIM 4.6 billion.

September

Floating of the markka

On 8 September, the Bank of Finland decided to temporarily abandon the limits of the fluctuation range set for the external value of the markka because of the heavy pressure against the currency in the foreign exchange market. The decision was taken with the consent of the Government in accordance with the Currency Act.

October

Tax-exempt deposits

The law on the tax relief of deposits and bonds was amended to grant tax-exempt status to 36-month deposits providing the interest rate on them is not more than the Bank of Finland's base rate less one percentage point and they are made between 1 September 1992 and 31 December 1993. At the same time, the tax-exempt status of 24-month deposits was extended to apply to deposits made up to the end of 1994.

Cash reserve requirement

The Bank of Finland raised the banks' cash reserve requirement from 3.7 per cent to 4.0 per cent of the cash reserve base at end-September.

Termination of payments agreement

The payments agreement between Finland and Bulgaria was terminated on 16 October. Immediately after this, the effecting of clearing payments was discontinued, the clearing accounts were closed and there was a changeover to the use of convertible currencies in the trade between the two countries.

November

Amendment to the Currency Act

On 13 November, section 2 of the Currency Act was amended so as to enable the Government, on the basis of a proposal by the Bank of Finland, to authorize the Bank to abandon the limits on the markka's range of fluctuation for an unspecified period. In addition, the Government can cancel such authorization, after taking into consideration the conditions prevailing in the money and foreign exchange markets. Prior to making the decision, the Government must request the opinion of the Bank of Finland on the matter.

Decision to continue the floating of the markka

On 13 November, the Government, in accordance with the amendment to the Currency Act, decided to authorize the Bank of Finland to continue the floating of the markka.

Letter of intent between the Government Guarantee Fund and Kansallis-Osake-Pankki

On 24 November, Kansallis-Osake-Pankki bought the majority shareholding in STS-Bank Ltd from the STS Foundation. On the same date, the Government Guarantee Fund and Kansallis-Osake-Pankki signed a letter of intent on the establishment of an asset management company ("bad bank") for the management of STS-Bank's bad loans. The agreement was conditional on the Act on the Government Guarantee Fund being amended to permit the establishment of such a company.

Cash reserve requirement

The Bank of Finland raised the banks' cash reserve requirement from 4.0 per cent to 4.5 per cent of the cash reserve base at end-October.

Till-money credits

The Bank of Finland revised the base amounts, the share of banks' till money holdings which are not financed by the Bank of Finland under the till-money credit arrangement. The combined total of base amounts was raised to 20 per cent of currency in circulation with the public. The combined total of the banks' base amounts rose by FIM 597 million and amounted to FIM 1 791 million as from 30 November.

The investment reserve scheme: use and release of reserves

On 26 November, the Government decided to allow companies to use investment reserves set up by them in respect of profits for accounting periods ending in 1991 as from 1 January 1993. The released reserves are to be used by the end of 1997. Under the Amendment to the Investment Reserve Act (1366/1991), new investment reserves could no longer be made for accounting periods ending in 1992.

December

Government offer of capital to banks

Two commercial banks (Union Bank of Finland and Okobank), 14 savings banks and 57 cooperative banks accepted, by 16 December, the offer of capital made by the Government. The total amount of capital raised in this context was FIM 3.3 billion.

Government Guarantee Fund support for Skopbank and the Savings Bank of Finland

The Government Guarantee Fund decided, on 22 December, to grant capital support amounting to FIM 1.5 billion to Skopbank and, on 30 December, to grant capital support totalling FIM 4.7 billion to the Savings Bank of Finland.

Cash reserve requirement

The Bank of Finland raised the banks' cash reserve requirement from 4.5 per cent to 5.0 per cent of the cash reserve base at end-November.

The following decisions entered into force on 1 January 1993:

Base rate

The Bank of Finland's base rate was lowered by one percentage point to 8.5 per cent on 1 January 1993.

Interest on cash reserve deposits

The Bank of Finland lowered the rate of interest payable on the banks' cash reserve deposits at the Bank of Finland by one percentage point with effect from 1 January 1993. The new rate was 3-month HELIBOR less three percentage points, not however less than 8 per cent.

Swap agreement between the Nordic central banks

The Nordic central banks decided to revise and substantially enlarge their agreement on short-term currency support, which had been in force since 1 January 1984. The revised agreement entered into force on 1 January 1993 for an indefinite period.

Liberalization of foreign ownership

New legislation on foreign ownership of Finnish companies entered into force on 1 January 1993. The 1939 Restriction Act was repealed at the end of 1992, whereby the restrictions on foreign ownership of Finnish companies were rescinded. In addition, the acquisition of real estate by foreigners was eased significantly.

Main statements issued by the Bank of Finland in 1992

Statements concerning the development of financial markets

Statement given to the Ministry of Finance concerning the memorandum of the working group on the bond market, 29 January.

Statement given to the Ministry of Finance concerning the report of the committee on financial conglomerates, 5 February.

Statement given to the Ministry of Finance concerning a memorandum of the working group of experts on the development of capital and corporate taxation, 10 February.

Statement given to the Ministry of Social Affairs and Health concerning memorandums I and II of the EEA working group on insurance legislation and the memorandum of the EEA working group on insurance association legislation, 4 March.

Statement given to the Ministry of Finance concerning the report of the committee on securities markets, "Securities market legislation in an integrating Europe", 18 March.

Statement to the Ministry of Finance concerning the rules and regulations and clearing and settlement regulations for the Helsinki Stock Exchange, 18 March.

Statement given to the Ministry of Social Affairs and Health concerning the memorandum of the EEA working group on the activities of foreign insurance companies in Finland, 25 March.

Statement given to the Ministry of Social Affairs and Health concerning the report of the committee on employment pension funds, 8 May.

Statement given to the Ministry of Finance concerning the memorandum of the working group on the law on the conversion of debts, 8 May.

Statement given to the Ministry of Finance concerning the report of the commission of review on financial markets legislation, 15 May.

Statement given to the Ministry of Finance concerning the memorandum of the working group on marketplaces, 14 August.

Statement given to the Ministry of Justice on sub-report II of the committee on consumer credit law, 14 September.

Statement to the Ministry of Finance concerning the memorandum of the working group on financial supervision, 28 October.

Statement to the Ministry of Finance concerning the memorandum of the working group on the Currency Act, 6 November.

Statements concerning the support of the banking system

Statement to the Ministry of Finance concerning a question by Mr Hannu Suhonen, MP, in regard to the ownership of Skopbank, 7 January.

Statement given to the Ministry of Finance concerning the memorandum of the working group on guarantee funds, 19 February.

Statement given to the Ministry of Finance concerning a question by Mr Sulo Aittoniemi, MP, concerning the takeover of Skopbank, 6 March.

Statement given to the Parliamentary Ombudsman concerning a complaint lodged by A. Ahlström Osakeyhtiö in regard to the ownership of Oy Tampella Ab, 19 March.

