

BANK OF FINLAND
75TH YEAR BOOK

REPORT ON ACTIVITIES IN 1994



The figures in the Year Book
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The Governor's Review

The operating environment of the Finnish economy improved in 1994 as a result of a marked pick-up in international demand. Moderate pay developments and the prominence given in the economic policies of western industrialized economies to preventing the emergence of inflationary pressures helped to keep international inflation low. World commodity prices rose considerably, however.

A tightening of US monetary policy led to a rise in long-term interest rates and this, together with stronger economic growth in western European countries, pushed long-term rates substantially higher in Europe, too, in the course of the year. The rise in international interest rates was also reflected in Finnish interest rates but otherwise the outlook for the international environment in 1995 is favourable. As economic growth in the industrialized countries is largely based on an increase in investment activity, the chances of continued economic growth are good.

Continued rapid expansion of exports and more robust domestic demand boosted the growth of total output in Finland to 4 per cent in 1994. Growth spread to the domestic service industries as well, thereby contributing to a slight improvement in employment; in spite of this, the unemployment rate was still just over 17 per cent at the end of 1994. Thanks to the rapid growth of exports, manufacturing continued to account for an increasing share of total output. The outlook for investment in the manufacturing sector improved notably as profitability increased and indebtedness declined. Capacity utilization rose to a high level and investment activity in the sector picked up towards the end of the year.

Optimism also increased in the domestic sector, and domestic demand started to recover after several years of severe recession. Despite the fact that both households and companies were still cautious about having recourse to debt financing. House-

holds have increased their spending but substantial excess capacity continues to restrict investment by companies operating in the domestic market.

A widening of the trade surplus, a swing to a clear surplus on current account and the markka's appreciation led to a contraction in the foreign debt of the economy. Private sector indebtedness decreased significantly but no turn for the better could yet be discerned in central government finances. In spite of further cuts in government spending, the volume of total government expenditure increased further. Interest expenditure on central government debt and unemployment-related expenditure, in particular, continued to grow rapidly. Because of the rapid growth of debt, debt servicing costs have become a serious constraint on central government finances.

A strengthening in the structure of the economy and thereby in the economy's ability to withstand disturbances calls for better balance in government finances. At the same time, there must be a substantial improvement in the capital position of the private sector. Thus, the current account surplus will have to be maintained in the years ahead.

Thanks to moderate cost developments, substantial growth in productivity and the appreciation of the markka, consumer prices rose only slightly in 1994. The underlying rate of inflation, which is obtained by removing the effects of indirect taxes, subsidies and housing-related capital costs from the CPI, slowed to under 2 per cent at the beginning of 1994, and practically all prices remained stable in the latter months of the year. Following Finland's entry into the European Union, prices of agricultural products and food will fall, and this will help to dampen inflation in early 1995.

Recently, however, inflation expectations and uncertainty concerning inflation have increased. The rise in wages and other costs has accelerated and

this poses a threat to price stability in the longer term. Furthermore, the sharp increase in world commodity prices is adding to price pressures deriving from abroad. Whether these pressures will be reflected in prices in Finland depends on exchange rate movements.

Monetary policy remained fairly lax throughout 1994. Interest rate policy was eased further at the very beginning of the year but not after February when Finnish long-term interest rates rose along with foreign interest rates, but more rapidly, and there were pressures for a depreciation of the exchange rate. The exchange rate did not start to appreciate or long-term market rates to fall until August, by which time the performance of the economy had improved markedly and confidence in economic policy had strengthened. As it became increasingly certain that Finland would join the EU, the exchange rate continued to strengthen and interest rates fell further.

Towards the end of 1994, monetary policy was tightened slightly when inflation expectations and cost pressures strengthened and upward pressures re-emerged in long-term market rates. In December, the Bank of Finland raised the tender rate, which is the key benchmark rate for short-term market rates, by half a percentage point to 5.5 per cent. The markets responded favourably to the rise; long-term market rates fell slightly and the interest rate differential vis-à-vis international interest rates narrowed while conditions in the foreign exchange market remained quiet.

For the same reasons as the tender rate was raised, the Board of the Bank of Finland proposed to the Parliamentary Supervisory Board that the base rate be raised by half a percentage point. The proposal was based on the view that, although the base rate no longer had any great influence on developments in the financial markets, it still had some value as a signal. Nor did the Board consider it appropriate to place assets tied to the base rate in a special position by protecting them from general developments in interest rates. The Parliamentary Supervisory Board did not accept the proposed rate increase, however. In making a proposal which might not be accepted by the Parliamentary Supervisory Board the Board wanted to clarify the division of responsibilities in monetary policy decision-making and to increase openness.

The moderate price developments experienced so far provide a good starting point for the monetary policy target to stabilize inflation at 2 per cent from 1995 onwards. Maintenance of price stability and developments in price expectations and related long-term market rates are dependent on the restoration of balance to central government finances and to a very

large degree on pay settlements already reached, on pay negotiations now in progress or to be held in autumn 1995 and on stumpage price settlements in spring 1995. Given that there is sufficient restraint in the economy to agree on income increases promoting price stability, market interest rates will remain at a moderate level, the economy can continue to grow without interruption and employment continue to improve.

Finland's entry into the European Union brings with it new goals for economic policy. The new goals – in particular, the goal of restoring balance to central government finances – are fully in harmony with the requirements which Finland's own economic circumstances impose on it. Like the other new EU countries, Finland will shortly draw up its own economic policy convergence programme for transition to the third stage of Economic and Monetary Union (EMU). The programme is based on the convergence criteria laid down in the Maastricht Treaty and concern public debt, inflation, exchange rates and long-term interest rates.

The convergence programme will be an important economic policy document, signalling not only Finland's own wish to put its economy back on a sound footing but also its commitment to the EU's rules concerning the pursuit of a single economic policy. As far as inflation and interest rates are concerned, Finland seems to be in a good position to be among the first countries to join the third stage of EMU. It will, however, take several years for the public sector deficit to be reduced to the level required by the criteria.

In December 1994, the Bank of Finland signed the agreements between the central banks of the EU member states on the European Monetary System (EMS) and Short-Term Monetary Support (STMS). The agreements took effect on 1 January 1995. The aim of cooperation within the EMS framework is to promote stable developments in the money and foreign exchange markets. However, for the time being Finland lacks the necessary conditions for joining the European Exchange Rate Mechanism (ERM). Fixing the value of the markka within the ERM, which is largely built around the Deutschmark, requires better overall balance in the economy, ie a simultaneous improvement in the current account, price performance and employment.



Economic Developments

The Finnish economy entered a cyclical upswing in 1994. Domestic demand started to grow after having contracted sharply for three years. The expectation that Finland would join the European Union and its confirmation in the autumn increased companies' and households' confidence in an improvement in economic prospects.

The economy moved towards better balance at the same time as the growth of total output accelerated and amounted to almost 4 per cent (Chart 1). Companies and households continued to pay back their debts, the current account posted a sizable surplus and inflation slowed. In contrast, the rate of unemployment fell only slightly and the central government's budget deficit widened. Pay settlements concluded in the closing months of the year strengthened inflation expectations, and long-term inflationary pressures, in particular, seemed to be rising.

World economy recovered

Economic growth in the industrialized countries became firmly established in the course of the year. Output in the OECD countries increased by almost 3 per cent (Chart 2). In Western Europe, in particular, economic growth strengthened markedly in the course of 1994. Growth was boosted by the decline

in interest rates that occurred in 1993 and by increased consumer and business confidence. The main contribution to the growth of total output came from an increase in stockbuilding, to which was added an increase in investment activity in the business sector towards the end of the year. In the United States, the growth of GDP was close to 4 per cent and the economy was running close to full capacity after many years of expansion. In Japan, activity began to recover slowly under the impetus of domestic demand and public investment. By contrast, other Asian economies continued to grow at a rapid pace and total output in the region grew by some 8 per cent from the previous year. Output started to grow in Eastern European countries with the exception of Russia, where it fell by about 15 per cent. The recovery of output in the industrialized countries was reflected in strong growth – estimated at 8 per cent – in the volume of world trade in 1994.

Large public sector deficits forced most industrialized countries to step up measures to reduce the deficits. Japan was the only country to significantly increase its public expenditure and at the same time to lower short-term interest rates. To counter inflationary pressures, some other countries, including the United States and the United Kingdom, tightened the stance of their monetary policy. The US Federal Reserve raised interest rates several times in the year, starting in February.

Chart 1.
GROSS DOMESTIC PRODUCT

Volume, 1983 = 100

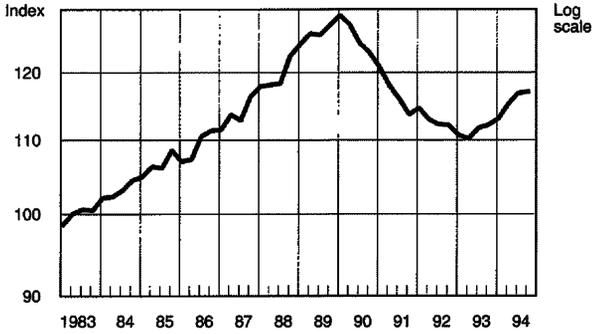
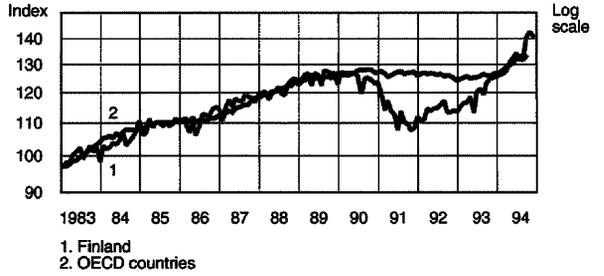
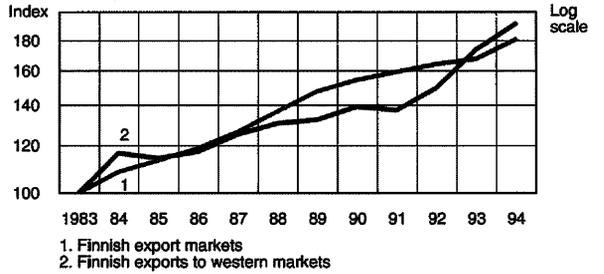


Chart 2.
DOMESTIC AND INTERNATIONAL
ECONOMIC DEVELOPMENTS

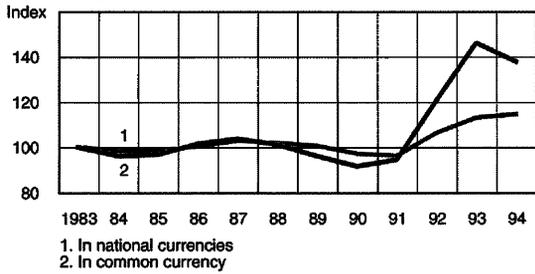
Industrial production
Volume, 1983 = 100



Finnish export markets and exports to western markets
Volume, 1983 = 100



Relative unit labour costs in manufacturing,
ratio of 14 countries to Finland
Index, 1983 = 100



Reflecting the strengthening of demand, world market prices of cyclically-sensitive raw materials such as metals, pulp and sawn goods rose substantially. As long-term inflationary pressures tend to intensify during an upturn, there was uncertainty in several countries as to whether economic policy could prevent an acceleration of inflation. The uncertainty also contributed to a substantial rise in long-term interest rates in the industrialized countries from February onwards. Since, however, the rate of inflation slowed in several countries in the course of 1994, Germany and some other countries in continental Europe lowered short-term interest rates slightly. In the foreign exchange markets, the US dollar weakened vis-à-vis other major currencies both in Europe and Asia. The Japanese yen strengthened by over 8 per cent in relation to the dollar from the previous year. In spite of the wider fluctuation bands, the key ERM (Exchange Rate Mechanism) currencies deviated by no more than about 4 per cent from their central rates in 1994. Problems connected with the central government's fiscal position in Sweden were reflected in pressures on both interest rates and the exchange rate of the Swedish krona. The krona depreciated by more than 8 per cent against the markka in 1994, as compared with the previous year.

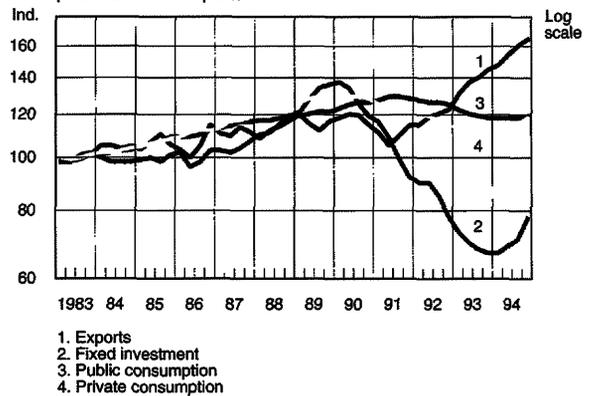
Exports went to traditional markets

In 1994, the volume of Finland's merchandise exports grew by 13.6 per cent (Chart 2). The forest industries experienced the strongest growth of exports, 13.7 per cent. Similarly, exports by the metal and engineering industries increased by 12.7 per cent from the previous year.

Export market shares continued to grow thanks to good competitiveness. Examined regionally, exports to the EU countries and the EFTA area increased by 14.0 per cent and 13.0 per cent, respectively, from the previous year. Exports to the United States also grew substantially. The value of cruise ships delivered in the course of the year was one-third higher than in 1993. The growth of exports to the Far East slowed from the exceptionally high rates experienced in previous years. There was a resumption in the growth of exports to Eastern Europe and Russia, and this region accounted for 11.4 per cent

Chart 3.
KEY DEMAND COMPONENTS

Volume, 1983 = 100, two-quarter moving average, plotted at the latter quarter



debtiness decreased markedly (Chart 4). Fixed investment by manufacturing companies increased by 25 per cent. Nevertheless, the volume of investment was still relatively modest, and consequently capacity in the sector did not increase to any significant extent.

The capital structure of firms operating predominantly in domestic markets also strengthened but at a clearly slower rate than in the rest of industry. Although their outstanding debt – partly because of loan losses – decreased from the high levels of the 1980s, it still acted as a constraint on expansion of activity in several sectors (Chart 4). Furthermore, the service sector, in particular, still had spare capacity and hence profitability was weak. Investment by firms in the domestic sector increased only slightly from the previous year.

Households' more optimistic expectations about income prospects led to a slight upturn in private consumption in late 1993. Although a tightening of taxation in the spring and the introduction of value-added tax in June reduced real disposable income, consumption grew modestly during 1994. Thus there was a marked decline in household saving (Chart 5). The volume of private consumption grew by 2 per cent and disposable income declined by 1.3 per cent from the previous year. Purchases of consumer durables showed particularly strong growth.

Housing construction continued to fall. Households' cautiousness about taking on debt, rising market interest rates and uncertainty about future developments in interest rates on housing loans curbed activity in the housing market. Weak demand was also reflected in house prices, which increased by only 2 per cent in the course of 1994 and kept the profitability of new housing production low. Housing investment fell by 2 per cent.

Output grew – employment remained weak

Economic developments also continued to be characterized by divergent trends in output. In industry, the volume of output grew by 12 per cent on average and exceeded the pre-recession peak reached in 1989; in the rest of the economy, output started to grow slowly in 1994 but, in volume terms, was still some 10 per cent below the 1990 cyclical peak.

Chart 4.
BUSINESS SECTOR

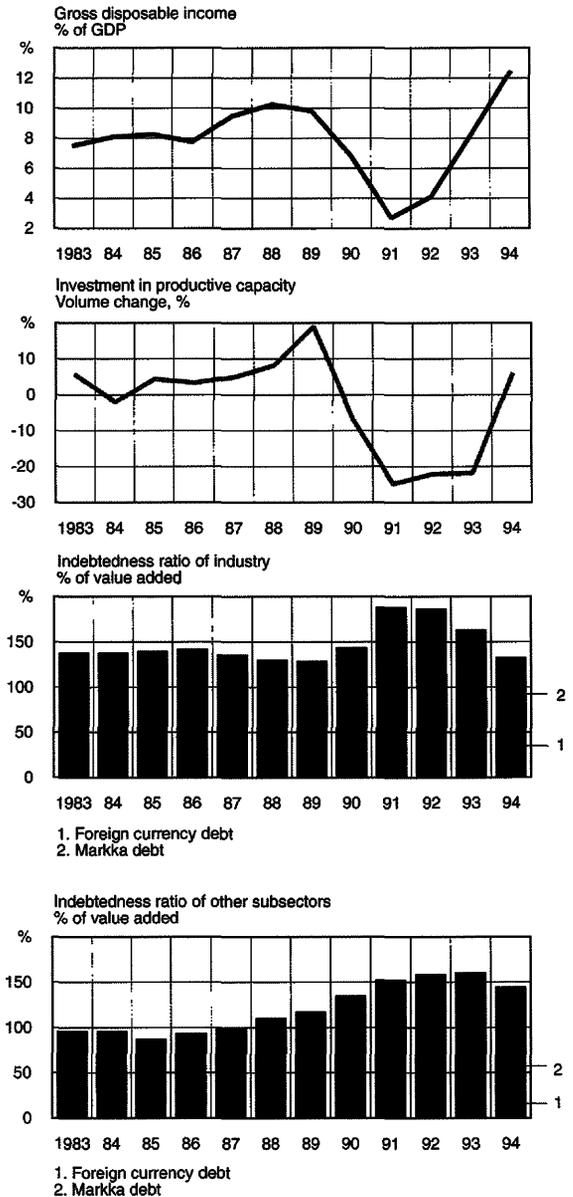
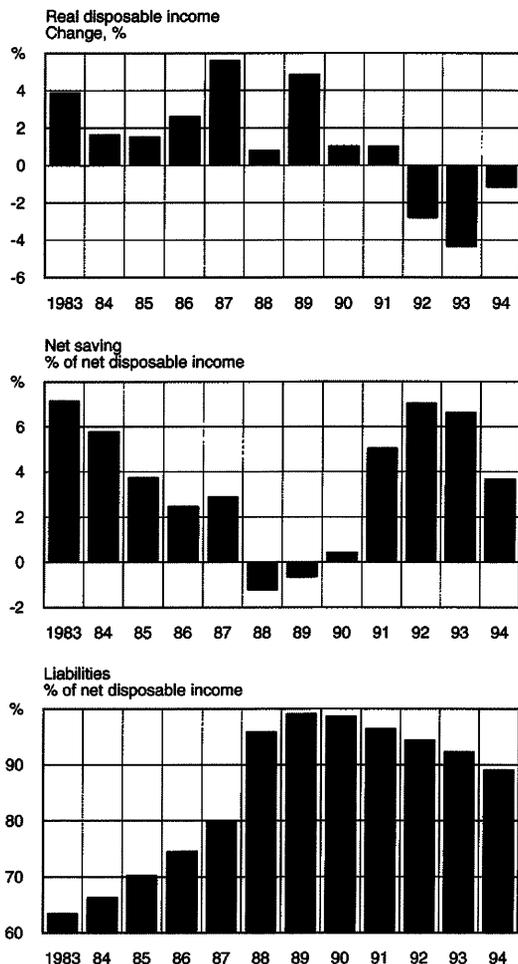


Chart 5.
HOUSEHOLD SECTOR
(incl. non-profit institutions)



The share of industry in total output rose to 24 per cent, a level last achieved in the mid-1970s. The export industries again recorded the strongest growth of output. Output in the forest and metal and engineering industries grew at an annual rate of over 10 per cent for the second year running. Towards the end of the year, however, the rate of growth slowed down, partly because increasingly more firms came up against capacity constraints. According to a survey conducted by the Confederation of Finnish Industry and Employers in September 1994, lack of capacity was a factor inhibiting the expansion of output in 20 per cent of the companies covered. In industries serving mainly the domestic sector, output picked up along with the recovery of domestic demand. Exports also grew substantially in the textiles, food and building materials industries.

The long recession in the service industries came to an end and output grew by 4 per cent in 1994. Output in the transport sector, the forest industries and the energy supply sector was boosted by the growth of exports. By contrast, output in the construction sector continued to decline. Cuts in public expenditure were reflected in a marked decrease in the provision of public services. Total output, which had started to grow in the second half of 1993, was 3.9 per cent higher in 1994 than in the previous year (Chart 1). Output grew by 4.4 per cent between the fourth quarter of 1993 and the fourth quarter of 1994.

The growth of total output and broadening of growth in the domestic sector resulted in a marginal improvement in employment (Chart 6). There was a marked increase in the number of employed in manufacturing after the summer, and, at the end of the year, the total number of employed in the sector was almost 18 000 higher than a year earlier. There was also a slight rise in the numbers employed in the public sector and the construction industry as compared with the previous year. The level of employment fell further in the private service sectors. All in all, the total number of employed in the economy increased by 40 000.

The unemployment rate averaged 18.4 per cent in 1994. In December 1994, the number of unemployed totalled 427 000, some 8 per cent less than a year earlier. Because of the prolonged difficult unemployment situation, the number of long-term unemployed rose to 142 000, ie 30 per cent of the total number of unemployed.

Public sector deficit remained large

Because of the central government's large debt, fiscal policy continued to focus on curbing public expenditure. Statutory cuts in central government expenditure totalling some FIM 12 billion were implemented in 1994. This sum included the extension of previously enacted one-year savings laws. However, government expenditure related to unemployment continued to grow rapidly; though expenditure in the form of unemployment benefits came to a halt, there was a significant increase in the funding of employment schemes for young people and the long-term unemployed. The rapid growth of central government debt increased interest payments by about one-quarter. In real terms, total central government expenditure (excluding financial investments) increased slightly.

The central government's total tax revenue grew, mainly because no tax refunds were paid in 1994. On 1 June 1994, sales tax was replaced by value-added tax, thereby shifting the focus of indirect taxation to the taxation of consumption. As a result of the reform business fixed investment was no longer subject to indirect taxation. The reform did not, however, have any major impact on the central government's tax revenue. In contrast, tax revenue increased to some extent because of increases in excise duties in the nature of environmental and pollution taxes.

The central government revenue deficit (revenue less expenditure before financial transactions) amounted to FIM 55 billion, ie some FIM 6 billion more than in 1993. Support provided to the banking sector, lending and other financial investments totalled FIM 10 billion, and so the net financing requirement rose to FIM 65 billion.

Although the appreciation of the markka slowed the growth of central government debt – at the end of the year, foreign currency-denominated debt accounted for 56 per cent of the total debt – indebtedness (the ratio of debt to GDP) rose rapidly.

The reduction in state-aids to the local government sector forced municipalities to make further cuts in their expenditure. This was achieved, *inter alia*, through savings in staff expenditure included in the pay settlements reached with unions in the local government sector. Public consumption expenditure fell by 0.4 per cent in real terms and investment ex-

Chart 6.
LABOUR MARKET, WAGES AND PRICES

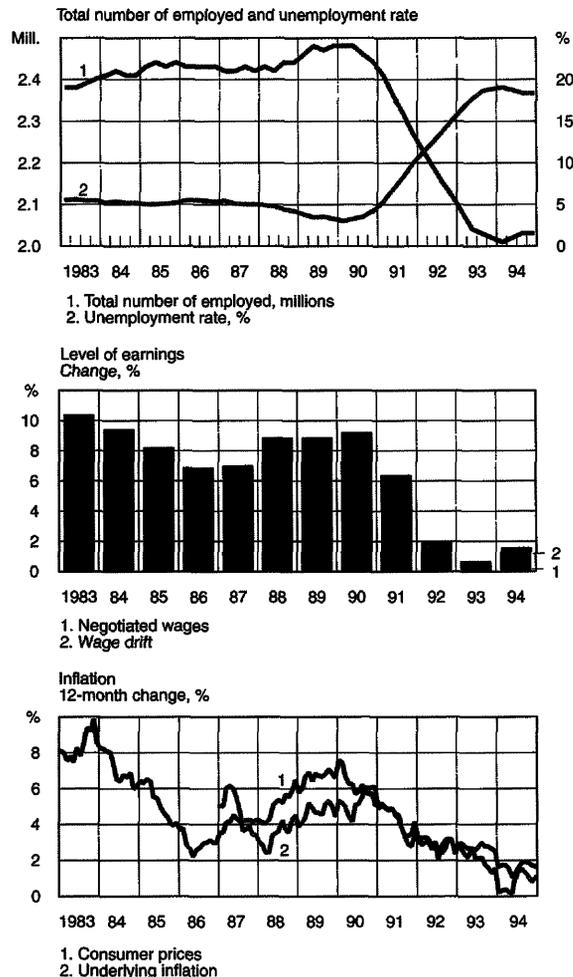
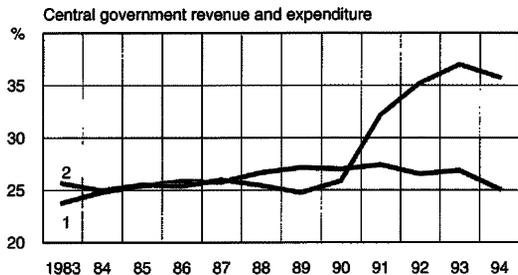
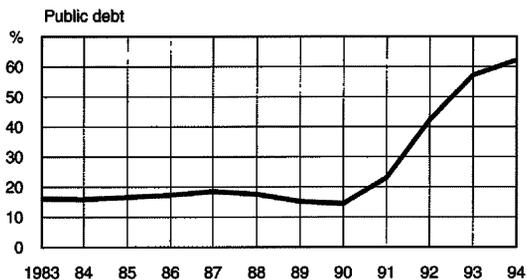
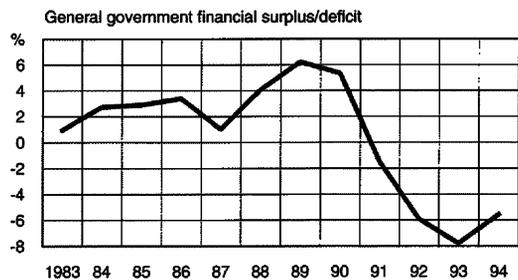


Chart 7.
PUBLIC FINANCES
(% of GDP)



1. Revenue before financial transactions
2. Expenditure before financial transactions



penditure by more than 8 per cent. The tax refunds that would normally have been payable at the end of 1994 were deferred until early 1995, and this also increased municipalities' tax revenues. The financial position of the local government sector improved for the second successive year, as was evidenced in a decline in the sector's indebtedness.

Rises in social security contribution rates and the limits imposed on the growth of expenditure resulted in a marked increase in the financial surplus of social security funds. The general government deficit fell to 5.6 per cent of GDP (Chart 7). At the end of the year, the gross debt of the general government sector amounted to 62 per cent of GDP. Thus the general government financial position in Finland did not meet the convergence criteria laid down in the Maastricht Treaty, according to which the government deficit must not exceed 3 per cent and government debt 60 per cent of GDP.

Current account posted a surplus

The trade account showed a surplus of FIM 33.6 billion in 1994, an increase of FIM 2.5 billion from 1993 (Chart 8). In the second half of the year, the growth of the surplus was checked by an acceleration in the growth of imports. Finland's entry into the EU at the beginning of 1995 had a technical effect on the compilation of foreign trade statistics for 1994 as a result of which some FIM 3 billion worth more imports and just under FIM 1 billion worth more exports were recorded in the figures for 1994.¹ Even if calculated according to the previous compilation method, imports still grew faster than total output in 1994. The magnitude of imports was partly due to the fact that growth focused on industries where imports account for a larger-than-average share of production. Firms also replenished their stocks of raw materials and intermediate products.

The rise in world commodity prices, which started in the spring, raised the prices of forest industry products, in particular, and improved the terms of trade. This contributed to the surplus on the trade account. However, the strengthening of the markka's external value from the summer onwards

¹ All exports and imports cleared through customs before the end of 1994 were recorded in the foreign trade figures for 1994. This procedure reduced the surpluses on the trade and current accounts.

offset to a substantial degree the rise in markka-denominated export prices and lowered import prices.

The current account surplus amounted to FIM 5.6 billion in 1994, ie 1.1 per cent of GDP. The deficit on the services account decreased; travel and transport receipts increased and expenditure on services declined. In net terms, investment income payments abroad fell from the level of 1993; the depreciation of the dollar reduced interest expenditure and the improved profitability of Finnish business operations abroad boosted direct investment earnings.

Above all, the current account surplus reflected an increase in the financial surplus of the private sector. The investment ratio of the private sector remained low and companies' financial performance was good. This made possible an improvement in the current account despite the continuing large financial deficit of the public sector.

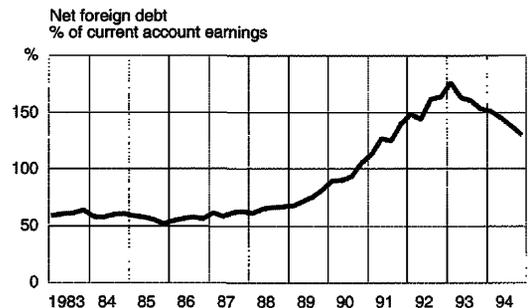
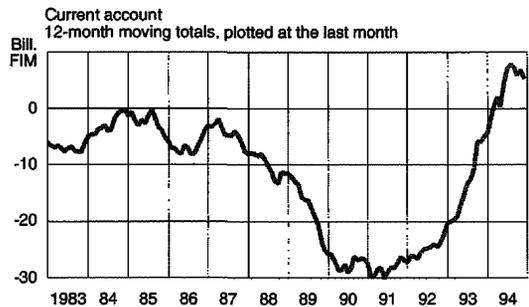
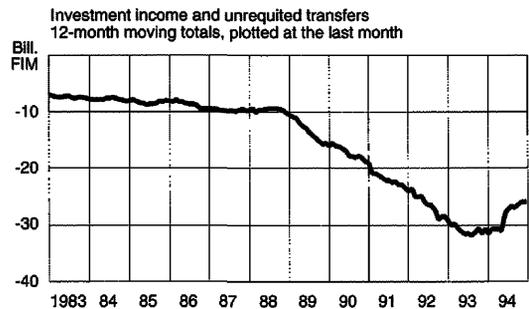
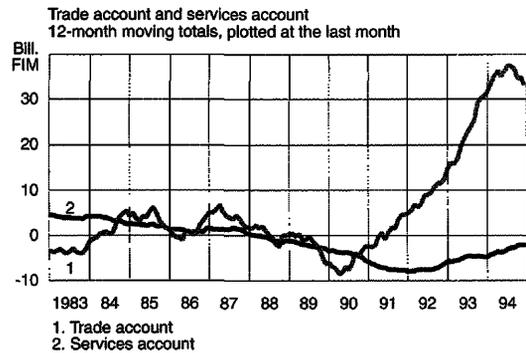
The decline in Finland's net foreign debt exceeded the current account surplus. At the end of 1994, Finland's net foreign debt stood at FIM 257 billion, ie 50 per cent of GDP.

Inflationary pressures mounted towards the end of the year

The fall in unit labour costs and stable import prices helped to keep the rise in consumer prices subdued (Chart 6). Pay agreements reached in late 1993 and early 1994 raised negotiated wages by 0.7 per cent on average. Most of the pay increases were in the export sector. As wage drift was again minimal, the level of wage and salary earnings was 1.6 per cent higher on average than in 1993. Higher indirect labour costs increased labour costs by just under 1 per cent but unit labour costs fell by 1.3 per cent because of higher productivity; in manufacturing, unit labour costs fell by 3.3 per cent.

The rise in export and producer prices was mainly attributable to higher prices of raw materials and intermediate products. Prices of pulp, sawn goods and metal products rose most. The improved economic prospects for the forest industries were also reflected in a rapid rise in stumpage (standing timber) prices. The agreement on timber prices reached in February 1994 raised average stumpage prices by some 8 per cent from the previous year. In the course of the year, strong demand pushed stump-

Chart 8.
EXTERNAL BALANCE



age prices above the agreed level, and, at the end of the year, prices were one-fifth higher than a year earlier.

Import prices remained fairly stable; prices of merchandise imports were at the previous year's level. The appreciation of the markka prevented the pass-through of the marked rise in foreign currency-denominated import prices to prices and costs in Finland.

Companies' net operating income improved without any acceleration in the rise in prices. The indicator of the underlying rate of inflation, which is obtained by removing the effect of indirect taxes, subsidies and housing-related capital costs from the consumer price index (CPI), rose by 1.3 per cent on average in 1994. Measured by the twelve-month change in the indicator, inflation slowed to under 2 per cent at the beginning of the year; the change from December 1993 to December 1994 was 1 per cent. The consumer price index rose by 1.1 per cent on average in 1994 and by 1.6 per cent in the twelve months to December 1994. Measures taken in the public sector contributed one percentage point to the rise in consumer prices. The biggest impact on the rise in prices derived from the changeover to value-added taxation at the beginning of June.

The rapid rise in house prices, which had started in the greater Helsinki area in 1993, continued in the first half of 1994. But the rise in long-term market interest rates curbed demand, and the rise in prices came to a halt in summer. Changes in house prices

in the country as a whole were minor; prices rose slightly in the early part of the year but declined in the second half.

In February 1993, the Bank of Finland announced that the target serving as the basis for the formulation of its monetary policy was to stabilize the rise in prices, as measured by the indicator of the underlying rate of inflation, at 2 per cent from 1995 onwards. At the beginning of 1994, the underlying rate of inflation slowed to under 2 per cent and, in the last months of the year, developments in virtually all prices were stable. The effects of the fall in unit labour costs and appreciation of the markka are likely to continue to be reflected in prices in 1995. The fall in the prices of agricultural products and food resulting from Finland's entry into the EU will help to dampen inflation in early 1995. According to surveys conducted in 1994, consumers expected the rate of inflation to accelerate only marginally in the near future. Firms' inflation expectations were slightly higher.

Pay settlements reached in late 1994 and early 1995 will raise earnings by 4 per cent on average. The biggest pay increases were in the export sector. There were also pay increases in industries where current wage agreements do not expire until the end of 1995; the increases were made possible by a cancellation clause included in the agreements, on account of which nearly all agreements were renegotiated.

Monetary Policy

The improvement in the external balance of the economy paved the way for the recovery of domestic demand in 1994. Despite the high level of unemployment and the weakness of central government finances, the environment in which monetary policy was conducted was notably more favourable than had been the case in the preceding few years; inflation was subdued and there was little turbulence in the foreign exchange market. However, the rise in long-term interest rates abroad pushed long-term rates higher in Finland as well. The Bank of Finland kept short-term interest rates low for most of the year and intervened in the markets to counter unduly large movements in the markka's exchange rate. At the end of the year, rising inflation expectations and increasing inflationary pressures, largely generated by cost factors, led to a modest tightening of monetary policy.