Statement given to the Parliamentary Ombudsman concerning a complaint lodged by Reino Lehtonen in regard to the takeover of Skopbank, 10 April.

Statement given to the Ministry of Trade and Industry concerning the report of the committee on central government financial aid in the light of EEA competition law, 8 June.

Statements given to the Government Guarantee Fund concerning bank support, 26 June, 11 November, 7 December and 30 December.

Statement given to the Ministry of Finance concerning the Government's proposal for amending the Act on the Government Guarantee Fund, 31 December.

Statements concerning interest subsidies

Statement given to the Ministry of Education concerning the maximum interest rate on student loans, 27 March.

Statement given to the Ministry of the Environment concerning the maximum interest rate on rental-housing loans, 8 July.

Statement given to the Ministry of the Environment concerning loans and interest subsidies to be granted in respect of certain heating plant projects, 10 November.

Other statements

Statement given to the Ministry of Finance concerning the reorganization of the Mint of Finland as a company, 21 February.

Statement given to the Ministry of Finance concerning a question by Ms Marjatta Vehkaoja, MP, in regard to the reasons for the closing of the Bank of Finland's Vaasa branch, 7 April.

Statement given to the Ministry of Trade and Industry concerning the report of the committee for the development of the auditing system, 15 June.

Statement given to the Ministry of Justice concerning the report of the committee on public disclosure, 15 September.

Statement given to the Ministry of Finance concerning a question by Mr Sulo Aittoniemi, MP, regarding an easing in monetary conditions by increasing the currency supply, 18 September.

Statement given to the Chancellor of Justice concerning the striking of a gold coin in commemoration of the 75th anniversary of Finland's independence, 22 September.

Statement given to the National Board of Customs concerning the exchange rate applicable in determining customs value, 29 September; addendum 30 September.

Statement given to the Union Bank of Finland concerning interest on loans to prime customers, 16 October.

Statement given to the Ministry of Trade and Industry concerning a Government proposal regarding the disclosure obligations of certain public companies and institutions, 20 October.

Statement given to the Ministry of Finance concerning a question by Mr Sulo Aittoniemi, MP, regarding the improvement of the economic situation, 20 October.

Discrepancies between constituent figures and totals are due to rounding.

0	less than half the final digit shown
·	logically impossible
. .	data not available
–	nil

Table 1.

The monthly balance sheet of the Bank of Finland in 1992, million FIM

ASSETS

Gold and foreign currency claims	**34 027**	**34 486**	**33 183**
Gold	2 180	2 180	2 180
Special drawing rights	946	1 070	1 198
IMF reserve tranche	1 234	1 232	1 201
Convertible currencies	29 637	29 976	28 580
Tied currencies	31	28	25
Other foreign claims	**2 593**	**2 623**	**2 593**
Markka subscription to Finland's quota in the IMF	2 203	2 225	2 246
Term credit	391	398	347
Claims on financial institutions	**12 894**	**9 267**	**8 968**
Liquidity credits[1]	3	479	13
Certificates of deposit	6 014	2 058	2 097
Securities with repurchase commitments	1 122	924	1 411
Term credits	–	–	–
Till-money credits	3 806	3 869	3 521
Bonds	1 710	1 698	1 688
Other	238	238	238
Claims on the public sector	**1 379**	**1 382**	**1 383**
Bonds	3	3	3
Loans to the Government Guarantee Fund	–	–	–
Total coinage	1 376	1 379	1 380
Claims on corporations	**1 256**	**1 233**	**1 197**
Financing of domestic deliveries (KTR)	852	829	799
Bonds: KTR credits	201	201	196
Bonds: Other	2	2	2
Other	201	201	201
Other assets	**4 767**	**7 460**	**11 606**
Loans for stabilizing the money market	4 613	7 307	11 457
Accrued items	–	–	–
Other	154	153	149
Capitalized expenditures and losses due to safeguarding the stability of the money market	**-**	**-**	**-**
Total	**56 916**	**56 451**	**58 931**

[1] Call money credits prior to 3 July 1992

27 688	**32 072**	**31 163**	**31 484**	**23 121**	**27 023**	**34 221**	**38 152**	**29 517**
2 180	2 180	2 180	2 180	2 180	2 180	2 180	2 180	2 180
1 199	1 045	1 007	942	861	1 001	1 025	552	564
1 242	1 235	1 200	1 280	1 195	1 328	1 360	1 908	1 732
23 045	27 593	26 762	27 074	18 885	22 515	29 656	33 512	25 041
22	18	14	8	0	–	–	–	–
2 546	**2 639**	**2 621**	**2 525**	**2 565**	**2 678**	**2 702**	**4 210**	**4 867**
2 205	2 309	2 309	2 212	2 266	2 330	2 330	3 814	4 464
341	330	312	312	299	348	373	396	404
17 122	**14 195**	**15 747**	**19 778**	**21 244**	**19 924**	**11 565**	**15 642**	**14 595**
0	0	3	–	1	1 360	863	1 914	1 585
6 242	4 001	4 889	10 967	15 914	13 354	4 410	5 790	3 930
5 064	4 561	5 491	3 337	–	–	1 110	3 421	4 408
–	–	–	–	–	–	–	–	100
3 917	3 709	3 483	3 654	3 534	3 450	3 432	2 778	2 872
1 661	1 686	1 642	1 581	1 557	1 521	1 512	1 502	1 462
238	238	240	238	238	238	238	238	238
1 387	**1 397**	**2 920**	**2 904**	**4 404**	**8 480**	**8 507**	**1 466**	**2 446**
3	6	19	3	3	28	27	–	–
–	–	1 500	1 500	3 000	7 052	7 052	–	1 000
1 384	1 391	1 401	1 401	1 401	1 400	1 428	1 466	1 446
1 180	**1 659**	**1 616**	**1 595**	**1 572**	**1 544**	**1 518**	**1 499**	**1 458**
772	755	720	704	683	660	636	620	587
195	191	184	178	178	172	171	167	160
2	502	501	501	500	500	500	500	500
211	211	211	211	211	211	211	211	211
13 131	**13 054**	**9 804**	**9 804**	**9 804**	**9 804**	**9 723**	**9 724**	**10 925**
12 982	12 904	9 654	9 654	9 654	9 654	9 574	9 574	9 474
–	–	–	–	–	–	–	–	1 298
149	150	150	150	150	150	149	150	153
-	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1 700**
63 054	**65 016**	**63 871**	**68 090**	**62 710**	**69 452**	**68 237**	**70 692**	**65 509**

Table 1., (cont.)