Monetary policy was steady and the exchange rate strengthened in the latter part of the year

Monetary policy was kept on a fairly steady course throughout the year. At the beginning of February, the base rate was lowered by 0.25 percentage point to 5.25 per cent, at which level it remained for the rest of the year (Chart 9). Short-term market interest

rates and the Bank of Finland's tender rate were at their lowest levels in March. Subsequently, the tender rate was allowed to rise slightly in response to market pressures (Chart 10). The scope for any easing of monetary policy ceased to exist in February when long-term interest rates rose in line with interest rates abroad and there were pressures for a weakening of the exchange rate. Confidence in the exchange rate was not restored until August when the performance of the economy had improved markedly and economic policy had gained credibility. Long-term market interest rates also began to decline slowly.

Monetary policy was formulated in accordance with the 2 per cent inflation target which had been set in February 1993. As domestic inflationary pressures remained modest, it was possible to keep interest rate policy relatively easy. Inflation was even somewhat more subdued than had been forecast. This was due to the moderate pay settlements reached the previous autumn and the rise in long-term market interest rates, which slowed the growth of demand and reversed the upward trend in asset prices in the middle of the year. The strengthening of the exchange rate after the middle of the year reduced the inflationary pressures deriving from foreign trade prices. In contrast to the previous year, the pressures for a strengthening of the exchange rate were not dispelled through lower short-term interest

Chart 9.
KEY INTEREST RATES

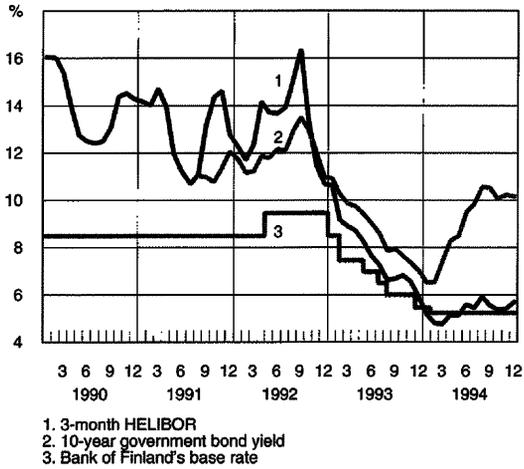


Chart 10.
TENDER RATE AND HELIBOR RATES

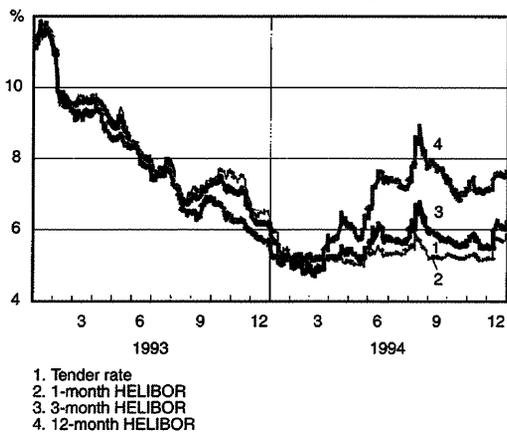
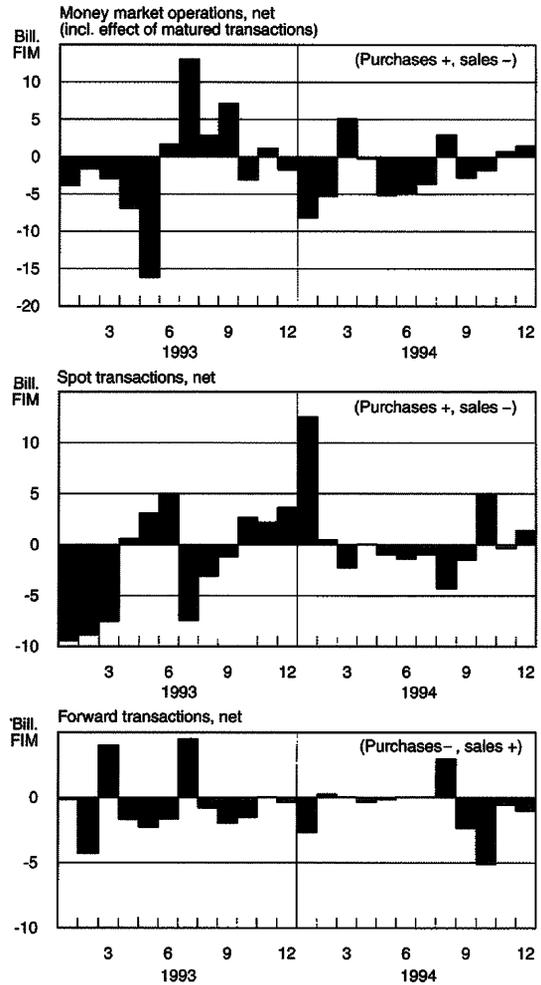


Chart 11.
BANK OF FINLAND'S MONEY MARKET OPERATIONS AND INTERVENTION IN THE FOREIGN EXCHANGE MARKET



rates. As the economy had moved into a phase of robust growth, the likelihood of an acceleration of inflation increased. Indeed, short-term interest rates were raised in December because of rising inflation expectations and cost pressures.

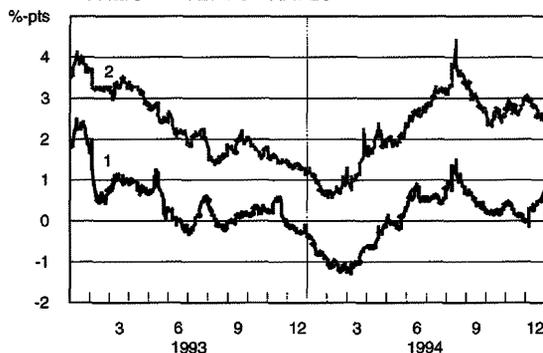
The design of monetary policy was based on several economic indicators, in addition to economic forecasts. These indicators depict the level of activity in the economy, inflation, monetary conditions and the state of the financial markets. Although the indicators were followed very extensively, the necessary conditions for the setting and adoption of an explicit, publicly announced intermediate target did not exist.

The markka was allowed to float without much interference. Although the Bank intervened in order to prevent wide fluctuations in the exchange rate, both up and down, it did not seek to influence the underlying trend. In January and again in the autumn, the Bank intervened to prevent the markka from appreciating excessively, whereas in the spring it intervened to support the markka (Chart 11). The real exchange rate was exceptionally weak in the early months of the year, and correspondingly the price-competitiveness of exports was exceptionally strong. For this reason, efforts were made over a period of some months in the spring to check a steep decline in the markka, as it was judged that the markka would strengthen in the longer term. The markka did, in fact, appreciate substantially throughout the latter part of the year, starting in August.

Monetary policy was tightened in the United States and in several European countries

The favourable trend in international interest rates was reversed in February when the US Federal Reserve announced that it was tightening monetary policy in response to the threat of a resurgence in inflation. Preliminary data indicated that total output in the United States had grown at an annualized rate of as much as 7.5 per cent in the final quarter of 1993. The Federal Reserve raised the federal funds rate, ie the interbank overnight interest rate, by 0.25 percentage point to 3.25 per cent. This prompted expectations of a further monetary tightening and rising short-term market interest rates as well as of a

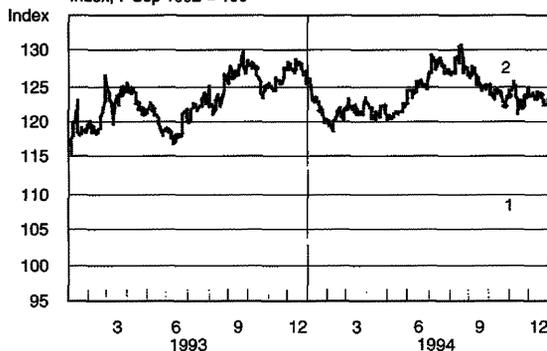
Chart 12.
DIFFERENTIAL BETWEEN DOMESTIC AND FOREIGN INTEREST RATES



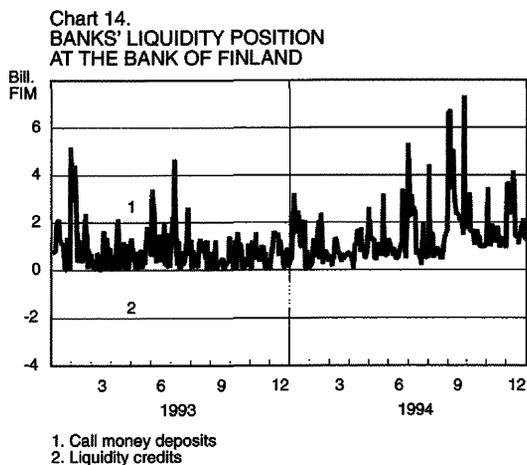
1. 3-month HELIBOR less 3-month euro-DEM rate
2. 10-year Finnish government bond yield less 10-year German government bond yield

Chart 13.
EXCHANGE RATES OF THE FINNISH MARKKA AND THE SWEDISH KRONA AGAINST THE ECU

Index, 7 Sep 1992 = 100



1. Markka/ECU
2. Krona/ECU



fall in the prices of dollar-denominated securities. The shift to a tighter monetary policy stance in the United States triggered a sharp adjustment in bond markets around the world, and long-term interest rates embarked on a steady upward path both in the United States and Europe. The Bundesbank was also expected to slow the pace of its monetary easing. The sharpest rises in interest rates occurred in those European countries that had a large government deficit, a poor inflation record and an improving economic outlook. Long-term interest rates rose particularly in Finland and Sweden but also in the Mediterranean countries and the United Kingdom.

In Germany, long-term interest rates rose by about 1 percentage point in the spring. However, the Bundesbank eased its monetary policy further because inflation had slowed and was expected to remain low over the next few years. In many small European countries interest rates rose by even more. In small markets there are so few participants that the actions of just a few large investors can have a major impact on interest rates. In Finland and Sweden, ten-year bond yields rose by over 3 percentage points. In May, the rise came to a temporary halt. In January-April, foreigners sold markka-denominated government bonds back to Finland to the value of more than FIM 5 billion in net terms. The differential between Finnish and German long-term bond yields widened in the spring from less than 1 percentage point to 3 percentage points (Chart 12).

In March-April, the US Federal Reserve raised the federal funds rate by 0.25 percentage point on two separate occasions. This was followed in May by a rise of 0.50 percentage point in both the discount rate and the federal funds rate, which triggered a further rise in market rates in the United States and Europe. By this time, the economic recovery in Europe was firmly established, and this contributed to the rise in interest rates. Rates in Finland and Sweden again rose by more than German rates. From the investor's viewpoint, the country risk attached to Finland and Sweden had increased, among other things because of problems connected with government finances in both countries, Sweden's parliamentary election campaign and disputes about joining the European Union (EU). After the middle of the year, movements in interest and exchange rates in Finland diverged somewhat from those in Sweden, partly because of Finland's improved economic outlook (Chart 13).

In August-September, the central banks of Sweden, the United Kingdom, Italy and the United States tightened their monetary policy in order to check inflationary pressures. In Germany too, long-term interest rates began to rise again. By mid-September, both US and German ten-year bond yields had risen by 2 percentage points from the beginning of the year. In the course of the year, the German economy shifted into a phase of slow but steady growth.

The Swedish central bank raised its repo rate again in October and December when inflationary pressures strengthened. In November, the US Federal Reserve raised both the discount rate and the federal funds rate by 0.75 percentage point to 4.75 per cent and 5.5 per cent, respectively, and in December base rates in the United Kingdom were raised by 0.5 percentage point to 6.25 per cent. In contrast, Germany kept its monetary policy unchanged throughout the autumn.

Short-term rates at the level of German rates, the exchange rate strengthened

An optimistic mood prevailed in the Finnish money market in the early months of the year. Economic growth was well-established, market interest rates were still falling, the markka was appreciating and share prices were rising. The upward pressure on the markka was so strong that it had to be countered by intervention on a significant scale. Short-term interest rates had dropped below the level of German rates in the latter part of 1993.

It was feared that the rise in long-term interest rates that began in February would threaten the incipient recovery. The Bank of Finland judged that, if short-term rates were to decline further, inflation expectations would strengthen and long-term rates would climb still higher. The one-month tender rate was at its lowest level, 4.8 per cent, in March, after which it was allowed to rise to 5.2 per cent in June. In the subsequent period, the Bank kept the tender rate in the neighbourhood of 5 per cent.

The uncertainty surrounding fiscal policy and the outcome of the referenda on EU membership was reflected in the Swedish and Finnish money markets in the summer (Chart 14). In order to keep short-term interest rates stable, the Bank of Finland

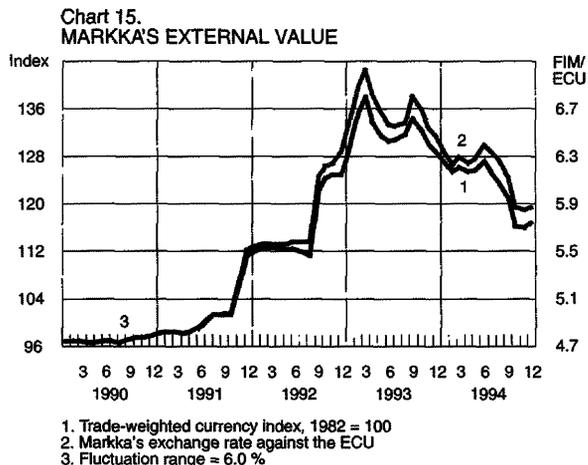
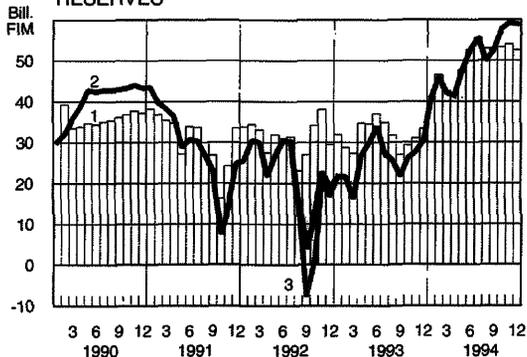


Chart 16.
BANK OF FINLAND'S FOREIGN EXCHANGE
RESERVES



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

allowed even more liquidity in the banking system. Banks' call money deposits at the Bank exceeded FIM 4 billion at times in August. When, after August, the doubts about economic policy diminished, this was reflected in an easing of the upward pressure on short-term interest rates.

The Bank curbed the upward pressure on short-term interest rates again prior to the Swedish referendum, when the outcome was very much in doubt, by injecting more liquidity into the banking system. However, the Yes vote in Sweden quickly calmed the money market, and banks' call money deposits declined to some FIM 1 billion.

The appreciation of the markka came to a halt in the early part of the year (Chart 15). In the middle of the year, the exchange rate actually weakened because of the doubts about the credibility of economic policy. In August, the appreciation of the markka resumed under the influence of better economic news and the increased likelihood that Finland would join the EU. The markka continued to appreciate at an accelerating pace throughout the autumn, first in the run-up to the referendum and subsequently on the strength of the Yes vote. Over the period August-December, the markka appreciated by 6 per cent altogether. The Bank intervened in the foreign exchange market from time to time so as to prevent the markka from strengthening too quickly.

As the markka appreciated, long-term interest rates started to edge downwards. In August-October, the one-year HELIBOR fell by 2 percentage points from its August peak of over 8 per cent. However, by October, the yield on taxable ten-year government bonds had fallen by only 1 percentage point to 10 per cent.

In December, the Bank raised its tender rate, which serves as a benchmark for short-term rates, by half a percentage point to 5.5 per cent. The Bank's Board also proposed a half-point rise in the base rate to 5.75 per cent, but this was rejected by the Parliamentary Supervisory Board, which did not agree on the need for the increase. Underlying the proposal was the exceptionally wide gap between the base rate and long-term market rates. The rise in the tender rate was favourably received by the markets: the upward pressure on long-term interest rates eased and rates even fell slightly. Conditions in the foreign exchange market also remained calm.

Foreign debt declined

The foreign exchange reserves grew steadily throughout the year, reaching a record level of nearly FIM 60 billion (including the forward position) at the end of the year (Chart 16). The rise was largely attributable to the capital inflow associated with the central government's borrowing abroad. The outflow of capital from the private sector slowed as debt repayments declined.

The growth of Finland's net foreign debt came to a halt in the course of the year, mainly because of the depressed state of domestic demand and the swing to surplus in the current account. The strengthening of the exchange rate reduced the outstanding debt in markka terms. The debt decreased by FIM 8.1 billion in the course of the year and totalled FIM 256.8 billion at the end of the year. In relation to exports, the debt declined by 23 percentage points, and at the end of the year amounted to 143 per cent of exports and 50 per cent of total output.