LIABILITIES

Foreign currency liabilities	**126**	**143**	**59**
Convertible currencies	125	142	58
Tied currencies	1	1	1
Other foreign liabilities	**3 075**	**3 113**	**3 125**
IMF markka accounts	2 203	2 225	2 246
Allocations of special drawing rights	872	887	879
Other	–	–	–
Notes and coin in circulation	**13 323**	**13 271**	**14 243**
Notes	12 128	12 077	13 040
Coin	1 195	1 195	1 203
Certificates of deposit	**10 640**	**11 110**	**13 030**
Liabilities to financial institutions	**10 582**	**9 902**	**10 016**
Call money deposits	654	11	232
Term deposits	–	–	–
Cash reserve deposits	9 928	9 891	9 783
Other	1	1	1
Liabilities to the public sector	**4**	**4**	**4**
Cheque accounts	–	–	–
Deposits of the Government Guarantee Fund	–	–	–
Other	4	4	4
Liabilities to corporations	**6 177**	**5 738**	**5 490**
Deposits for investment and ship purchase	6 177	5 738	5 490
Other liabilities	**98**	**99**	**100**
Accrued items	–	–	–
Other	98	99	100
Valuation account and reserves	**7 126**	**7 307**	**7 099**
Capital accounts	**5 764**	**5 764**	**5 764**
Primary capital	5 000	5 000	5 000
Reserve fund	764	764	764
Net earnings	–	–	–
Total	**56 916**	**56 451**	**58 931**

66	**47**	**38**	**41**	**55**	**53**	**46**	**38**	**101**
64	46	38	41	55	45	46	38	101
1	1	–	–	–	7	–	–	–
3 086	**3 184**	**3 159**	**3 051**	**5 014**	**13 884**	**14 499**	**7 068**	**7 764**
2 205	2 309	2 309	2 212	2 266	2 330	2 330	3 814	4 464
880	875	850	838	818	951	974	1 005	1 026
–	–	–	–	1 930	10 603	11 195	2 250	2 274
13 822	**13 787**	**13 896**	**13 790**	**13 562**	**13 459**	**13 493**	**14 062**	**14 508**
12 603	12 569	12 669	12 561	12 341	12 242	12 278	12 779	13 209
1 219	1 217	1 227	1 229	1 221	1 217	1 214	1 282	1 299
16 450	**20 600**	**21 790**	**19 350**	**6 930**	**13 720**	**12 540**	**14 885**	**4 880**
11 853	**10 601**	**9 928**	**17 320**	**23 179**	**11 934**	**11 505**	**11 941**	**20 000**
1 997	750	155	7 507	13 406	2 171	1 082	39	2 135
–	–	–	–	–	–	–	–	4 700
9 856	9 851	9 773	9 812	9 772	9 762	10 421	11 900	13 165
0	1	0	1	1	1	2	3	–
4	**4**	**4**	**4**	**4**	**38**	**51**	**6 173**	**90**
–	–	–	–	–	35	2	2	72
–	–	–	–	–	–	–	6 171	18
4	4	4	4	4	3	48	–	–
4 726	**4 488**	**4 734**	**4 563**	**4 238**	**4 123**	**4 026**	**3 949**	**3 362**
4 726	4 488	4 734	4 563	4 238	4 123	4 026	3 949	3 362
96	**127**	**244**	**236**	**242**	**345**	**402**	**258**	**4 399**
–	–	–	–	–	–	–	–	4 242
96	127	244	236	242	345	402	258	156
7 187	**6 413**	**4 314**	**3 970**	**3 723**	**6 132**	**5 911**	**6 556**	**4 642**
5 764	**5 764**	**5 764**	**5 764**	**5 764**	**5 764**	**5 764**	**5 764**	**5 764**
5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000
764	764	764	764	764	764	764	764	764
–	–	–	–	–	–	–	–	–
63 054	**65 016**	**63 871**	**68 090**	**62 710**	**69 452**	**68 237**	**70 692**	**65 509**

Table 2.

Convertible and tied foreign exchange reserves, million FIM

	1988	1989	1990	1991	1992
Gold	2 128	2 179	2 180	2 180	2 180
Special drawing rights	1 120	966	791	932	564
IMF reserve tranche	940	950	783	1 136	1 732
Convertible currencies					
Claims	24 492	18 822	33 478	29 381	25 041
Liabilities	–119	–42	–27	–45	–101
Convertible foreign exchange reserves	28 561	22 875	37 205	33 583	29 416
Tied currencies					
Claims	1 073	92	75	34	–
Liabilities	–128	–656	–957	–1	–
Tied foreign exchange reserves	945	–563	–881	33	–

Table 3.

Markka's exchange rate against the ECU and the Bank of Finland's currency index[1,2]

	Markka's exchange rate against the ECU	The Bank of Finland's trade-weighted currency index, 1982=100
1988	4.96108	102.0
1989	4.73670	98.4
1990	4.85697	97.3
1991	5.00580	101.4
1992	5.80140	116.4
1992		
January	5.55238	112.1
February	5.58207	112.9
March	5.57515	112.9
April	5.58563	112.9
May	5.58167	112.7
June	5.58600	112.6
July	5.58744	111.9
August	5.58723	111.5
September	6.13433	122.6
October	6.22713	124.6
November	6.25533	125.2
December	6.36242	125.0

[1] Prior to the pegging of the markka to the ECU on 7 June 1991, the external value of the markka was expressed in terms of a currency index.

[2] Daily averages

Table 4.

Weights of the ECU

	DEM	FRF	GBP	ITL	NLG	BEF	ESP	DKK	IEP	PTE	GRD
1991											
June	30.4	19.1	12.6	9.9	9.5	8.1	5.4	2.5	1.1	0.8	0.7
July	30.4	19.1	12.6	9.9	9.5	8.1	5.4	2.5	1.1	0.8	0.6
August	30.4	19.1	12.6	9.9	9.5	8.1	5.4	2.5	1.1	0.8	0.6
September	30.5	19.1	12.5	9.9	9.5	8.1	5.4	2.5	1.1	0.8	0.6
October	30.5	19.1	12.5	9.9	9.5	8.1	5.3	2.5	1.1	0.8	0.6
November	30.6	19.1	12.4	9.9	9.6	8.2	5.3	2.5	1.1	0.8	0.6
December	30.6	19.1	12.3	9.9	9.6	8.2	5.3	2.5	1.1	0.8	0.6
1992											
January	30.6	19.2	12.3	9.9	9.6	8.2	5.3	2.5	1.1	0.8	0.6
February	30.5	19.1	12.4	9.9	9.6	8.2	5.4	2.5	1.1	0.8	0.6
March	30.5	19.2	12.3	9.9	9.6	8.2	5.3	2.5	1.1	0.8	0.6
April	30.5	19.2	12.4	9.9	9.5	8.1	5.3	2.5	1.1	0.8	0.6
May	30.4	19.3	12.6	9.8	9.5	8.1	5.4	2.5	1.1	0.8	0.6
June	30.4	19.3	12.5	9.8	9.5	8.1	5.3	2.5	1.1	0.8	0.6
July	30.6	19.3	12.3	9.8	9.5	8.2	5.3	2.5	1.1	0.8	0.6
August	30.7	19.3	12.2	9.8	9.6	8.2	5.3	2.5	1.1	0.8	0.6
September	31.1	19.5	11.8	9.4	9.7	8.3	5.1	2.6	1.1	0.8	0.6
October	31.8	20.0	11.0	8.7	10.0	8.5	4.9	2.6	1.2	0.8	0.6
November	31.7	20.0	10.8	9.0	9.9	8.5	4.9	2.6	1.2	0.8	0.6
December	31.9	19.9	11.0	8.7	10.0	8.5	4.9	2.6	1.2	0.8	0.6

Table 5.

Banks' call money position[1,2] at the Bank of Finland, million FIM

	Call money deposits	Liquidity credits	Liquidity position
1988	621	127	494
1989	416	369	47
1990	806	132	674
1991	881	985	–103
1992	2 103	437	1 666
1992			
January	822	63	759
February	572	42	530
March	327	102	225
April	1 008	1 323	–315
May	486	141	345
June	715	45	669
July	3 540	26	3 514
August	8 895	0	8 894
September	3 974	1 687	2 287
October	2 191	876	1 314
November	1 512	296	1 215
December	1 193	640	553

[1] Banks' call money position prior to 3 July 1992.

[2] *Daily averages*

Table 6.

The Bank of Finland's cash reserve arrangement

	Deposit requirement, %	Deposits at the end of period, mill. FIM	Average rate of interest on deposits, %
1988	7.6	19 039	7.38
1989[1]	9.1	25 506	7.00
1990	7.0	17 401	8.73
1991	4.0	10 361	10.11
1992	5.0	13 165	11.00
1992			
January	3.7	9 928	9.26
February	3.7	9 891	8.75
March	3.7	9 783	9.38
April	3.7	9 856	12.19
May	3.7	9 851	11.75
June	3.7	9 773	11.74
July	3.7	9 812	11.92
August	3.7	9 772	13.09
September	3.7	9 762	14.43
October	4.0	10 421	11.38
November	4.5	11 900	9.47
December	5.0	13 165	8.66

[1] Data for 1989 include the additional deposit requirement then in force, ie 1.1 percentage points, and non-interest-bearing, additional deposits of FIM 3 159 million.

Table 7.

Rates of interest applied by the Bank of Finland, per cent

Base rate: Effective		The Bank of Finland's call money rates: Effective	Call money credit rate: Ordinary *rate of interest*	Call money credit rate: Penalty *rate*	Call money deposit *rate*
1.11.1979	8.50	9.12.1986	12.0	.	9.0
1.2.1980	9.25	26.1.1987	11.9	.	9.0
1.6.1982	8.50	2.2.1987	11.8	.	9.0
1.7.1983	9.50	13.2.1987	11.7	.	8.5
1.2.1985	9.00	20.2.1987	11.6	.	8.0
1.1.1986	8.50	24.2.1987	11.6	19.0	8.0
1.3.1986	8.00	5.3.1987	11.5	19.0	7.5
19.5.1986	7.00	17.3.1987	11.4	19.0	7.5
16.5.1988	8.00	2.4.1987	11.2	19.0	7.5
1.1.1989	7.50	29.4.1987	11.0	19.0	7.5
1.11.1989	8.50	6.10.1988	13.0	19.0	4.0
1.5.1992	9.50	16.6.1989	15.0	.	4.0
1.1.1993	8.50	6.11.1989	15.0	30.0	4.0
		23.10.1991	15.0	–	4.0
		12.11.1991	15.0	30.0	4.0
		14.11.1991	20.0	40.0	4.0
		21.11.1991 —2.7.1992	15.0	30.0	4.0

Table 8.

The Bank of Finland's liquidity facility[1]

	The Bank of Finland's tender rate	Liquidity credit: interest rate *margin*, %-points	Call money deposits: interest rate *margin*, %-points	Liquidity credit: maturity, days
1992				
July	13.37	+1.00	–1.00	7
August	15.84	+1.00	–2.00	14
September	18.15	+1.00	–5.00	14
October	13.69	+1.00	–3.00	7
November	11.03	+1.00	–3.00	7
December	10.69	+1.00	–3.00	7

[1] The monthly values for the tender rate are the arithmetical means of the values for calendar days. The monthly values for interest rate margins and maturity are the last values recorded in each month.

Table 9.

Domestic interest rates[1], per cent

	HELIBOR						Long-term market rate		Yields on government bonds[2]	
	1-month	2-month	3-month	6-month	9-month	12-month	3-year	5-year	5-year	10-year
1988	9.77	9.87	9.97	10.16	10.35	10.50	10.7	10.8	.	.
1989	12.32	12.45	12.53	12.61	12.67	12.72	12.2	12.0	.	.
1990	13.63	13.82	13.99	14.16	14.28	14.39	13.7	13.5	.	.
1991	13.64	13.25	13.07	12.69	12.57	12.53	12.3	12.2	.	.
1992	13.49	13.30	13.27	13.08	13.00	12.96	13.1	13.0	.	.
January	12.09	12.17	12.25	12.33	12.37	12.39	12.5	12.5	.	.
February	11.78	11.74	11.74	11.74	11.75	11.75	12.1	12.0	11.19	.
March	12.95	12.54	12.38	12.08	12.01	11.99	12.1	12.1	11.25	.
April	15.94	14.66	14.21	13.38	13.13	13.04	12.8	12.7	11.86	.
May	14.05	13.83	13.73	13.28	13.15	13.10	13.0	12.9	11.81	.
June	13.58	13.63	13.70	13.83	13.80	13.76	13.3	13.2	12.17	.
July	13.45	13.71	13.96	14.19	14.12	14.07	13.6	13.3	12.12	.
August	15.25	15.12	15.09	14.97	14.78	14.69	14.3	14.0	12.82	.
September	17.79	16.82	16.41	15.29	14.90	14.71	15.0	14.7	13.27	.
October	13.34	13.30	13.37	13.32	13.35	13.39	14.3	14.2	12.99	.
November	11.04	11.31	11.50	11.63	11.69	11.72	12.8	12.9	12.02	12.04
December	10.55	10.64	10.68	10.70	10.70	10.70	11.7	11.8	10.94	10.99

[1] Daily averages

[2] The five-year yield is based on quotations for bonds 1/92 (15 January 1992 – 15 January 1999) and the ten-year yield on quotations for housing bonds 1/92 (15 March 1992 – 15 March 2002).

Table 10.