The central government's share of foreign debt rose to more than two-thirds by the end of the year, as capital imports for the year amounted to FIM 29.9

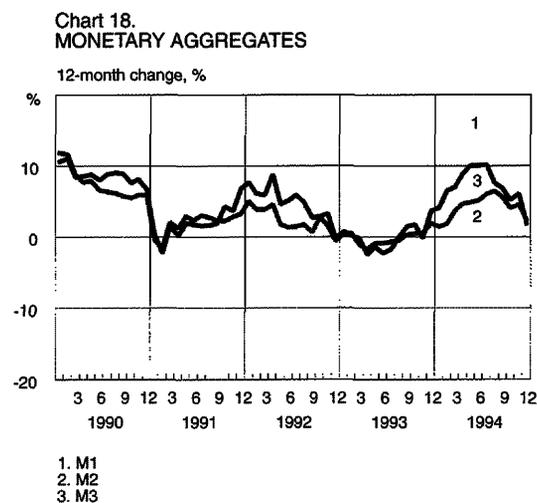
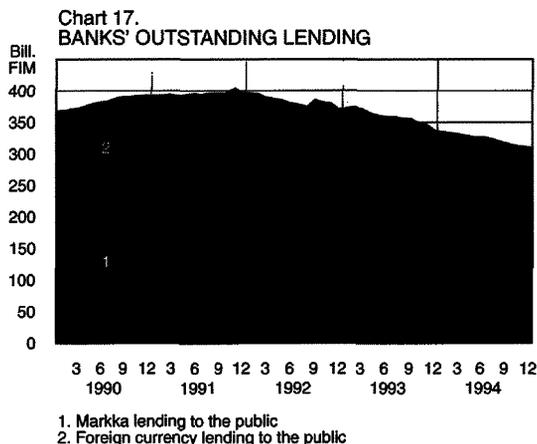
billion in net terms. Since it proved difficult to place debt in the domestic market, it was again necessary to resort to foreign borrowing in order to finance the budget deficit. The problem in the domestic market stemmed both from the poor availability of capital and high long-term interest rates. In the latter part of the year, however, the central government was able to place a growing share of its debt in the domestic market. Funds were raised abroad mainly through the issue of bonds (Table). For the year as whole, new issues amounted to FIM 30 billion in net terms. The bulk of these were denominated in foreign currency, and the markka-denominated share of the total debt declined substantially.

The foreign debt of the private sector decreased by FIM 6.5 billion in the course of the year. Firms' need to borrow abroad diminished because of the low level of investment, the fall in domestic interest rates, the improved profitability of the corporate sector and new share issues. Foreigners' holdings of Finnish shares grew by FIM 13.2 billion in net terms in 1994. Firms' outstanding forward contracts with banks increased to FIM 20 billion in the early part of the year when the markka showed a firmer tone.

Financing of the current account, FIM million

		I	II	III	IV	I-IV
Trade balance	30 991	9 684	9 031	8 539	6 300	33 554
A. CURRENT ACCOUNT	-4 744	-294	2 336	3 607	-72	5 578
B. CAPITAL IMPORTS	5 963	10 573	7 836	314	1 203	19 926
Loans (non-negotiable)	6 196	-2 701	2 613	-1 188	8 035	6 759
Direct investment	-4 592	-1 360	-2 320	-2 013	-6 291	-11 984
Portfolio investment (shares, bonds, derivatives and money market investments)	35 147	7 499	19 072	19 306	-8 498	37 378
Other capital transactions	-30 788	7 136	-11 529	-15 791	7 957	-12 227
A.+B. CHANGES IN FOREIGN EXCHANGE RESERVES (Increase+, decrease-)	1 219	10 279	10 172	3 921	1 132	25 504
Memorandum item: Central government's capital transactions, net	48 015	2 302	13 200	13 858	499	29 859

* Preliminary.



The amount of forward contracts increased again in the autumn when the markka appreciated in connection with the EU referendum.

At the end of 1994, Finnish banks and other financial institutions had credit claims on Russia amounting to some FIM 5.5 billion. In addition, firms had cash claims on Russia estimated to be worth about FIM 1.1 billion. Thus contract-based claims on Russia totalled FIM 6.6 billion at the end of the year.

Outstanding bank lending declined, monetary aggregates increased

Despite the recovery of the economy, outstanding bank lending declined further in 1994 (Chart 17). Outstanding lending to households declined by noticeably more than outstanding markka lending to firms. The steep fall in the outstanding amount of foreign currency-lending continued. Most of the investment in the export sector was financed out of earnings and by share issues. Demand for credit by companies operating in the domestic market decreased because of the low level of investment activity and a shortage of collateral. Higher lending rates and the uncertain economic situation may also have contributed to the contraction in demand for credit. Though new housing loans granted to households picked up in the early months of the year, part of this lending represented the refinancing of old loans for customers experiencing difficulties in servicing their loans; the outstanding amount of housing loans actually declined throughout the year.

The fall in average bank lending and deposit rates came to a halt in the first months of the year. Rates on new lending turned up in March in line with market interest rates, and rates on new lending to households peaked in August. The average rate on new housing loans at that time was 8.8 per cent and the average rate on consumer loans 10.2 per cent. Owing to the fall in market interest rates and an improvement in bank liquidity, lending rates declined during the autumn. The biggest share of new housing loans was tied to the banks' own prime rates; the second most widely used reference rate was the twelve-month HELIBOR. The Bank of Finland's base rate has lost its significance as a reference rate for new lending; only the lending rate on housing

loans granted to young people under home-saving schemes was still tied to the base rate. Interest rates on corporate loans remained low in relation to market rates, ie about 7 per cent. This was because it was necessary to lend at very low rates of interest to firms experiencing difficulties.

There was substantially more liquidity in the economy than in the previous year. Contributing to the growth of liquidity (ie money supply) was the pick-up in economic activity and increased uncertainty concerning inflation. Of the monetary aggregates measuring liquidity, the narrow monetary aggregate M1 experienced the fastest annual growth, about 9 per cent (Chart 18). The main contribution to its growth came from the improvement in companies' liquidity. The growth of the broad monetary aggregates was more moderate: M2 grew at an annual rate of 6 per cent at its fastest and M3 at an annual rate of 10 per cent. The growth rates of all the monetary aggregates slowed towards the end of the year.

Banks' lending potential improved towards the end of the year as the growth of bank deposits (monetary aggregates) outpaced that of bank lending by a clear margin. Since late 1993, the amount of deposits has exceeded outstanding markka lending, and, in fact, the growth in bank liquidity was evident in the narrowing of the interest rate margin in the latter part of 1994. The interpretation of figures on bank lending is complicated by accounting practices applied in respect of loan losses and the translation of foreign currency loans into markkaa.

The tender rate gains in importance

No changes were made in the systems of monetary control, ie the liquidity facility and the minimum reserve system. Interest rates on liquidity credit and call money deposits were kept, respectively, at 2 percentage points above and below the effective Bank of Finland tender rate. The maturity for liquidity

credit was seven days. In the latter part of the year, the Bank modified its conduct of open market operations by increasing the importance of the tender rate relative to the HELIBOR rates. In December, the Bank used a volume tender to raise its tender rate to the desired level.

The Bank of Finland signed the EMS agreement

The currency swap agreements concluded in 1992 between the Bank of Finland and the central banks of the EU member states were extended in summer 1994, and the agreement on currency support between the Nordic central banks remained in force. The swap arrangements were not used in 1994.

In December, in connection with Finland's forthcoming membership of the EU, the Bank of Finland signed the agreements between the central banks of the EU member states on the European Monetary System (EMS) and Short-Term Monetary Support (STMS). The agreements came into force on 1 January 1995 along with Finland's accession to the EU. At the same time, the bilateral agreements between the Bank of Finland and the central banks of the EU member states were terminated.

Member central banks of the EMS are required to exchange information and to consult with each other concerning monetary and exchange rate policy decisions. In practice, this means that the Bank of Finland must, in its own decisions and operations, take into account the conditions prevailing in money and foreign exchange markets in the other EU member states and constantly consult on these matters with the other central banks. The agreement did not actually entail any change in the Bank's existing practice as it had participated in similar exchange of information and discussions since June 1992 on the basis of the swap agreements concluded at that time with the central banks of the EU member states.

Financial Markets

Further losses in the banking sector

The banks again recorded substantial losses in 1994. However, the fall in the level of loan losses (Chart 19) and a number of developments in the operating environment pointed to improved prospects for the banking sector.

The net interest income of most banks declined from the level of the previous year. The positive effect on interest income that resulted from the transfer of assets from the Savings Bank of Finland (SBF) to other banks was not sufficient to offset the negative effect of other factors. Among the adverse factors were the rise in long-term market interest rates, which caused losses to many banks, a narrowing of the margin between deposit and lending rates (Chart 20) and a decrease in outstanding lending.

Nor did developments in other income items contribute favourably to banks' results. The calm that prevailed in the foreign exchange market reduced banks' income from foreign exchange transactions. Moreover, banks were not able to book gains on asset sales, as they had done in the previous year. Operating expenses, by contrast, rose even faster than expected, especially in those banks that acquired new employees and branches in connection with the splitting up of SBF.

Loan and guarantee losses were again large, although they declined from the previous year. Losses were due, in particular, to write-offs made by banks in respect of nonperforming claims on a number of large firms in the service sector. Nonetheless, the pick-up in economic activity, the peaking of unemployment and the marked decrease in bankruptcies pointed to an improvement in the ability of banks' customers to service their debts. These factors also strengthened the view that the problems associated with loan and guarantee losses were beginning to recede.

Banks strengthened their capital positions

In order to cover losses and safeguard their solvency, the banks strengthened their equity capital by means of extensive capital programmes. Equity capital was strengthened by a total of FIM 5–6 billion both through the issue of instruments eligible for inclusion in additional own funds and share issues. This represented an increase of more than 10 per cent in deposit banks' own funds from the previous year. Share issues were arranged both at home and abroad. Skopbank was the only bank to need government support.

The process of rationalizing branch networks and staffing levels slowed in 1994. Indeed, as a result of the SBF deal, the branch networks and staff of the purchasing banks (Kansallis-Osake-Pankki, Okobank and the cooperative banks group, Postipankki and Union Bank of Finland) actually increased. However, the splitting up of SBF did result in a substantial reduction in the number of staff and branches in the banking sector as a whole. At the end of 1994, the total number of employees in the banking sector was about one-third lower than its peak level in 1989.

Demand for credit was weak

Banks' balance sheets shrank further in 1994. Though the decline in outstanding lending was due in part to loan losses, the main factor was the paucity of new lending (Chart 21). A survey of companies conducted by the Bank of Finland, the Confederation of Finnish Industry and Employers and the Ministry of Trade and Industry showed that relatively few firms were experiencing difficulties in obtaining financing: only 15 per cent of the firms indicated that availability of financing was a factor hindering their operations. In these firms, lack of collateral was considered the most serious problem. Hence the prime cause of the small amount of new lending appears to be weak demand for credit rather than a 'credit crunch'.

In contrast, the amount of deposits increased, albeit slowly. The portion of total deposits that was tied to the base rate decreased in the course of the year (Chart 22). This was mainly because part of the deposits tied to the base rate that were transferred from SBF to other banks went into other types of account. The share of total deposits accounted for by tax-exempt deposits remained largely unchanged (Chart 23).

Legislation governing deposits was revised

Under existing legislation, 1994 was to be the last year for making tax-exempt term deposits. However, the Act on the Tax Relief of Deposits and Bonds was

Chart 19.
DEPOSIT BANKS' AND ARSENAL LTD'S LOAN AND GUARANTEE LOSSES

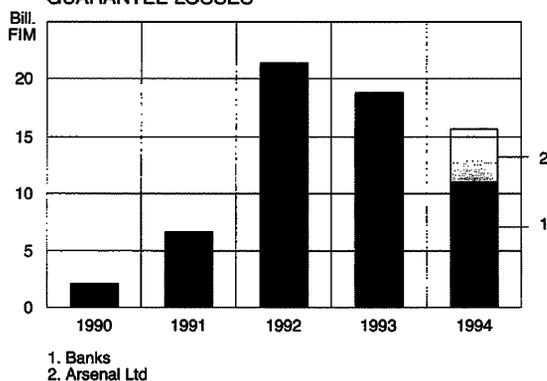


Chart 20.
INTEREST RATE MARGIN BETWEEN MARKKA LENDING AND MARKKA DEPOSITS

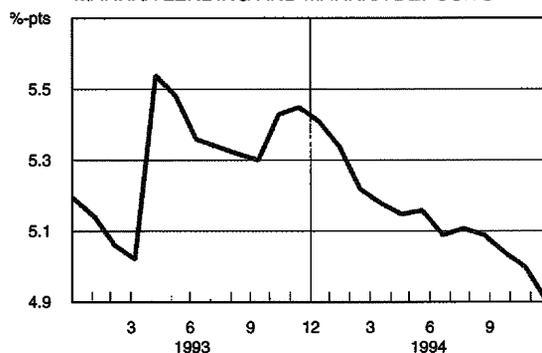


Chart 21.
NEW MARKKA LENDING AND CHANGE IN OUTSTANDING LENDING

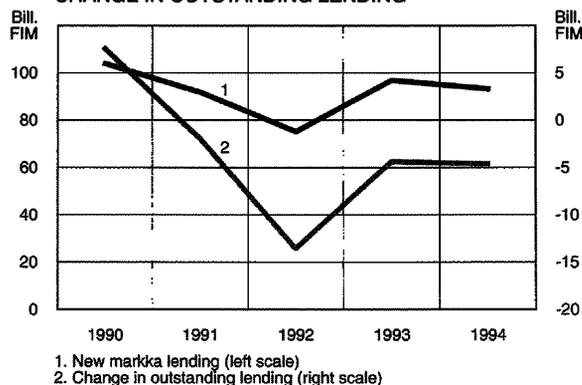
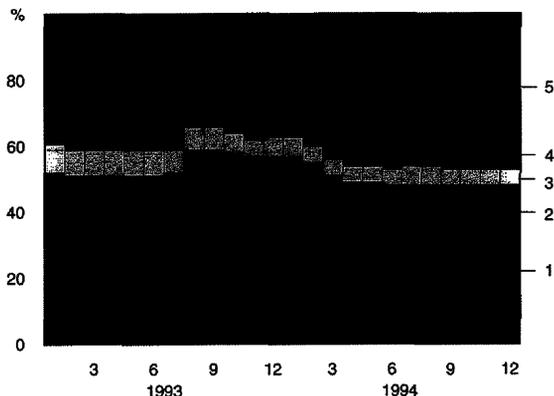
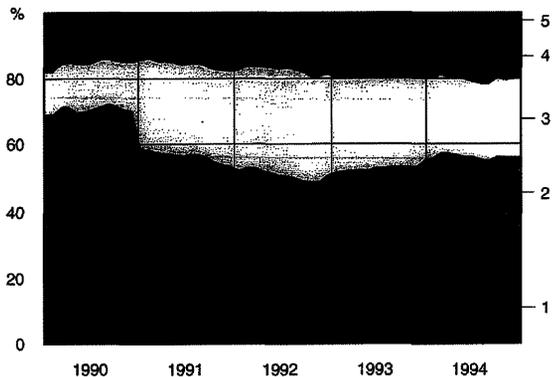


Chart 22.
INTEREST RATE LINKAGES OF
MARKKA BANK DEPOSITS



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

Chart 23.
BREAKDOWN OF BANK DEPOSITS



1. Transaction accounts
2. Tax-exempt fixed-term accounts
3. Taxable fixed-term accounts
4. Corporate cheque accounts
5. Foreign currency accounts

extended by one year to allow natural persons and domestic estates of deceased persons to make tax-exempt 24-month deposits in 1995. The Government justified the extension on the grounds of the banks' poor profitability and fact that otherwise the last 36-month and 24-month deposits made under existing legislation would mature in 1996, possibly causing some disturbance in the markets.

A representative of the Bank of Finland who was questioned by Parliament on the matter emphasized the distortive effects that the Tax Relief Act had on competition and did not consider it desirable that banks' profitability should be supported through non-neutral tax treatment. However, in the opinion of the Bank of Finland, there were grounds for a step-by-step removal of tax-related support, as this would reduce banks' uncertainty about the future.

The working group on deposit protection submitted its proposal concerning the reform of legislation on deposit protection to bring it in line with the relevant EU provisions. The working group's other task was to consider the long-term development of Finland's deposit guarantee scheme. In this regard, the group is not due to report its findings until March 1995. The key new regulations proposed by the working group concern the 'export ban' on deposit protection, extra protection for the branches of foreign credit institutions in Finland and the obligation to provide information.

The 'export ban' on deposit protection means that under the new legislation a deposit bank's home country deposit-guarantee scheme is responsible for the protection of the bank's deposits. However, if the protection afforded by the deposit-guarantee scheme of the host country of a branch is less than that afforded in the home country, depositors are compensated, at most, in accordance with the practice applied in the host country. If the cover provided in the host country is more extensive than that provided in the home country, a branch can apply for additional cover from the host country authorities. Additional cover need not be granted if the host country authorities consider the home country's deposit-guarantee scheme to be adequate. Depositors must be informed of the extent of deposit protection and other related factors.

Changes in competitive conditions

Because of the splitting up of the SBF, banks' market shares as regards both lending and deposits changed significantly in the course of the year. For example, the share of total deposits accounted for by the savings banks group (incl. Skopbank) fell from nearly one-quarter to just over 6 per cent; correspondingly, the commercial banks and cooperative banks gained new customers. These customers changed banks at the beginning of the year. The data show that after April there were only minor changes in market shares. Indeed, it appears that the former customers of SBF have for the most part remained with the banks to which their accounts were transferred on the basis of the agreement on the splitting up and restructuring of SBF.

In 1994, foreign financial institutions showed keen interest in commencing banking business in Finland. At the beginning of the year, new legislation on credit institutions came into force along with the agreement on the European Economic Area (EEA). On the basis of provisions concerning the freedom to provide services, 17 banks operating in EEA countries indicated that they wished to provide banking services in Finland as well. Of these, 5 established branches in Finland in 1994. In the insurance sector, there were 20 foreign newcomers in 1994.

More public funds needed to cope with the banking crisis

Skopbank was the only bank that needed an infusion of public capital during the year to safeguard its solvency. The capital support was provided through the purchase by the Government Guarantee Fund of Skopbank's foreign subsidiaries, Skopbank International S.A. and FennoScandia Bank Ltd, and through a direct capital injection.

The heaviest use of government support designed to deal with the banking crisis was made by Asset Management Company Arsenal Ltd, which in its first year of operations had to write down assets and write off loans in large amounts in respect of SBF loans and other assets. In addition to capital support, Arsenal Ltd was granted a government

guarantee in respect of its funding and accrued interest thereon.

The purchasing banks were given until the beginning of 1995 to transfer to Arsenal Ltd problem assets they had acquired from SBF and which met certain preagreed criteria. As a result of these transfers, Arsenal Ltd held problem assets valued at some FIM 40 billion at the end of 1994. The company estimated that its operations would generate further losses in the years ahead.

Siltapankki, which had already written off a large amount of expected loan losses in its first year of operations in 1993, almost broke even in 1994. The asset management company Sponda, which is owned by the Bank of Finland, was able to pay back some of its loans during the year out of the proceeds of asset sales.

In order to improve the ability of cooperative banks to operate, amendments were drafted during the year to the Cooperative Banks Act and the Credit Institutions Act. According to the proposed amendments, banks would undertake to operate more as a single group than at present and to bear responsibility for each other's commitments. This would enable Finnish cooperative banks to organize their activities to correspond with acceptable practices for local banks in EU member states, as prescribed in the first banking directive.

The securities markets gained in importance

The significance of the capital market in financial intermediation increased further in 1994. The modest growth experienced in the bond market was primarily due to government bond issues. Thanks to favourable price developments, activity in the stock market was brisk. Increased uncertainty and improved liquidity also paved the way for an expansion of the derivatives markets.

The secondary market for bonds expanded

The outstanding amount of bonds grew only slightly in 1994 (Chart 24). Because of the corporate sector's rapidly improved profitability and the low level of investment, corporate bond issues amounted to con-

Bank support, 1991–94, FIM million

	Bank of Finland		Council of State		Government Guarantee Fund		Total	
	Capital	Guarantees	Capital	Guarantees	Capital	Other	Capital	Guarantees and other
1991 Scopulus, Sponda and Solidium	4 330						4 330	
1992 Scopulus, Sponda and Solidium	9 444	600					9 444	600
Skopbank			580		3 000		3 580	
Savings Bank of Finland			1 094		11 400		12 494	
Cooperative banks			1 108				1 108	
Postipankki			903				903	
Kansallis-Osake-Pankki			1 726				1 726	
Unitas			1 749				1 749	
Okobank			422				422	
Security fund of the savings banks					500		500	
Other			160				160	
1993 Scopulus, Sponda and Solidium	-2 722						-2 722	
STS-Bank (Siltapankki)					3 036		3 036	
Savings Bank of Finland			-844		-2 656		-3 500	
Skopbank			350	300	700		1 050	300
Kansallis-Osake-Pankki ¹				1 800				1 800
Unitas ¹				1 000				1 000
AMC Arsenal Ltd			3 442		1 558		5 000	
Security fund of the commercial banks and Postipankki Ltd					-357		-357	
Security fund of the cooperative banks ¹				900				900
Security fund of the savings banks					-345		-345	
1994 Sponda	-1 220	-600					-1 220	-600
AMC Arsenal Ltd			6 000	28 000			6 000	28 000
Savings Bank of Finland ²					-686	232	-454	
Skopbank ³					450	283	733	
Total	9 832	0	16 690	32 000	16 600	515	43 637	32 000

¹ Decision in principle.

² Return of SBF's equity capital and cover for pension liability.

³ The Government Guarantee Fund purchased Skopbank International S.A. and FennoScandia Bank Ltd from Skopbank.

siderably less than in the previous year. Moreover, because of the sluggish demand for credit, banks did not need to tap the domestic bond market for long-term funding.

In contrast, the central government's net financing requirement remained large, at some FIM 71 billion. Although it raised more than half of its long-term financing in the international capital markets, the central government was also a heavy borrower in the domestic market. In fact, its share of new issues rose to nearly 70 per cent. The central government issued new markka bonds to the value of FIM 31.5 billion. Markka issues focused on benchmark bonds, but yield bonds totalling FIM 5 billion were also issued; the latter are sold mainly to households. At the end of the year, outstanding benchmark bonds amounted to FIM 69 billion and outstanding yield bonds to FIM 10 billion.

The expansion of the market for benchmark government bonds continued. In 1994, three new primary dealers entered the market: the Helsinki branch of Svenska Handelsbanken on 1 August, Goldman Sachs International (operating from abroad) on 5 September and Alfred Berg Finland on 10 October. Trading in benchmark bonds was also substantially higher than in the previous year. The volume of transactions reported by the primary dealers rose to FIM 500 billion (Chart 25), of which trades between primary dealers accounted for about one-third. Benchmark government bonds formed the core of the secondary market for bonds as transactions reported to the stock exchange amounted to only FIM 2 billion.

In order to improve the functioning of the secondary market for benchmark government bonds, the primary dealers and the Bank of Finland launched a market for bond forward contracts based on benchmark government bonds. The market began to operate in January, when most of the primary dealers began to quote a bond forward based on the benchmark bond maturing in 1997. In April, quoting started on a bond forward based on the benchmark bond maturing in 2004.

Trading in bond forwards got off to a cautious start, but because of the rise in long-term interest rates and greater price volatility, a growing number of investors began to use bond forwards as a means of hedging their portfolios. However, trading between primary dealers was of key importance for the liquidity of the bond forwards market, as nearly

Chart 24.
MARKKA-DENOMINATED BOND ISSUES

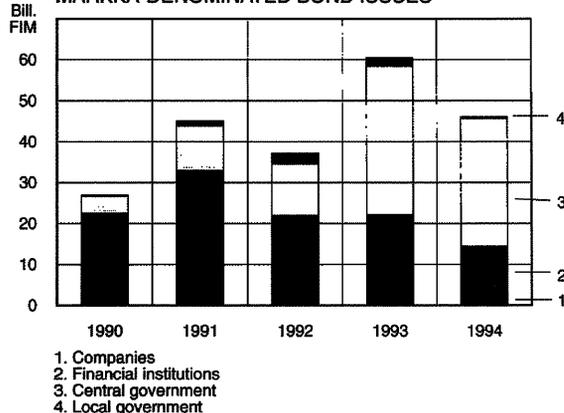


Chart 25.
BENCHMARK GOVERNMENT BONDS

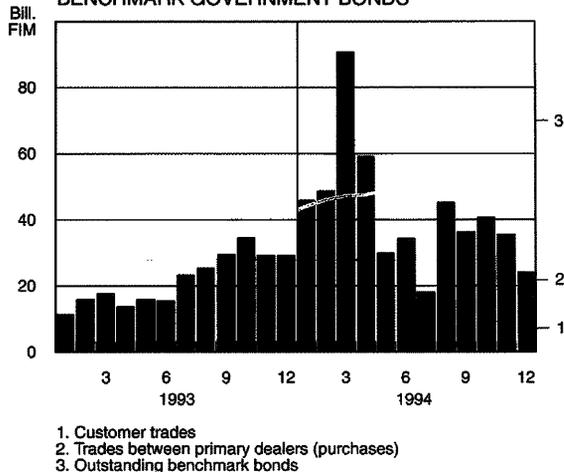
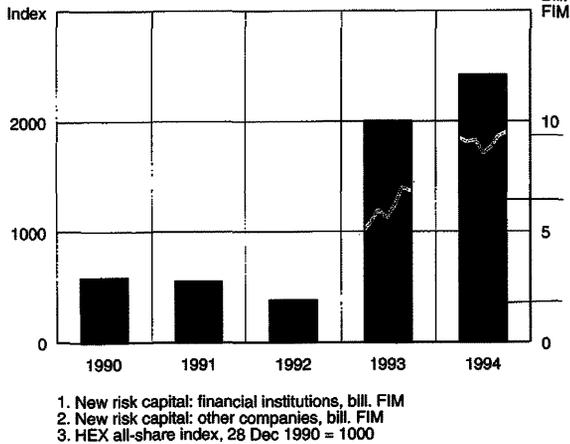


Chart 26.
SHARE PRICES AND ACQUISITION OF
RISK CAPITAL BY LISTED COMPANIES



60 per cent of all transactions were between primary dealers. In addition, both of the derivatives exchanges operating in Finland have included interest rate futures based on benchmark government bonds in their product range.

Under Finland's occupational pension scheme, a major part of the contributions are available for lending back to companies. Companies' demand for such funds, like their demand for bank loans, was slack in 1994. This left pension insurance institutions with ample funds for investing in bonds. Indeed, insurance institutions were one of the major investor groups in the market for benchmark government bonds, and their holdings of government bonds increased substantially. Banks also held large amounts of benchmark bonds in their portfolios. Because of the rise in long-term interest rates in the early part of the year, banks were obliged to book losses totalling some FIM 700 million in respect of their bond holdings in their interim reports published in the autumn.

Markka-denominated bonds totalling just under FIM 8 billion in net terms were sold back to Finland in 1994. Foreign investors' holdings of markka bonds amounted to FIM 19 billion at the end of the year.

Share issues and turnover reached record levels

For the stock market 1994 was a good year (Chart 26). The upward trend in the market, which had started in autumn 1992, was maintained, although there were marked differences in performance among the various industrial groups. Bank shares started to decline in February as a result of the rise in long-term interest rates. The rapid improvement in the financial performance of export companies was reflected in a rise in the prices of the shares of many companies operating in the open sector of the economy. However, the rise in the Helsinki Stock Exchange all-share index was largely due to the strength of the shares of just a few large companies. Nokia, in particular, had a major impact on the all-share index, as its share of the total market capitalization of listed companies rose to nearly 30 per cent in the latter part of the year.

Share turnover on the Helsinki Stock Exchange reached a record high of almost FIM 69 billion.

Turnover was, however, highly concentrated, as the ten most actively traded shares accounted for over 70 per cent of the total. Nokia, whose shares were the most actively traded, accounted for some 30 per cent of total turnover in 1994.

Share issues also reached a record level, about FIM 12 billion, in 1994. Export companies were the major issuers. A significant portion of the new shares went to foreign investors, whose importance in the Finnish stock market increased substantially in 1994. Foreign investors purchased Finnish shares to the value of FIM 13.2 billion in net terms, and their holdings at the end of the year amounted to FIM 60.5 billion, about one-fifth of the total market capitalization of listed companies.

Foreign investors also played a significant role in the increase in liquidity in the secondary market. Because of the improved liquidity in the stock market, 1994 also saw a pick-up in trading in several standardized derivative products based on listed shares.

Unit trusts were still of minor significance as an investor group. The value of their investments grew only slightly in 1994. At the end of the year, funds invested in the capital market through domestically registered unit trusts totalled some FIM 5 billion.

Changes proposed in the regulation of the securities markets

The Ministry of Finance set up a working group to draft bills on investment service firms and on the right of foreign firms to provide investment services in Finland on the basis of the EU's investment services and capital adequacy directives. The group was also required to consider what changes in the Securities Markets Act were called for by the investment services directive. The group submitted its report at the end of the year.

The concept of public trading was one of the areas where the working group identified the need for change. According to its proposal, public trading would essentially comprise trading in the listed securities of a stock exchange. In the case of marketable securities, however, it would also be possible to carry on public trading within some other professionally organized framework for which operating rules complying with the Securities Markets Act have been approved.

According to the proposal, the Ministry of Finance would, upon application, approve such rules if they comply with the Act, for example, in regard to how and on what basis securities are accepted for trading and how and when trading is conducted. The rules would also have to specify how and to what extent investors are provided with information that is relevant to such trading.

The Ministry of Finance would approve the rules only if trading is organized and regulated reliably and fairly and if an adequate number of securities intermediaries participate. Entities eligible to apply for Ministry approval would include stock exchanges, associations of securities intermediaries and individual securities intermediaries. Before granting approval, the Ministry of Finance would request opinions from the Financial Supervision Authority and the Bank of Finland.

The working group also recommended that the Bank of Finland would, if necessary for carrying out its tasks, have the possibility of approving rules for the public trading of debt instruments outside a stock exchange.

A project group was set up in June 1994 to continue the work of the working group on the development of the book-entry securities system. Its task was to preside over the preparations for and establishment of a national securities centre. In November, the group completed its work and submitted its findings to a commissioner, who was appointed by the Ministry of Finance to make a final proposal on the establishment of a securities centre such that it would commence operations in 1995.

EU membership brings need for changes in legislation governing the Bank of Finland

The working group set up to investigate the need for changes in foreign exchange legislation completed its work on 30 November 1994. On the basis of the group's proposal, Finland's foreign exchange legislation will be amended so as to comply with the Maastricht Treaty with effect from 1 January 1996. According to the Treaty, exchange control is generally permitted only when public law and order and security are endangered. Temporary restrictions may also be imposed on capital movements and pay-

ments if capital movements to non-EU countries threaten to hinder to the functioning of economic and monetary union. In such a case, the EU Commission would decide on protective action to be taken, but member states could on grave political grounds and for reasons of urgency also act on their own initiative.

The Bank of Finland committee was set up on 11 February 1993 to amend and simplify the Act on the Bank of Finland. In particular, it was to take into account the present responsibilities of the relevant government bodies and to propose changes in the provisions governing the position and activities of the Bank of Finland so as to bring them in line with the requirements imposed by the EEA agreement and possible EU membership. The committee completed its work on 31 August 1994. Its most important recommendations concern the redefining of the Bank's tasks and decision-making procedures.

According to the committee, the central bank's primary objective should be to safeguard the value of money. Without prejudice to this objective, its secondary objective would be to support the attainment of other economic policy objectives and to promote the stability of the financial system.

The tasks of the Bank of Finland would be to determine and implement monetary policy. An additional task would be to promote the functioning of the financial system, which in the current Act is expressed as to 'maintain a stable and secure monetary system'. The Bank would also compile and publish statistics that are necessary as regards its own operations.

In the opinion of the committee, the Bank of Finland would have to be independent of the Government in its decision-making. Because of democratic accountability, the Bank's decision-making is an extremely demanding task, and consequently the committee recommended that questions concerning divisions of responsibilities in decision-making be clarified and that democratic control be ensured.

The committee also recommended that the Bank of Finland's decision-making framework be reformed so that the Board of the Bank of Finland would be solely responsible for formulating and implementing monetary policy. The Parliamentary Supervisory Board's responsibilities would, more explicitly than at present, lie in the area of supervision and certain key administrative functions. In order to emphasize the democratic accountability of the Bank of Finland's Board, its members would be appointed by the President of the Republic for fixed terms, instead of indefinite terms as at present. The contents of the Parliamentary Supervisory Board's reports to Parliament would be revised so as to include the Board's own views on the monetary policy pursued. These views would then form a basis for parliamentary debate on monetary policy.

The Board of the Bank of Finland, in expressing its opinion on the committee's report, stressed that there had long been a need to reform the legislation governing the Bank. The Board also felt that the committee's recommendations formed a good starting point for such reform.

Payment Systems and Maintenance of the Currency Supply

In the Bank of Finland's work related to payment systems in 1994, increased emphasis was placed on the further development of domestic payment systems and the intensification of cooperation connected with European integration. The Bank confirmed new principles governing the granting of access to its current account and liquidity credit facilities and enhanced risk control by imposing the requirement of full collateralization in respect of banks' intraday credit limits. The electronic cash project advanced to a new stage.

The amount of notes and coin in circulation has remained relatively stable in the 1990s. With the decline in GDP in the early 1990s, the amount of currency in circulation increased in relation to it. However, the ratio decreased markedly in 1994 as GDP started to grow again.

International cooperation was intensified

Increasingly strict international demands are being placed on the security and efficiency of payment systems. Central banks, in particular, are interested in the development of payment systems and especially in the development of the risk control related to them. The main concern of the authorities is sys-

temic risk, ie the possibility that the default of one party in a payment system could cause payment difficulties for other parties which, through the domino effect, could paralyse the entire system.

In the European Union, payment systems have become a major issue over the last few years. The aim is to promote economic activity between member states while at the same time endeavouring to prevent the emergence of situations where risks generated in the payment systems of one member state could spread to the payments systems of other member states. The security and efficiency of national payment systems and the smooth functioning of the single market are the reasons stated by the EU for seeking to harmonize the payment systems of the member states, ie to bring about systems which are uniform in terms of their requirements and are compatible.