The Bank of Finland's money market operations, million FIM

	Purchases of money market instruments	Sales of money market instruments	Matured transactions, net	Money market operations, net
1988	+ 13 840	– 19 190	+ 16 850	+ 11 500
1989	+ 131 110	– 3 855	– 99 245	+ 28 010
1990	+ 163 326	– 26 379	– 160 797	– 23 850
1991	+ 109 568	– 30 380	– 81 969	– 2 781
1992	+ 76 230	–137 940	+ 49 457	– 12 253
January	+ 2 000	– 7 790	+ 80	– 5 710
February	+ 1 710	– 8 460	– 1 170	– 7 920
March	+ 2 000	– 9 420	+ 5 290	– 2 130
April	+ 11 310	– 17 310	+ 9 200	+ 3 200
May	+ 6 630	– 15 240	– 1 930	– 10 540
June	+ 8 200	– 14 860	+ 6 600	– 60
July	+ 11 700	– 13 300	+ 9 798	+ 8 198
August	+ 6 520	– 7 650	+ 14 659	+ 13 529
September	+ 4 300	– 19 920	+ 5 930	– 9 690
October	+ 1 760	– 10 740	+ 2 060	– 6 920
November	+ 8 030	– 7 570	+ 1 980	+ 2 440
December	+ 12 070	– 5 680	– 3 040	+ 3 350

+ increases liquidity in the money market
– decreases liquidity in the money market

Table 11.

The Bank of Finland's spot transactions[1], million FIM

	Purchases of foreign exchange (+)	Sales of foreign exchange (–)	Spot transactions, net
1988	+ 6 372	– 5 776	+ 596
1989	+ 4 825	– 7 473	– 2 648
1990	+ 13 460	– 3 540	+ 9 920
1991	+ 35 120	– 69 940	– 34 820
1992	+ 20 050	– 70 640	– 50 590
January	+ 710	–	+ 710
February	–	– 4 000	– 4 000
March	+ 50	– 250	– 200
April	+ 2 960	– 16 650	– 13 690
May	+ 3 870	–	+ 3 870
June	+ 1 480	– 2 380	– 900
July	+ 470	– 5 790	– 5 320
August	+ 110	– 17 700	– 17 590
September	–	– 20 880	– 20 880
October	+ 5 870	–	+ 5 870
November	+ 4 530	–	+ 4 530
December	–	– 2 990	– 2 990

\+ increases liquidity in the money market

– decreases liquidity in the money market

[1] According to value date until end-1989 and trade date thereafter.

Table 12.

The Bank of Finland's forward transactions [1,2], million FIM

	Forward sales of foreign exchange (+)	Matured forward sales	Forward purchases of foreign exchange (–)	Matured forward purchases	Forward transactions, net
1988	+ 377	– 103	– 2 705	+ 2 980	+ 549
1989	–	– 337	– 394	+ 1 509	+ 778
1990	–	– 200	– 29 900	+ 23 950	– 6 150
1991	+ 15 060	– 6 280	– 7 560	+ 13 710	+ 14 930
1992	+ 38 710	– 35 650	– 5 800	+ 4 600	+ 1 860
January	+ 4 500	– 5 490	–	+ 260	– 730
February	+ 1 280	– 5 880	–	+ 360	– 4 240
March	–	– 1 200	–	–	– 1 200
April	+ 6 380	– 3 640	–	–	+ 2 740
May	–	– 320	–	–	– 320
June	+ 5 900	– 4 730	–	+ 2 220	+ 3 390
July	+ 810	– 3 090	–	+ 690	– 1 590
August	+ 6 710	– 360	–	–	+ 6 350
September	+ 12 150	– 540	–	–	+ 11 610
October	+ 500	– 500	– 2 310	–	– 2 310
November	–	– 4 190	– 3 490	+ 1 070	– 6 610
December	+ 480	– 5 710	–	–	– 5 230

\+ increases liquidity in the money market

– decreases liquidity in the money market

[1] According to value date until end-1989 and trade date thereafter.

[2] Incl. outright deals; these do not have an immediate impact on liquidity.

Table 13.

Foreign exchange rates: annual average spot rates, 1987–1992, FIM

Currency	1987			1988			1989		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.785	4.396	3.946	4.520	4.187	3.922	4.552	4.290	4.012
1 CAD, Montreal	3.491	3.316	3.034	3.717	3.405	3.020	3.796	3.624	3.466
1 GBP, London	7.404	7.193	6.890	7.647	7.446	7.207	7.584	7.032	6.503
1 IEP, Dublin	6.710	6.535	6.444	6.569	6.377	6.259	6.302	6.082	5.938
1 SEK, Stockholm	0.7047	0.6932	0.6769	0.6921	0.6829	0.6732	0.6819	0.6654	0.6510
1 NOK, Oslo	0.6646	0.6528	0.6312	0.6571	0.6424	0.6264	0.6408	0.6213	0.6128
1 DKK, Copenhagen	0.6650	0.6427	0.6243	0.6428	0.6220	0.6057	0.6143	0.5869	0.5701
1 ISK, Reykjavik	0.1191	0.1138	0.1102	0.1131	0.0980	0.0899	0.0898	0.0758	0.0661
1 DEM Frankfurt a.M.	2.5217	2.4459	2.3998	2.4795	2.3842	2.3391	2.3919	2.2818	2.2202
1 NLG, Amsterdam	2.2356	2.1706	2.1330	2.2028	2.1185	2.0723	2.1174	2.0226	1.9700
1 BEF, Brussels	0.12160	0.11773	0.11560	0.11840	0.11390	0.11160	0.11380	0.10890	0.10610
1 CHF, Zurich	3.0896	2.9496	2.8802	3.0581	2.8631	2.7628	2.7686	2.6243	2.4783
1 FRF, Paris	0.7553	0.7314	0.7209	0.7324	0.7029	0.6852	0.6999	0.6725	0.6557
1 ITL, Rome	0.00354	0.00339	0.00331	0.00335	0.00322	0.00316	0.00320	0.00313	0.00305
1 ATS, Vienna	0.3583	0.3477	0.3410	0.3519	0.3391	0.3328	0.3401	0.3242	0.3153
1 PTE, Lisbon	0.0329	0.0312	0.0301	0.0300	0.0291	0.0283	0.0284	0.0273	0.0267
1 ESP, Madrid	0.0375	0.0356	0.0346	0.0367	0.0359	0.0354	0.0375	0.0362	0.0344
1 GRD, Athens	..	..	..	..	..	..	..	..	..
1 JPY, Tokyo	0.03241	0.03042	0.02938	0.03385	0.03266	0.03119	0.03395	0.03116	0.02824
1 AUD, Melbourne	3.234	3.082	2.785	3.678	3.288	2.826	3.854	3.398	3.165
1 SUR, Moscow, clearing	7.174	6.953	6.780	7.120	6.881	6.722	6.976	6.806	6.644
1 special drawing right (SDR)	5.86300	5.68002	5.54077	5.79563	5.61974	5.50705	5.68080	5.49536	5.30888
1 ECU, commercial	5.188	5.065	4.985	5.106	4.944	4.858	4.869	4.719	4.615

Currency	1990			1991			1992		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.089	3.823	3.532	4.555	4.046	3.539	5.275	4.483	3.840
1 CAD, Montreal	3.523	3.277	3.034	4.030	3.533	3.059	4.171	3.706	3.210
1 GBP, London	7.200	6.808	6.431	8.073	7.131	6.863	9.023	7.875	7.572
1 IEP, Dublin	6.454	6.325	6.201	7.456	6.511	6.214	8.733	7.636	7.201
1 SEK, Stockholm	0.6545	0.6459	0.6369	0.7623	0.6684	0.6430	0.8845	0.7714	0.7369
1 NOK, Oslo	0.6174	0.6110	0.6079	0.7107	0.6236	0.5966	0.8170	0.7222	0.6888
1 DKK, Copenhagen	0.6298	0.6181	0.6066	0.7182	0.6322	0.6074	0.8580	0.7444	0.6968
1 ISK, Reykjavik	0.0669	0.0656	0.0646	0.0778	0.0684	0.0652	0.0873	0.0778	0.0725
1 DEM, Frankfurt a.M.	2.4282	2.3664	2.3343	2.7905	2.4380	2.3237	3.3097	2.8769	2.7122
1 NLG, Amsterdam	2.1524	2.1002	2.0705	2.4766	2.1634	2.0620	2.9440	2.5552	2.4079
1 BEF, Brussels	0.11730	0.11447	0.11210	0.13540	0.11841	0.11290	0.16080	0.13973	0.13100
1 CHF, Zurich	2.8950	2.7576	2.5965	3.1458	2.8208	2.7407	3.6828	3.2000	2.9228
1 FRF, Paris	0.7135	0.7024	0.6912	0.8162	0.7169	0.6863	0.9682	0.8486	0.7947
1 ITL, Rome	0.00324	0.00319	0.00314	0.00370	0.00326	0.00314	0.00423	0.00364	0.00332
1 ATS, Vienna	0.3452	0.3363	0.3316	0.3964	0.3464	0.3301	0.4704	0.4088	0.3854
1 PTE, Lisbon	0.0274	0.0268	0.0265	0.0321	0.0280	0.0266	0.0370	0.0332	0.0309
1 ESP, Madrid	0.0385	0.0375	0.0362	0.0443	0.0389	0.0376	0.0498	0.0438	0.0424
1 GRD, Athens	..	..	..	0.0250[1]	0.0224[1]	0.0220[1]	0.0260	0.0235	0.0220
1 JPY, Tokyo	0.02872	0.02647	0.02466	0.03508	0.03008	0.02677	0.04234	0.03546	0.03098
1 AUD, Melbourne	3.207	2.988	2.697	3.580	3.152	2.758	3.632	3.289	2.757
1 SUR, Moscow, clearing	6.694	6.542	6.414	..	..	..	.	.	.
1 special drawing right (SDR)	5.34498	5.18322	5.07250	6.29360	5.52733	5.13880	7.25239	6.31446	5.70934
1 ECU, commercial	4.964	4.864	4.779	5.698	5.003	4.777	6.553	5.798	5.526

[1] For seven months

Table 14.

Foreign exchange rates: monthly average spot rates in 1992, FIM

Currency	January			February			March		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.442	4.297	4.124	4.550	4.423	4.269	4.571	4.533	4.481
1 CAD, Montreal	3.852	3.715	3.580	3.836	3.741	3.627	3.836	3.802	3.766
1 GBP, London	7.841	7.775	7.720	7.894	7.856	7.812	7.881	7.814	7.789
1 IEP, Dublin	7.271	7.246	7.201	7.311	7.289	7.258	7.301	7.278	7.255
1 SEK, Stockholm	0.7506	0.7476	0.7437	0.7553	0.7523	0.7497	0.7547	0.7522	0.7502
1 NOK, Oslo	0.6948	0.6926	0.6888	0.6987	0.6966	0.6942	0.6979	0.6954	0.6933
1 DKK, Copenhagen	0.7030	0.7016	0.6968	0.7062	0.7046	0.7023	0.7057	0.7032	0.7012
1 ISK, Reykjavik	0.0761	0.0752	0.0742	0.0765	0.0758	0.0752	0.0763	0.0760	0.0753
1 DEM, Frankfurt a.M.	2.7285	2.7220	2.7122	2.7379	2.7304	2.7219	2.7352	2.7279	2.7231
1 NLG, Amsterdam	2.4225	2.4170	2.4079	2.4333	2.4267	2.4179	2.4294	2.4236	2.4182
1 BEF, Brussels	0.13250	0.13218	0.13180	0.13310	0.13259	0.13100	0.13300	0.13256	0.13230
1 CHF, Zurich	3.0766	3.0636	3.0434	3.0623	3.0375	3.0138	3.0180	3.0051	2.9879
1 FRF, Paris	0.8003	0.7981	0.7947	0.8051	0.8021	0.7989	0.8054	0.8036	0.8021
1 ITL, Rome	0.00363	0.00361	0.00359	0.00365	0.00364	0.00362	0.00365	0.00363	0.00361
1 ATS, Vienna	0.3876	0.3867	0.3854	0.3898	0.3883	0.3868	0.3888	0.3877	0.3869
1 PTE, Lisbon	0.0317	0.0314	0.0309	0.0319	0.0317	0.0316	0.0318	0.0317	0.0316
1 ESP, Madrid	0.0433	0.0430	0.0427	0.0437	0.0435	0.0432	0.0435	0.0432	0.0431
1 GRD, Athens	0.0240	0.0240	0.0230	0.0240	0.0240	0.0240	0.0240	0.0239	0.0230
1 EEK, Tallinn	.	.	.	.	.	.	.	.	.
1 JPY, Tokyo	0.03527	0.03432	0.03310	0.03516	0.03467	0.03396	0.03462	0.03412	0.03374
1 AUD, Melbourne	3.303	3.212	3.119	3.424	3.325	3.197	3.472	3.438	3.382
1 special drawing right (SDR)	6.15715	6.04989	5.91501	6.25097	6.14936	6.03560	6.22664	6.19184	6.14951
1 ECU, commercial	5.565	5.550	5.526	5.604	5.584	5.563	5.604	5.580	5.567