The plan for Stage Three of economic and monetary union, as approved in the Maastricht Treaty, requires far-reaching harmonization: in Stage Three, a single monetary policy will be implemented by the European System of Central Banks, in which national central banks will operate under the European Central Bank. The single monetary policy requires the linking together of the payment systems of the central banks of the member states.

The European Monetary Institute, EMI, which was established at the beginning of 1994 to prepare

the transition to Stage Three and to the European System of Central Banks, has rapidly assumed an active role in issues related to payment systems. As early as September 1993, the Committee of Governors of the Central Banks, the predecessor of the EMI, approved a report prepared by its working group on payment systems defining the minimum common features for the payment systems of the member states. This work is being continued by the EMI, which monitors the progress of the member states in this area and intends to draw up an annual follow-up report. The Bank of Finland has closely followed international developments in payment systems and discussed the development of payment systems with Finnish banks on the basis of the EMI's principles. A summary of the plans concerning payment systems in Stage Three of economic and monetary union was prepared by the EMI as a basis for further discussions.

Since the middle of 1994, Bank of Finland representatives have participated as observers at the regular meetings of the Working Group on EU Payment Systems of the EMI and in two of its task forces. One of these, the Group of Experts on Real-Time Gross Settlement Systems, is developing common operating principles for the central banks' real-time clearing and settlement systems, and the other, the Interlinking Task Force, is studying how these systems can be linked with each other. By participating in the work of these groups, the Bank of Finland has been able to ensure that the reforms planned by it are in harmony with the European reforms that are being carried out or planned. Bank of Finland representatives have participated as observers at the meetings of certain working groups operating under the EU Commission, when problems related to cross-border payments and the adoption of a directive concerning them have been dealt with.

The conditions governing the use of the Bank of Finland's interbank funds transfer system were modified

The Bank of Finland's real-time interbank funds transfer system is used for settling interbank transactions and the Bank's own transactions connected

with the implementation of monetary policy and maintenance of the currency supply. The system also handles transfers of covering funds related to payments netted in external net settlement systems, for instance the Helsinki Money Market Center Ltd and the Helsinki Stock Exchange. In 1994, the value of transactions handled by the Bank of Finland's interbank funds transfer system totalled FIM 6 357 billion, ie about 12.5 times the size of Finland's GDP (see Appendices, Table 18).

New regulations governing access to current account facilities

At the beginning of November 1994, the Bank of Finland modified the regulations governing access to its current account and central bank credit facilities to bring them in line with international practice: the Second Banking Coordination Directive, which entered into force in Finland at the same time as the EEA agreement, requires that domestic and foreign credit institutions be treated equally. In addition, the criteria applied by the EU member states for access to their interbank funds transfer systems must be transparent and publicly documented.

According to the confirmed regulations governing current accounts, the Bank of Finland may open current accounts for Finnish credit institutions or foreign credit institutions located in Finland which are subject to minimum reserve requirements and which meet the minimum requirements imposed. A credit institution applying for access to current account facilities must be subject to public supervision by the Financial Supervision Authority or by some comparable authority, it must meet the statutory solvency requirements and its own funds must amount to at least FIM 30 million. In addition, the operations of the credit institution must be stable and managed according to principles of soundness and prudence.

An intraday credit limit may be granted, upon application, to a credit institution which is subject to minimum reserve requirements and which holds a current account, if it puts up collateral in accordance with the Bank of Finland's instructions. Access to the Bank of Finland's liquidity credit facility may be granted, upon application, to credit institutions which are subject to minimum reserve requirements and which hold a current account at the Bank. For

special reasons and at its own discretion, the Bank of Finland may open current accounts without credit facilities for other institutions operating in the financial markets, such as clearing organizations or securities broking firms. The opening of such an account must be deemed necessary from the point of view of the security and efficiency of payment transactions, the conduct of monetary policy or the stability or efficiency of the financial markets.

Full collateralization for intraday credit

Liquidity credit granted by the Bank of Finland has been fully collateralized since 1 December 1993 and each current account holder's access to intraday credit has been restricted by means of an account-specific limit since March 1993. Banks with access to unlimited liquidity credit were required to deposit collateral equivalent to 25 per cent of their credit limits, while other banks were required to put up collateral for the full amount of their limits. At the end of 1994, the total amount of the limits was FIM 13 961 million, which was FIM 636 million more than at the beginning of the year. The total amount of collateral required was FIM 4 135 million, of which the major part consisted of banks' minimum reserve deposits (see Chart 27 and Appendices, Table 19).

In order to enhance risk control, the Bank of Finland decided, in connection with modifying the regulations governing access to the current account and liquidity credit facilities, to require all account holders to also put up collateral for the full amount of their intraday credit limits. The full collateralization requirement was applicable to all new applicants for access to the current account facility from the beginning of November 1994. By contrast, those banks which had lower collateral requirements based on the old regulations were granted a transitional period lasting until the end of 1995.

The electronic purse project is advancing

The electronic purse (or reloadable multipurpose prepaid card) is a new payment instrument which contains purchasing power in electronic form and which will partly replace notes and coin in low-value pay-

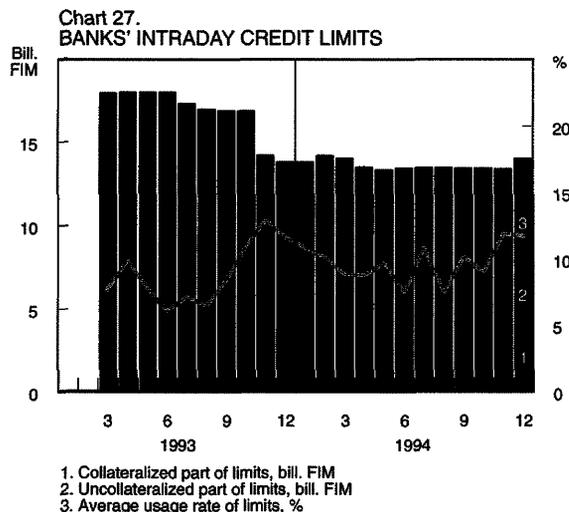
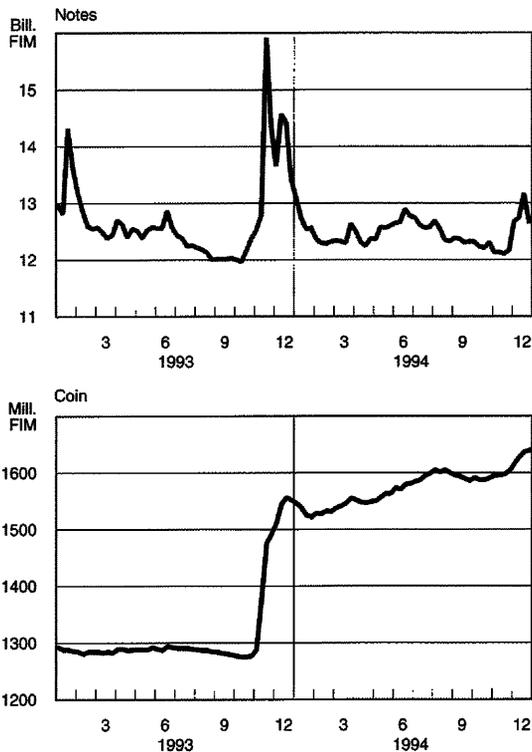


Chart 28.
VALUE OF NOTES AND COIN IN CIRCULATION



ments. The readiness for the introduction of electronic cash systems (ie payment systems based on the electronic purse) is growing rapidly.

The Bank of Finland estimates that the coordinated introduction of an extensive, open electronic cash system would be cheaper as regards the costs to the economy as a whole and a better alternative in terms of security and the level of services it could provide than the parallel use of several systems of limited extent. In 1994, the Finnish electronic cash project advanced to a stage where the use of disposable telephone cards was widespread and reloadable electronic purses were also accepted at some points of sale connected to the system.

By the end of 1994, a total of some 460 000 disposable Avant cards issued by Toimiraha Oy had been sold, and sales of Avant electronic purses, which had started in February, were approaching 7 000. For the present, the cards can be used in public telephones, parking devices and postal service vending machines that are linked to the system. At the end of the year, disposable Avant cards were acceptable in about 4 000 public telephones and the electronic purse in just under 7 000 parking devices used in vehicles and in 15 vending machines. There were 60 electronic cash loading points.

Developments in the maintenance of the currency supply

The amount of currency in circulation remained stable

The amount of currency in circulation was at its highest at the beginning of the year, when it still reflected the effect of the threat of industrial action in the banking sector in November 1993. The threat of industrial action increased the amount of currency in circulation by almost FIM 4 billion, and conditions had not completely returned to normal by the beginning of 1994.

The exceptionally small fluctuation in the amount of currency in circulation in 1994 is partly explained by the fact that, as a departure from normal practice, there were no payments of tax refunds during the year. Although the major part of tax re-

funds is paid directly to the recipients' bank accounts, tax refunds paid by means of payment orders still normally cause an increase of about FIM 1.5 billion in the amount of currency in circulation.

Like the total amount of currency in circulation, the amount of notes in circulation was at its highest at the beginning of the year, when it totalled FIM 13 442 million (Chart 28). The amount of notes was at its lowest, FIM 12 108 million in November, but subsequently increased to FIM 12 675 million by the end of the year, reflecting the normal seasonal variation associated with the pre-Christmas period. There were no significant changes in the distribution of notes by denomination apart from an increase in the amount of 20 markka notes and a decrease in the amount of 10 markka notes (see Appendices, Table 16).

The amount of coin in circulation increased as a result of growing demand for the 10 markka coin, despite the fact that its use in vending machines was only just starting. The amount of 10 markka coins in circulation rose by FIM 118 million during the year. The amount of 1 and 5 markka coins decreased, as coins of the old type were returned to the Bank of Finland. It is usual in connection with the introduction of new coin series for large amounts of coins that have been stored, for instance, in coin banks to be returned to the central bank. All in all, the amount of coin in circulation increased by FIM 88 million in the course of 1994.

In relation to GDP, the amount of currency in circulation started to decrease after having grown for several years. This was due both to the decrease in the amount of currency in circulation and to the growth of GDP (Chart 29). The banks, in particular reduced their cash holdings, which was partly due to the streamlining of their branch networks.

The 10 markka note was replaced by a 10 markka coin

Owing to the replacement of the 10 markka note by a coin in November 1993, part of the demand for money shifted from notes to coin, despite the simultaneous introduction of the 20 markka note. This partly reflected the public's preference for notes and coin in the denominations of 1, 10, 100 and 1000 markkaa. So, the total face value of 20 markka notes in circulation has remained notably smaller than that

Chart 29.
NOTES AND COIN IN CIRCULATION

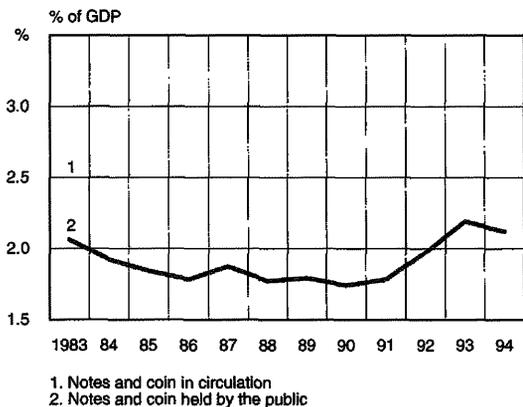
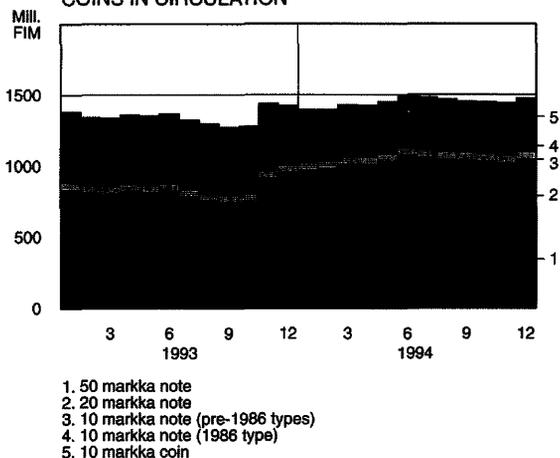


Chart 30.
10, 20 AND 50 MARKKA NOTES AND
COINS IN CIRCULATION



of 10 markka notes before the issue of the latter ceased. Furthermore, the introduction of the 20 markka note has reduced the amount of 50 markka notes in circulation to some extent (Chart 30).

A new commemorative coin was issued

To commemorate the European Athletics Championships held in Helsinki in August 1994, a silver coin in the denomination of 100 markka was struck. The coin was designed by the sculptor Reijo Paavilainen. The Mint of Finland Ltd struck the commemorative coin both as standard and proof coins. The number of commemorative coins struck, 91 300, was based on advance orders by banks and customers. The selling price of the coin was higher than its face value, as the sale of the coin was subject to value-added tax. The Bank of Finland did not participate in the sale of the coins to the public, which was handled by the Mint of Finland Ltd and the banks acting as its agents.

The 100 markka note maintained its dominant position

The issue and receiving of notes and coin constitutes an important part of the Bank of Finland's task of maintaining the currency supply. The Bank of Finland distributes notes and coin via its branch network to banks in accordance with their needs and receives notes and coin returned by them.

In 1994, the Bank of Finland put 448 million notes into circulation with a total face value of FIM 46 538 million. The 463 million notes returned to the Bank of Finland had a total face value of FIM 47 305 million (Chart 31). Similarly, the Bank of Finland put 746 million coins in circulation with a total face value of FIM 1 432 million. A total of 705 million coins was returned to the Bank with a total face value of FIM 1 344 million. The amounts issued and received were smaller in terms of number but larger in terms of face value compared with the previous year.

The 100 markka note maintained its dominant share in the flow of notes to and from the Bank, as it accounted for 73 per cent of the total number of notes put into circulation and 71 per cent of the total

number of notes returned. The dominant position of the 100 markka note is attributable to its increased use in ATMs. At the same time, ATMs were used increasingly widely for withdrawing cash from bank accounts.

In 1994, the notes in circulation passed through the Bank of Finland 3.8 times on average. The corresponding figure for 1993 was 3.5. The increase is due mainly to the increased use of the 100 markka note, which had the highest velocity of circulation, 6.1. The velocities of the other notes were as follows: 1.3 for the 1 000 markka note, 2.2 for the 500 markka note, 4.2 for the 50 markka note and 2.7 for the 20 markka note.

During the year, note destruction at the Bank of Finland changed over to an on-line system whereby worn notes are shredded as part of the note sorting process.

Old coins were returned quickly

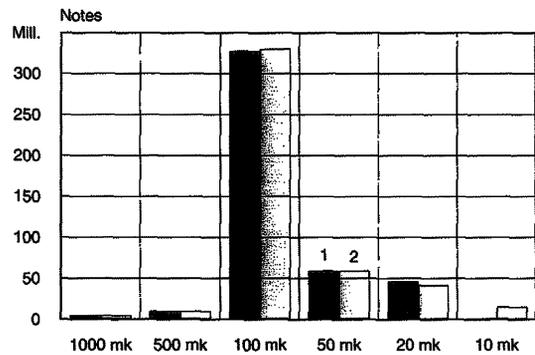
The replacement of the old 1 and 5 markka coins by coins of the new series, which started in November 1993, affected the issue and return of coins (Chart 31). Increasing numbers of coins of the old series were returned as vending machines were converted to accept only the 1 and 5 markka coins of the new series. Both the old 1 and 5 markka coins were returned more quickly than the smaller-denomination coins that had been replaced earlier. Whereas, for instance, only 33 per cent of the old 10 penni coins had been returned within a year after their issue had ceased, the corresponding share for 5 markka coins was 72 per cent and that for 1 markka coins 57 per cent. Compared with the larger-denomination coins, a larger proportion of the smaller-denomination coins is either lost, remains in coin banks or is taken out of the country by tourists.

Notes continue to be secure

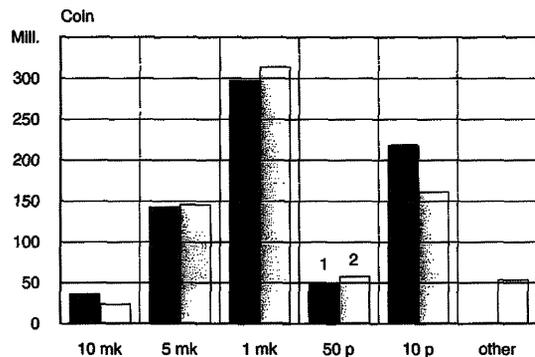
The number of counterfeit Finnish banknotes in circulation is still extremely small. In 1994, only a few single counterfeit notes were detected, all of which were of the 1986 type (without the marking 'Litt.').

To deter counterfeiting, continuing attention is paid to the security features of notes and their rec-

Chart 31.
FLOW OF NOTES AND COIN THROUGH
THE BANK OF FINLAND, 1994



1. Put into circulation
2. Returned



1. Put into circulation
2. Returned

mk = markka
p = penni

ognition. The Bank of Finland, together with the Central Criminal Police, arranged training in the recognition of genuine banknotes of various countries for bank employees and other persons handling money in their work.

At the Bank of Finland, the authenticity of banknotes is checked in connection with the sorting of notes. As notes pass through the Bank of Finland several times during the year on average, the chances of counterfeit notes being detected quickly are good.