Currency	April			May			June		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.537	4.495	4.432	4.480	4.402	4.323	4.385	4.290	4.148
1 CAD, Montreal	3.849	3.783	3.731	3.766	3.672	3.619	3.649	3.587	3.470
1 GBP, London	7.994	7.895	7.768	8.001	7.975	7.945	7.968	7.945	7.894
1 IEP, Dublin	7.293	7.270	7.255	7.265	7.256	7.248	7.290	7.269	7.215
1 SEK, Stockholm	0.7548	0.7538	0.7523	0.7546	0.7540	0.7529	0.7552	0.7544	0.7536
1 NOK, Oslo	0.6978	0.6962	0.6949	0.6967	0.6962	0.6957	0.6981	0.6967	0.6958
1 DKK, Copenhagen	0.7061	0.7039	0.7023	0.7053	0.7033	0.7018	0.7095	0.7069	0.7025
1 ISK, Reykjavik	0.0765	0.0759	0.0753	0.0764	0.0755	0.0749	0.0763	0.0752	0.0741
1 DEM, Frankfurt a.M.	2.7412	2.7280	2.7177	2.7195	2.7162	2.7128	2.7293	2.7238	2.7151
1 NLG, Amsterdam	2.4346	2.4233	2.4153	2.4166	2.4129	2.4100	2.4232	2.4178	2.4103
1 BEF, Brussels	0.13320	0.13258	0.13210	0.13220	0.13196	0.13130	0.13280	0.13235	0.13200
1 CHF, Zurich	3.0020	2.9655	2.9352	2.9986	2.9529	2.9228	3.0316	3.0051	2.9661
1 FRF, Paris	0.8093	0.8066	0.8049	0.8091	0.8079	0.8062	0.8110	0.8091	0.8081
1 ITL, Rome	0.00363	0.00362	0.00361	0.00362	0.00361	0.00360	0.00361	0.00360	0.00360
1 ATS, Vienna	0.3895	0.3875	0.3860	0.3864	0.3860	0.3855	0.3876	0.3869	0.3859
1 PTE, Lisbon	0.0323	0.0320	0.0317	0.0328	0.0326	0.0324	0.0328	0.0328	0.0326
1 ESP, Madrid	0.0436	0.0433	0.0429	0.0436	0.0434	0.0433	0.0436	0.0433	0.0431
1 GRD, Athens	0.0240	0.0231	0.0230	0.0230	0.0230	0.0230	0.0230	0.0224	0.0220
1 EEK, Tallinn	.	.	.	.	.	.	.	.	.
1 JPY, Tokyo	0.03390	0.03368	0.03334	0.03415	0.03369	0.03340	0.03436	0.03381	0.03305
1 AUD, Melbourne	3.472	3.428	3.376	3.387	3.328	3.279	3.332	3.246	3.103
1 special drawing right (SDR)	6.19545	6.16396	6.11714	6.16712	6.11371	6.06154	6.12707	6.04753	5.93361
1 ECU, commercial	5.603	5.586	5.573	5.585	5.581	5.576	5.587	5.583	5.576

Table 14., cont.

Currency	July Max.	July Av.	July Min.	August Max.	August Av.	August Min.	September Max.	September Av.	September Min.
1 USD, New York	4.147	4.077	3.985	4.072	3.985	3.872	4.825	4.439	3.840
1 CAD, Montreal	3.467	3.420	3.355	3.439	3.350	3.240	3.946	3.635	3.210
1 GBP, London	7.905	7.824	7.777	7.785	7.734	7.694	9.023	8.209	7.690
1 IEP, Dublin	7.310	7.292	7.247	7.307	7.289	7.270	8.557	8.066	7.276
1 SEK, Stockholm	0.7553	0.7545	0.7517	0.7550	0.7540	0.7529	0.8845	0.8271	0.7536
1 NOK, Oslo	0.6974	0.6966	0.6944	0.6971	0.6962	0.6947	0.8170	0.7653	0.6961
1 DKK, Copenhagen	0.7123	0.7107	0.7068	0.7141	0.7120	0.7105	0.8356	0.7904	0.7118
1 ISK, Reykjavik	0.0763	0.0744	0.0735	0.0747	0.0739	0.0725	0.0873	0.0819	0.0732
1 DEM, Frankfurt a.M.	2.7446	2.7356	2.7245	2.7599	2.7462	2.7360	3.2343	3.0602	2.7529
1 NLG, Amsterdam	2.4342	2.4261	2.4172	2.4470	2.4358	2.4265	2.8679	2.7170	2.4420
1 BEF, Brussels	0.13330	0.13279	0.13200	0.13370	0.13328	0.13290	0.15680	0.14848	0.13350
1 CHF, Zurich	3.1169	3.0576	3.0183	3.1138	3.0659	3.0378	3.6720	3.4724	3.0850
1 FRF, Paris	0.8126	0.8106	0.8084	0.8117	0.8096	0.8078	0.9505	0.8993	0.8085
1 ITL, Rome	0.00362	0.00361	0.00359	0.00363	0.00362	0.00361	0.00423	0.00380	0.00360
1 ATS, Vienna	0.3913	0.3888	0.3864	0.3918	0.3901	0.3884	0.4593	0.4346	0.3912
1 PTE, Lisbon	0.0327	0.0323	0.0320	0.0322	0.0318	0.0312	0.0370	0.0348	0.0315
1 ESP, Madrid	0.0432	0.0430	0.0427	0.0430	0.0428	0.0424	0.0498	0.0455	0.0424
1 GRD, Athens	0.0220	0.0220	0.0220	0.0220	0.0220	0.0220	0.0260	0.0244	0.0220
1 EEK, Tallinn	..	..	..	..	..	..	..	..	..
1 JPY, Tokyo	0.03325	0.03245	0.03165	0.03195	0.03155	0.03098	0.03909	0.03620	0.03124
1 AUD, Melbourne	3.089	3.039	2.977	3.006	2.890	2.757	3.522	3.208	2.762
1 special drawing right (SDR)	5.96745	5.88393	5.81276	5.86297	5.80390	5.72320	6.89575	6.46534	5.70934
1 ECU, commercial	5.594	5.585	5.567	5.590	5.582	5.574	6.553	6.092	5.570

Currency	October			November			December		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.860	4.695	4.475	5.210	5.048	4.890	5.275	5.136	5.010
1 CAD, Montreal	3.925	3.771	3.593	4.050	3.982	3.938	4.171	4.034	3.942
1 GBP, London	8.007	7.791	7.601	7.870	7.714	7.572	8.124	7.969	7.797
1 IEP, Dublin	8.437	8.340	8.280	8.603	8.394	8.314	8.733	8.570	8.468
1 SEK, Stockholm	0.8460	0.8410	0.8341	0.8623	0.8140	0.7497	0.7519	0.7457	0.7369
1 NOK, Oslo	0.7837	0.7774	0.7723	0.7974	0.7805	0.7727	0.7882	0.7710	0.7466
1 DKK, Copenhagen	0.8273	0.8218	0.8155	0.8472	0.8263	0.8174	0.8580	0.8395	0.8265
1 ISK, Reykjavik	0.0847	0.0838	0.0826	0.0873	0.0840	0.0804	0.0832	0.0817	0.0807
1 DEM, Frankfurt a.M.	3.2221	3.1725	3.1517	3.2447	3.1812	3.1459	3.3097	3.2477	3.2054
1 NLG, Amsterdam	2.8587	2.8180	2.8008	2.8848	2.8281	2.7959	2.9440	2.8890	2.8514
1 BEF, Brussels	0.15610	0.15398	0.15280	0.15790	0.15465	0.15300	0.16080	0.15784	0.15560
1 CHF, Zurich	3.6801	3.5775	3.5333	3.5883	3.5330	3.4890	3.6828	3.6137	3.5576
1 FRF, Paris	0.9472	0.9350	0.9286	0.9626	0.9404	0.9302	0.9682	0.9526	0.9420
1 ITL, Rome	0.00369	0.00358	0.00332	0.00380	0.00370	0.00367	0.00367	0.00364	0.00354
1 ATS, Vienna	0.4576	0.4509	0.4478	0.4613	0.4522	0.4469	0.4704	0.4615	0.4556
1 PTE, Lisbon	0.0360	0.0356	0.0353	0.0367	0.0357	0.0352	0.0370	0.0362	0.0357
1 ESP, Madrid	0.0451	0.0446	0.0441	0.0453	0.0444	0.0440	0.0465	0.0455	0.0445
1 GRD, Athens	0.0250	0.0243	0.0240	0.0250	0.0244	0.0240	0.0250	0.0246	0.0240
1 EEK, Tallinn	..	..	..	..	..	..	0.4137	0.4060	0.4007
1 JPY, Tokyo	0.03969	0.03876	0.03731	0.04198	0.04075	0.03958	0.04234	0.04141	0.04039
1 AUD, Melbourne	3.479	3.359	3.196	3.574	3.483	3.375	3.632	3.542	3.474
1 special drawing right (SDR)	6.83957	6.73373	6.57131	7.18897	7.00171	6.84576	7.25239	7.13363	7.02041
1 ECU, commercial	6.222	6.197	6.131	6.385	6.247	6.173	6.471	6.359	6.301

Table 15.

Manufacture and destruction of notes and coin, million FIM

Notes printed					
1 000 markkaa	–	–	–	9 000.0	4 600.0
500 "	–	–	–	4 500.0	1 225.0
100 "	4 440.0	2 800.0	6 380.0	3 107.0	4 030.0
50 "	–	1 745.0	588.5	925.0	1 500.0
10 "	700.4	780.0	859.0	607.5	–
Total	5 140.4	5 325.0	7 827.5	18 139.5	11 355.0
In millions	114.4	140.9	161.5	128.3	77.4
Notes destroyed					
1 000 markkaa	101.5	231.0	296.0	250.0	8 600.0
500 "	2 364.5	1 190.5	475.0	325.0	3 900.0
100 "	2 930.0	2 261.9	1 945.0	1 681.9	6 263.2
50 "	1 370.0	1 269.0	832.5	637.8	1 351.1
10 "	822.3	1 071.9	613.5	517.5	501.5
5 "	0.3	1.3	0.3	0.3	–
1 "	0.1	0.0	0.0	0.0	–
Total	7 588.7	6 025.6	4 162.3	3 412.4	20 615.7
In millions	143.9	158.1	98.8	82.3	156.2
Coin minted					
1 000 markkaa	.	.	.	.	35.0
100 "	.	20.0	25.0	25.0	30.0
50 "	.	.	.	.	.
25 "	.	.	.	.	.
10 "	.	.	.	.	.
5 "	15.2	41.4	59.1	49.6	6.7
1 "	25.0	34.5	55.8	15.0	5.0
50 penniä	7.4	5.3	37.9	40.2	25.0
20 "	2.8	7.4	2.6	–	–
10 "	2.3	2.2	20.2	35.0	15.0
5 "	1.7	0.1	0.1	–	–
Total	54.4	111.0	200.7	164.8	116.8
Coin destroyed					
100 markkaa	.	–	–	3.1	0.9
50 "	1.1	1.1	–	1.8	0.5
25 "	0.0	0.0	–	0.1	0.0
10 "	–	0.1	–	0.1	0.1
5 "	0.1	0.1	0.1	0.2	9.2
1 "	0.1	0.2	0.2	13.3	9.3
50 penniä	0.0	0.0	9.4	41.0	7.9
20 "	0.0	0.0	3.3	30.0	9.5
10 "	0.0	0.0	2.2	10.7	3.5
5 "	0.0	0.0	0.9	5.6	1.6
1 "	0.1	0.1	0.0	0.1	0.0
Total	1.5	1.5	16.2	106.0	42.7

Table 16.

Notes and coin in circulation, at the end of the year, million FIM

Notes					
1 000 markkaa	2 451.5	3 016.3	3 473.8	3 240.6	3 375.8
500 "	2 539.0	2 701.1	2 785.2	2 600.9	2 547.2
100 "	4 276.2	4 893.4	5 599.6	5 921.2	5 806.7
50 "	807.6	899.9	950.6	939.2	867.0
10 "	498.0	533.9	561.1	575.4	583.2
5 "	21.2	21.0	20.9	20.8	20.8
1 "	7.4	7.4	7.6	7.7	8.0
Total	10 600.8	12 073.0	13 398.8	13 305.9	13 208.7
Issued before 1963	9.4	9.4	9.4	9.4	9.4
Coin					
1 000 markkaa	.	.	.	.	35.0
100 "	.	19.5	44.0	65.9	92.6
50 "	74.3	74.2	74.0	72.8	71.1
25 "	19.9	19.9	19.9	19.9	19.8
10 "	38.4	38.4	38.4	38.3	38.3
5 "	284.9	324.1	352.8	374.2	384.9
1 "	320.9	354.3	374.0	386.7	384.6
50 penniä	75.8	83.3	102.1	112.5	117.6
20 "	66.7	71.9	70.5	45.6	36.4
10 "	33.6	35.8	45.7	76.9	90.8
5 "	26.5	27.4	26.8	22.1	20.5
1 "	7.8	7.7	7.7	7.6	7.6
Total	948.7	1 056.3	1 155.9	1 222.5	1 299.3
Issued before 1963	15.7	15.7	15.7	15.7	15.7

Table 17.

Internal clearing operations[1]

Year	Head office	
	Number, thousands	Value, million FIM
1988	206 206	766 278
1989	241 956	920 019
1990	266 476	818 594 [2]
1991	336 899	1 436 690
1992	352 889	1 559 864

1 Bank bills, cheques, bank and postal giro transfers and automatic bank transfers between banks.

2 The banking sector dispute from 18 January to 4 March 1990 reduced clearing activity.

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Sirkka Hämäläinen, Chairman of the Board of Management
Overall management and supervision of the activities of the Bank
General principles of central bank policy
Information
Internal Audit
Representation of the Board of Management

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Accounting Department
(excl. Planning and Budget Office)
Administration Department
Data Processing Department
Legal Affairs
Maintenance of the currency supply
(Payment Instruments Department and Branches)
Security

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Member of the Board of Management
Financial Markets Department
Payments and Settlement Department
Personnel Department
Planning and Budget Office of the Accounting Department

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Member of the Board of Management
Economics Department
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Research Department
Statistical Services Department
Unit for Eastern European Economies

Matti Vanhala,
Member of the Board of Management
Central Bank Policy Department
Market Operations Department

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Heikki T. Hämäläinen

Pentti Koivikko, Director

Reports to Harri Holkeri, Member of the Board of Management
Administration Department
Maintenance of the currency supply
* Branches
* Payment Instruments Department
* Setec Oy, Chairman of the Board of Directors

Reports to Esko Ollila, Member of the Board of Management
Personnel Department: terms and conditions of employment, staff numbers and basic staff administration services

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Managing Director: Veli Tarvainen
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