Currency supply services were made uniform

The Bank of Finland and the banks agreed that the currency supply services provided by the Bank of Finland to the banks would be reorganized and made subject to a charge as from 1 June 1994. Corresponding changes had been introduced in the metropolitan area of Helsinki in 1993. After the reorganization, currency supply services were provided throughout the country according to the same uniform system.

The number of Bank of Finland branches decreased from seven to four in 1994, as the Jyväskylä, Lahti and Vaasa branches were closed. Besides the head office, the Bank of Finland still has branches in Kuopio, Oulu, Tampere and Turku. These branches belong to the Bank's payment instrument division, and each of them is responsible for currency supply in their respective areas.

Old notes and coin were redeemed

In 1993, the Bank of Finland decided to annul the validity of certain banknotes and the Ministry of Finance made a corresponding decision concerning

certain coins. These decisions entered into force on 1 January 1994. The Bank of Finland will, however, redeem the annulled notes and coins for a ten-year period ending 31 December 2003.

The decision to annul the validity of notes concerned all notes of the 1945–1957 types, of which more than FIM 9 million's worth was in circulation on 1 January 1994, and all notes of the 1963–1980 types, of which FIM 334 million's worth was in circulation on 1 January 1994 (Table 16 in the Appendices). In 1994, the Bank of Finland redeemed annulled notes to the total value of FIM 40 million.

The decision to annul the validity of coins concerned all coins issued before the 1963 currency reform, of which FIM 15.7 million's worth was in circulation on 1 January 1994, and all coins in penni denominations issued after 1963, of which FIM 104 million's worth was in circulation on 1 January 1994, with the exception of 50 and 10 penni pieces of the 1990 type. In 1994, the Bank of Finland redeemed annulled coins to the total value of almost FIM 11 million.

International conference on currency supply services in Helsinki

The Banknote Printers Conference is the international cooperative organ of banknote printing houses and it carries on its work mainly through working groups and committees. One of these is the Statistics and Banknote Handling Committee, which held its annual conference in Helsinki in April 1994. The currency supply divisions of central banks are well represented on the committee. A special theme of the conference was the influence of other payment instruments on the demand for cash. Fifteen countries were represented at the conference.

Other Activities

International cooperation

Economic integration

The agreement on the European Economic Area (EEA), which entailed participation by Finland in the European single market, entered into force on 1 January 1994. From the point of view of the operations of the Bank of Finland, the liberalization of capital movements and financial services were key areas of the single market programme, even though these areas had already been liberalized in practice.

The negotiations on Finland's membership of the European Union started in February 1993 and were concluded in March 1994. In May 1994, the accords on the terms of entry into the Union for Austria, Finland, Norway and Sweden were passed by the European Parliament. The accession treaty was signed at the meeting of the European Council in Corfu in June 1994.

In the consultative referendum in October, 56.9 per cent of the voters were in favour of Finland's accession to the EU in accordance with the accession treaty. The Finnish Parliament approved the accession treaty in November. All EU member states ratified Finland's accession treaty, and Finland became a member on 1 January 1995.

The Committee of Governors of the central banks of the EU member states was dissolved on

1 January 1994, and its duties were taken over by the European Monetary Institute (EMI). The EMI coordinates monetary and foreign exchange policy cooperation between the member states and is in charge of the preparations for Stage Three of economic and monetary union (EMU).

The council of the EMI is composed of the governors of the central banks of the EU member states and is headed by a full-time president. From 1 January 1994, this post has been held by Mr Alexandre Lamfalussy from Belgium. The Council of the EMI is assisted in the performance of its tasks by the Committee of Alternates and several sub-committees and working groups, which prepare the matters to be discussed by the EMI Council. The Committee of Alternates, the sub-committees on monetary policy, foreign exchange policy and banking supervision and the working groups on European banknotes, accounting issues, information systems, statistics and EU payment systems are composed of representatives of the central banks of the member states.

When the EMI commenced its activities, the former exchange of information between the president of the Committee of Governors of the EU central banks and the governors of the central banks of the EFTA countries was replaced by the exchange of information between the President of the EMI and the governors concerned. The exchange of information concerned, *inter alia*, the preparations for eco-

conomic and monetary union and the progress of the membership negotiations and related preparations.

With the signing of Finland's accession treaty, the Bank of Finland was accorded observer status from the beginning of July in the EMI and in the other organs of the EU which deal with economic, monetary and foreign exchange policy. Ms Sirkka Hämäläinen, Chairman of the Board of the Bank of Finland, attended the meetings of the EMI Council as an observer and Mr Matti Vanhala, Member of the Board, participated in the work of the Committee of Alternates. The Bank of Finland was also represented in the sub-committees and working groups of the EMI.

From the beginning of July, a representative of the Bank of Finland participated, together with a representative of the Ministry of Finance, as an observer in the meetings of the Monetary Committee of the European Union and its Committee of Alternates and in the meetings of the Economic Policy Committee of the EU. Mr Esko Ollila, Member of the Board of the Bank of Finland, participated as an observer in the work of the Banking Advisory Committee of the EU. Bank of Finland representatives also participated in several working groups of the EU Council and the Commission dealing with issues related to financial markets. Though participation as an active observer did not confer any voting power on the Bank, it provided the Bank with an opportunity to familiarize itself with matters during the preparatory stage and to express its views on them.

The Bank of Finland also participated in the domestic preparations for membership of the EU. In the spring, the main task of the preparatory organization set up in Finland was to support the membership negotiations, but when Finland gained observer status its character changed. Thereafter its task became to support the participation of Finland's representatives in the EU work. In the same context, the name of the preparatory organization was changed to the Committee of the Secretaries General and its committee structure was reorganized by, for instance, dissolving a large preparatory subcommittee. Mr Esko Ollila, Member of the Board, served as member of the Committee of the Secretaries General and Mr Matti Vanhala, Member of the Board, acted as his deputy. Bank of Finland representatives also participated in the work of the subcommittees of the Committee of the Secretaries General dealing with economic and monetary policy, financial services

and capital movements, taxation, insurance services, cooperation in the compilation of statistics, company law and issues related to international finance.

With the entry into force of Finland's membership of the EU at the beginning of 1995, the Bank of Finland became a member of the EMI and Finland's observer status in the other organs of the EU dealing with economic, monetary and foreign exchange policy issues changed into full member status.

In the Council for EEA Affairs, which is the highest organ for cooperation between the Finnish authorities, the Bank of Finland was represented by Mr Esko Ollila, Member of the Board, with Mr Matti Vanhala, Member of the Board, acting as his deputy. Bank of Finland representatives participated along with other officials in the preparatory work carried out by the organs of the EEA and dealing with the liberalization of capital movements, financial services and ownership rights.

Mr Alexandre Lamfalussy, President of the European Monetary Institute, and Mr Michel Camdessus, Managing Director of the International Monetary Fund, delivered speeches at a seminar arranged by the Bank of Finland in November. The seminar dealt with monetary policy in a new international environment.

International cooperation related to financial and banking statistics

The Bank of Finland has participated since 1991 in the work of the Committee on Monetary, Financial and Balance of Payments Statistics, which operates in connection with EUROSTAT, the Statistical Office of the European Communities, first as an observer and since 1993 as a member. As from 1 July 1994, the Bank of Finland started to participate as an observer in the EMI working group on statistics. The work of these organs is primarily concerned with the preparations for Stage Three of economic and monetary union, but also includes the exchange of topical statistical data and the handling of issues related to the harmonization of statistics.

Bank for International Settlements (BIS)

The Bank for International Settlements operates as a bank for the central banks and serves as their or-

ganization for international cooperation. The governors and experts of central banks convened at monthly meetings in Basle to exchange information on market developments and topical issues related to monetary and economic policy. In 1994, the BIS continued to manage and administer many financing arrangements related to European integration.

The BIS maintains a data bank containing detailed information on the technical assistance provided to former socialist countries in the specific area of central banking. During the year under review, the BIS carried out the practical arrangements for the co-ordination meetings presided over by the International Monetary Fund. Representatives of the various central banks granting technical assistance, including the Bank of Finland, attended these meetings.

International Monetary Fund (IMF)

The annual meetings of the International Monetary Fund and the World Bank in Madrid at the beginning of October celebrated the 50th anniversary of the two organizations. The meetings were characterized by reviews of the histories of the sister organizations and by discussions on the needs to reform the organizations and on their role in the world economy. Issues related to the stability of money and foreign exchange markets were also prominent in the discussions. For the first time in many years, the short-term prospects for the world economy were favourable. The recovery of the global economy was considered to be a widespread phenomenon and there was not judged to be any imminent threat of a resurgence of inflation. There was a strong consensus at the meetings on how economic policies should be formulated: the necessity of maintaining price stability and reducing fiscal deficits so as to secure the potential for economic growth over the medium term was emphasized.

The Interim Committee, which held its meeting before the annual meetings, discussed the need for a new allocation of special drawing rights (SDRs) but failed to reach agreement. The IMF last made an allocation of new SDRs in 1981. Altogether, a total of SDR 21.3 billion has been allocated. The developing countries demanded a new allocation of SDR 36 billion to be divided among all members. Some members, mainly the G-7 countries, proposed a selective allocation of SDR 16 billion to primarily the

new Eastern European member countries. No compromise was found between these proposals.

The problems of the newest member countries of the IMF, ie the economies in transition, continued to occupy a prominent position in the activities of the Fund. The medium-term financing arrangement (Systemic Transformation Facility, STF) established by the IMF in 1993 has already been used by 18 countries, the latest of which include Ukraine, Georgia and Armenia. The purpose of the arrangement is to assist the adjustment of the economies of these countries towards a market economy and to improve their ability to conclude ordinary stand-by arrangements with the IMF. Russia was granted its second and last STF drawing in April, after the Fund and Russia had reached an understanding concerning the stance of Russia's short-term economic policy.

In October, the IMF decided to increase its lending and raised members' maximum access to its financial resources from 68 to 100 per cent of quota in respect of all its basic lending facilities.

The technical assistance provided by the IMF to economies in transition continued on an extensive scale and, during the year under review, several Bank of Finland experts were involved in this work, either on short-term missions or working in the recipient countries under contracts for several years.

A team of IMF officials visited Finland in January and again at the end of May to update their information on the state of the Finnish economy. The visit at the end of May was conducted within the framework of Article IV consultations, and during it the Fund's economists analyzed the state of the economy and the conduct of economic policy in Finland as a background for the discussion on the Finnish economy by the Executive Board of the Fund in August.

Within the IMF, the Nordic and Baltic countries form a joint constituency and have a joint representative on the Executive Board. Mr Jarle Berge from Norway held the position of Executive Director in 1994. The central bank of Norway was responsible for preparing the Nordic and Baltic countries' joint positions to be presented to the Executive Board.

Ms Sirkka Hämäläinen, who is Chairman of the Board of the Bank of Finland, acted as Finland's representative on the Fund's Board of Governors. Mr Matti Vanhala, Member of the Board served as her deputy.

Other international cooperation

The Nordic Financial Commission (NFU) is the forum for cooperation between the Nordic countries' central banks and ministries of finance. During the year under review, the Commission held three meetings at which the joint positions to be presented to the Executive Board of the IMF were discussed in the customary fashion and information on the progress of financial integration was exchanged. To strengthen the IMF coordination process, the NFU also arranged two meetings for representatives of the Nordic and Baltic countries at which the principles and practical aspects of the work within the joint IMF constituency were discussed.

Within the Organization for Economic Cooperation and Development (OECD), the Bank of Finland participated 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 Bank's representatives participated in the work of the Centre for Cooperation with Economies in Transition established by the OECD and, in particular, in the meetings of experts dealing with the economic situation in various Eastern European countries.

A group of OECD experts visited Finland in May and the OECD published a country report prepared by the secretariat on the economic situation in Finland. The country review on capital movements and investment in Finland was discussed at the meetings of the OECD's Capital Movements and International Investment Committees in November.

An extensive study on employment and unemployment, which the OECD had been conducting for several years, was completed in 1994, and the final report containing proposals for improving employment was presented at the meeting of the OECD Council at ministerial level in the summer. An expert of the Bank of Finland participated in the research project.

A representative of the Bank of Finland participated in a working group in which various central government officials discussed the possibilities of improving the utilization in Finland of the information and services provided by the OECD. The working group also examined the OECD's evolving role as an organization and considered which areas of the OECD's activities were important for Finland.

The agreement concerning the completion of the Uruguay Round of the General Agreement on

Tariffs and Trade (GATT) and the Agreement Establishing the World Trade Organization (WTO) were signed in Marrakech in Morocco on 15 April 1994. The agreement on the WTO entered into force on 1 January 1995 after a sufficient number of ratifications were completed in the legislative organs of the countries concerned. During the first half of the year under review, the Bank's experts continued to participate in the preparatory work concerning the agreement in Finland.

Management of the foreign exchange reserves

There were no changes in 1994 in the goals or strategy applied in investing the foreign exchange reserves. The reserves are invested in international financial markets and the goals of investment are to safeguard the value of the reserves, to maintain liquidity and to earn a return.

As an investor, the Bank of Finland is risk-averse. This governs the Bank's attitude towards the risks associated with the value of the reserves, ie exchange risk, credit risk, liquidity risk and interest rate risk. Not all risks can be eliminated simultaneously or in full. Risks can be minimized by sufficiently diversifying investments and by focusing only on the best investment vehicles and counterparties.

By diversifying the reserves among different currencies, the Bank of Finland seeks to minimize changes in their value caused by fluctuations in exchange rates. The currency distribution has remained relatively stable over the last few years, but the principles applied in the distribution are reviewed regularly. In 1994, the most important investment currencies were the Deutschmark, the US dollar, the French franc, the pound sterling, the Japanese yen and the Dutch guilder. The liquidity of the reserves was secured by using a wide variety of negotiable investment instruments in all of these markets.

The bulk of the reserves was invested in securities free of credit risk issued by the governments of major countries in their respective national markets and in repurchase agreements involving such securities. Part of the reserves was invested in short-term foreign currency deposits, gold and SDRs.

The most important external factor affecting the investment of the foreign exchange reserves in

1994 was the worldwide rise in interest rates that started in February following the tightening of monetary policy in the United States. Apart from the very shortest money market interest rates, there was an exceptionally uniform rise in interest rates in all the markets of key importance for the investment of the reserves. This led to a sharp decline in the prices of securities and to exchange rate losses in the Bank's books owing to the fall in the prices of the securities held by the Bank.

The foreign exchange reserves increased by about FIM 20 billion during the year, mainly due to heavy foreign borrowing by the government. There was no change in the gold reserves in 1994, but holdings of SDRs more than doubled.

The main items of the convertible reserves at the end of 1993 and 1994 and changes in the course of the year are shown below:

	Reserves 31 Dec 1994	Reserves 31 Dec 1993	Change
FIM million			
Gold	2 180	2 180	+1
Special drawing rights	1 537	664	+873
IMF reserve tranche	1 354	1 747	-393
Convertible currencies	47 672	28 882	+18 790
Total	52 743	33 472	+19 271

Economic analysis and research

The focus in the monitoring of economic developments was on the analysis of the maintenance of price stability and the factors contributing to it. The monitoring of financial markets was also developed by initiating the drawing up on a regular basis of an extensive internal monitoring report. Future developments in the Bank's operational environment and their implications for monetary policy were evaluated by means of economic forecasts and medium-term calculations.

Towards the end of 1994, a project concerning the monitoring of the economies of the EU member states was initiated in order to determine the monitoring resources needed to ensure adequate expert knowledge. As the central bank of an EU member state, the Bank of Finland will participate in discussions and decision-making in matters that concern both the member states and the Union as a whole. In planning its own monetary policy measures, the

Bank will have to pay more attention than hitherto to measures taken by other member states.

Research and analysis in 1994 focused on studies on inflation and monetary economics aiding the planning of monetary policy and on bank research aiding the monitoring of financial institutions. In research on monetary policy, special attention was paid to analysis of the nature of the inflation process and the links between monetary policy and inflation and to seeking to develop methods for forecasting inflation. In addition, a study carried out on the demand for money investigated the possibilities of using monetary aggregates as indicators in the planning of monetary policy. The construction of a new version of the Bank's macroeconomic simulation model, 'BOF4', which is used as an aid in forecasting and in planning economic policy, was initiated with the aim of revising, *inter alia*, the block of the model describing the functioning of the financial markets.

Research on banks focused on the development of methods for monitoring and forecasting the state of the banking sector as well as on studies on bank competition. In order to improve the monitoring of the financial markets, a survey of companies' financing needs and availability of financing was conducted in cooperation with the Confederation of Finnish Industry and Employers and the Ministry of Trade and Industry. In the field of payment systems, the Bank published a study on the legal problems related to the clearing and settlement of securities transactions. In addition, the extensive statistical research project on Finnish economic history was continued. The aim of the project is to compile a consistent set of basic statistical data describing the functioning of the Finnish financial markets from the 1860s until the 1990s.

Research work on the economies in transition continued to be active at the Bank. The studies focused on monitoring and analyzing economic developments in Russia and the Baltic states as well as the process of change in their economic systems. The monitoring of the integration process and its effects was also started. The principal subjects monitored and studied were overall economic developments in Russia and the Baltic states, with a special emphasis on privatization, issues related to public finances and monetary reforms. Studies were also carried out on trade relations and direct investment between Finland, Russia and the Baltic states, and on the conditions prevailing in Karelia and St Petersburg.

Information and publications

Of the periodicals published by the Bank of Finland, the Finnish language publication *Markka & talous* (The Markka and the Economy) appeared four times and the English language publication *Bank of Finland Bulletin* 11 times. The *Year Book* and *Finnish Bond Issues* were published early in the year. Four publications were issued in series A, one in series B and two in series D.¹ The statistical review *Financial Markets* appeared monthly. Twenty-five papers appeared in the *Discussion Papers* series, which comprises research and analytical work done in the various departments of the Bank. The *Review of Economies in Transition*, which contains studies and reports on developments in Central and Eastern European economies, appeared eleven times.

Information management

Information services and production of statistics

The Bank conducted a study on the expediency and cost-efficiency of information management and approved, on the basis of this study, the focal points for the development of information management and its organizational outline. Against this background, several projects were initiated with the aim of increasing the joint use of data at the Bank of Finland and the Financial Supervision Authority.

The Financial Supervision Authority, the Bank of Finland and Statistics Finland agreed on the contents and collection of basic statistical data on the major credit institutions. This reform will improve data collection and meets the requirements of banking supervision, statistical compilation and financial market monitoring in the most expedient fashion without unnecessary overlapping.

In the compilation of balance of payment statistics, Finland was among the first countries to introduce new classifications based on the IMF's revised guidelines, and the main balance-of-payments surveys conducted by the Bank were revised accordingly. The Bank started to publish preliminary data on the balance of payments on a monthly basis and the publication lag was shortened to four weeks. Information on the balance of payments was supplied

¹ A list of Bank of Finland publications in 1994 is included in the Appendices.

mented by a quarterly report on securities transactions with nonresidents. Readiness for European economic integration was enhanced by participating actively in the international harmonization of financial and balance-of-payment statistics carried out under the direction of the Statistical Office of the European Communities (EUROSTAT) and the European Monetary Institute (EMI).

Data processing

The cost-benefit ratio, service ability and flexibility of data processing services were improved in many ways. The main system-related projects included the implementation of a foreign securities system and a domestic money market operations system, the introduction of new workstation software for holders of current accounts and the starting of the implementation of the investment analysis system. Workstations changed over to a graphical user interface and graphic versions of programs were introduced to a limited extent.

In-house operations, organization and staff

One of the aims of the development of the Bank's in-house operations in 1994 was to enhance the Bank's practical readiness for entry into the European Union. To this end, the efficiency of the Bank's management, organization and modes of operation was increased through cooperation between the Organization and Management Development Unit, which was set up for a fixed term by the Bank in 1993, and other departments. The entire organization, led by the Governor, engaged in a discussion of the Bank's basic values. The aim of the discussion was to strengthen the staff's awareness of the basic factors that direct the Bank's operations and form the foundation for meaningful and goal-oriented work.

The Bank's organization was developed further. The name of the Central Bank Policy Department was changed to Monetary Policy Department. The department's International Office became a separate unit, the International Secretariat, with a significantly enlarged domain. The name of the Publication Services Department was changed to Publication and Language Services and the Statistical Services Department became the Information Services Department; at the same time, the Bank's library was

transferred from the Publication Services Department to the Information Services Department. The Data Processing Department was reorganized in order to achieve greater cost-efficiency and improved utilization of data technology based on the needs of in-house customers.

The Bank of Finland's branches in Jyväskylä, Lahti and Vaasa were closed in accordance with a decision made in 1991.

The aim of all the organizational changes was to refine the Bank's organizational structure so as to promote efficiency and cooperation.

In the course of the year, the number of staff employed by the Bank decreased by 28. At the end of 1994, 883 persons were employed by the Bank of Finland; staff at the head office numbered 675 and that at the branches 106; the Financial Supervision Authority had a staff of 102. The total number includes 42 persons on leave of absence for various reasons and 43 persons on fixed-term contracts.

Exchange of jobs between Bank staff was brisk right from the beginning of the year and in the course of the year more than 50 persons, of whom some were managers, exchanged their jobs either on a permanent or temporary basis.

In the early part of the year, the Bank approved a policy for the establishment of permanent posts which aimed at enhancing the reliability of operations, the continuity of expert skills and the security of employment relationships. During 1994, permanent posts were established for 41 temporary employees, most of them experts.

Training

In the planning of training, special attention was paid to the development of training practices and to designing training so that it would better support the achievement of the Bank of Finland's goals.

The readiness of the staff for international cooperation was improved by training. Training aimed at increasing the staff's knowledge of the European Union was provided for the entire personnel. Language training was enhanced and interaction and public presentation skills were developed further. Practical training programmes for officials within the EU and the Nordic exchange of officials were continued. Special emphasis was laid on the importance of international staff exchanges and international contacts in general, and on the participation of the staff in training programmes abroad.

The internal management development programmes were started. The aim of these was to develop the participants' personal managerial skills, to develop the corporate culture and management system of the central bank and to support its strategic planning.

In the training of economists, the most important topics were monetary policy under a floating exchange rate regime, the functioning of the financial markets and banks' risk management. Proficiency in the use of econometric methods was enhanced by special courses on the subject.

The systematic development of the special professional skills of experts was planned with the aim of better meeting the needs of both the Bank and the experts themselves. The training was launched as a joint project of the Bank of Finland and the Financial Supervision Authority and it was initially targeted at lawyers. Later, the training will be extended to other professional groups.

Training in data technology focused on training connected with the implementation of graphical user interfaces and graphic office systems. The training made extensive use of departments' own system support persons and personal instructors.

Training assistance for economies in transition was provided to central banks, in particular; priority was given to Estonia and Russia. Representatives of the central banks of other Baltic and Eastern European states were offered training assistance on a case-by-case basis. All in all, 35 persons participated in – mainly short-term – training visits to the various departments of the Bank of Finland. Seven persons paid long-term training visits to the Bank. The visits paid by Bank of Finland experts to the target countries were either coordinated by international organizations or visits in the form of direct bilateral assistance. These latter visits were made mainly to Eesti Pank (the central bank of Estonia).

The Young Professionals training programme for newly-qualified economists that was begun 1993 ended in June 1994. The Bank has decided to start the next Young Professionals programme in autumn 1995.

The Bank's strategy and the development of methods of operation were supported by 'studia generalia' type lectures aimed at the entire staff.

Expenditure by the Bank of Finland and the Financial Supervision Authority on training accounted for 3.3 per cent of the total wage bill.

Financial Statements

Profit and loss account, million FIM

INTEREST INCOME				
Domestic (1)				
Liquidity credits	1.0		40.0	
Certificates of deposit	91.5		198.8	
Securities with repurchase commitments	72.6		329.2	
Net interest on forward transactions	15.2		324.0	
Financing of domestic deliveries (KTR)	25.5		49.3	
Bonds	250.7		265.7	
Loans to the Government Guarantee Fund	–		38.8	
Loans for stabilizing the money market	31.8		358.1	
Other	37.0	525.3	42.4	1 646.2
Foreign (2)				
IMF	74.2		92.7	
Securities	2 215.6		1 553.0	
Other currency claims	430.2	2 720.0	203.8	1 849.5
Total interest income		3 245.2		3 495.7
INTEREST EXPENSE				
Domestic (3)				
Call money deposits	–43.9		–43.7	
Certificates of deposit	–1 539.6		–1 156.2	
Minimum reserve deposits	–		–479.6	
Investment deposits	–48.2		–106.9	
Other	–11.9	–1 643.6	–32.6	–1 818.9
Foreign				
IMF	–44.6		–53.4	
Loans under swap arrangements	–		–18.4	
Other	–1.8	–46.4	–1.4	–73.2
Total interest expense		–1 690.0		–1 892.1
INTEREST MARGIN (4)		1 555.2		1 603.5
OTHER CENTRAL BANKING INCOME (5)				
Commissions and fees	14.9		13.7	
Other	57.7	72.6	99.4	113.1
OTHER CENTRAL BANKING EXPENSE (6)				
Salaries	–146.7		–151.4	
Social security costs	–81.5		–77.0	
Purchase of banknotes	–49.2		–50.3	
Depreciation	–63.0		–59.8	
Other	–78.0	–418.4	–86.2	–424.7

EXPENSE AND INCOME RELATED TO FINANCIAL SUPERVISION (7)				
Salaries	-18.9		-4.0	
Depreciation	-0.6		-0.7	
Other	-20.3		-3.2	
Supervision fees charged by the Financial Supervision Authority	40.0	0.2	7.7	-0.2
EXPENSE AND INCOME DUE TO SAFEGUARDING THE STABILITY OF THE MONEY MARKET (8)				
Write-off on shares in asset management companies	-		-1 200.0	
Write-off on capitalized expenditures and losses	-		-300.0	
Income on sale of shares	-	-	200.0	-1 300.0
PROFIT BEFORE VALUATION ADJUSTMENTS AND PROVISIONS		1 209.6		-8.3
Valuation gain/loss on foreign securities (9)		-1 459.8		453.3
Exchange rate gain/loss (10)		-5 816.9		2 237.7
Change in pension provision (11)		-89.9		-78.9
Increase (-) / reduction (+) in provisions (in accordance with section 30 of the Act on the Bank of Finland) (11)		6 157.0		-2 603.9
PROFIT FOR THE FINANCIAL YEAR (12)		0.0		0.0

Balance sheet, million FIM

ASSETS

Gold and foreign currency claims (1)				
Gold	2 180.5		2 179.7	
Special drawing rights	1 536.9		663.9	
IMF reserve tranche	1 353.7		1 746.6	
Convertible currencies	47 672.2	52 743.2	28 882.0	33 472.1
Other foreign claims (1)				
Markka subscription to Finland's quota in the IMF	4 594.6	4 594.6	5 058.1	5 058.1
Claims on financial institutions (2)				
Liquidity credits	–		1.1	
Certificates of deposit	443.0		1 844.5	
Securities with repurchase commitments	1 037.4		5 492.5	
Bonds	802.2		1 100.8	
Other	237.9	2 520.5	237.9	8 676.8
Claims on the public sector (3)				
Total coinage	1 806.0	1 806.0	1 788.4	1 788.4
Claims on corporations (4)				
Financing of domestic deliveries (KTR)	315.8		496.3	
Other	2 833.2	3 149.0	2 806.7	3 303.0
Other assets (5)				
Loans for stabilizing the money market	4 532.0		5 752.0	
Accrued items	1 832.1		1 819.2	
Other	159.4	6 523.5	166.5	7 737.7
Capitalized expenditures and losses due to safeguarding the stability of the money market (6)				
		1 400.0		1 400.0
Total		72 736.8		61 436.2

LIABILITIES

Foreign currency liabilities (1)				
Convertible currencies	130.4	130.4	193.4	193.4
Other foreign liabilities (1)				
IMF markka accounts	4 594.6		5 058.1	
Allocations of special drawing rights	984.9	5 579.5	1 130.8	6 188.9
Notes and coin in circulation (7)				
Notes	12 675.1		13 442.2	
Coin	1 639.5	14 314.7	1 551.6	14 993.9
Certificates of deposit (8)		35 236.0		14 837.0
Liabilities to financial institutions (9)				
Call money deposits	1 386.6		1 803.4	
Minimum reserve deposits	6 525.7	7 912.3	6 397.9	8 201.3
Liabilities to the public sector (10)				
Cheque accounts	0.0		8.0	
Deposits of the Government Guarantee Fund	93.1	93.1	776.0	784.0
Liabilities to corporations (11)				
Deposits for investment and ship purchase	1 548.5	1 548.5	2 086.7	2 086.7
Other liabilities (12)				
Accrued items	436.5		535.6	
Other liabilities	24.2	460.8	91.6	627.2
Provisions (13)				
Pension provision	1 328.6		1 233.6	
Other provisions	369.0	1 697.5	6 526.0	7 759.6
Capital accounts (14)				
Primary capital	5 000.0		5 000.0	
Reserve fund	764.1		764.1	
Profit or loss for the financial year	0.0	5 764.1	0.0	5 764.1
Total		72 736.8		61 436.2

Appendices to the financial statements

Note issue, million FIM

Right of note issue	52 743	33 472
Used right of note issue	12 911	14 432
Unused right of note issue	39 832	19 040

Markka/foreign currency forward contracts,

million FIM (middle rate as at 30 Dec)

Forward purchase contracts	6 079	–
Forward sales contracts	–	2 885

Foreign currency/foreign currency forward contracts, million FIM

(middle rate of currency purchased as at 30 Dec)

	4 301	788
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Foreign currency futures contracts, million FIM

(middle rate as at 30 Dec)

Purchase contracts	–	147
Sales contracts	1 552	–

Shares and other interests, nominal value, million FIM

(Bank of Finland's holding in parentheses)

Scopulus Oy	2 (100 %)	2 (100 %)
Sponda Oy	300 (100 %)	300 (100 %)
Setec Oy	40 (100 %)	40 (100 %)
Helsinki Money Market Center Ltd	35 (52 %)	35 (52 %)
Bank for International Settlements	56 (1.67 %)	65 (1.67 %)
Shares in housing companies	1	1
Real estate shares	1	1
Other shares and interests	1	1
Total	437	445

Guarantees, million FIM

Temporary guarantee commitments in connection with the transfer of risk exposures from Skopbank	75	233
Guarantees issued on behalf of asset management companies	–	517
Total	75	750

Liability arising from pension commitments, million FIM

The Bank of Finland's pension liability	1 762	1 727
– of which covered out of reserves	1 329	1 234

The Bank of Finland's real estate

Building	Address	Year of completion	Volume cu.m (approx.)
Helsinki	Rauhankatu 16	1883/1961	49 500
	Unioninkatu 33/Rauhankatu 19	1848/1954	17 500/33 000
	Snellmaninkatu 23	1896/1988	27 500
	Liisankatu 14	1928	48 500
Joensuu	Ramsinniementie 34	1920/1983	4 500
	Torikatu 34	1984	11 000
Jyväskylä	Kauppakatu 21	1950	32 000
Kuopio	Kauppakatu 25–27	1912	7 500
	Puutarhakatu 4	1993	11 900
Lahti	Torikatu 3	1929	36 500
Mikkeli	Päiviönkatu 15	1965	7 500
Oulu	Kajaaninkatu 8	1973	17 000
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 15 February 1995

THE BOARD OF THE BANK OF FINLAND

Sirkka Hämäläinen, Chairman

Harri Holkeri

Esko Ollila

Kalevi Sorsa

Matti Vanhala

Notes to the financial statements

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 Act on the Bank of Finland, fixed assets, shareholdings 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. The Bank of Finland's shareholdings, other interests and real estate are listed in the appendices to the financial statements.

Foreign currency assets and liabilities have been translated into markkaa at the middle exchange rates as at 31 December 1994. All on-balance sheet foreign currency assets and liabilities and off-balance sheet valuation gains and losses have been entered in the profit and loss account.

The lay-out of the balance sheet published in the financial statements for 1993 has been changed to correspond with that of the balance sheet in the financial statements for 1994. The pension provision and other provisions, which were previously included in the item 'Valuation account and other provisions', are now shown as separate sub-items under the item 'Provisions'. Similarly, the difference arising from the different valuation principles applied in the balance sheet and the profit and loss account, which was previously included under the item 'Valuation account and other provisions', is now entered on the assets side of the balance sheet under accrued items. The valuation difference is the difference between the nominal value of foreign securities and the lower of acquisition cost and market value, if the nominal value is lower than these.

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

Notes to the profit and loss account

Domestic interest income decreased from the previous year as a result of a decrease in domestic claims

and a fall in short-term interest rates. Foreign interest income increased because of a rise in foreign exchange reserves. Net interest income (interest margin) remained at the 1993 level.

The appreciation of the markka, depreciation of the dollar and fall in the values of foreign securities weakened the result for 1994.

1 Domestic interest income

Domestic interest income decreased by FIM 1 121 million from the previous year. Interest income on certificates of deposit amounted to FIM 91 million and that on securities with repurchase commitments to FIM 73 million.

2 Foreign interest income

Foreign interest income amounted to FIM 2 720 million, which is FIM 871 million more than in the previous year.

3 Domestic interest expense

Domestic interest expense, FIM 1 644 million, includes FIM 1 540 million representing interest expense on Bank of Finland CDs. No interest is paid on minimum reserve deposits. The interest expense shown in this item in the profit and loss account for 1993 comprises interest paid on cash reserve deposits made with the Bank of Finland under the scheme in force until the end of June 1993.

4 Interest margin

The interest margin amounted to FIM 1 555 million.

5 Other central banking income

The most important item under other central banking income is rental income, which amounted to FIM 31 million.

6 Other central banking expense

The wage bill in respect of central banking amounted to FIM 147 million. Social security costs include FIM 58 million in pensions paid.

In accordance with the Act on 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 financial year. Renovation of buildings accounted for FIM 32 million of depreciation and machinery and equipment for FIM 20 million.

7 Expense and income related to financial supervision

Expenses and income related to financial supervision are shown as a separate item. Expenses arising from financial supervision amounted to FIM 40 million. These expenses are paid by the Bank of Finland and covered by the supervision fees subsequently collected from the supervised entities.

8 Expense and income due to safeguarding the stability of the money market

Expense and income due to safeguarding the stability of the money market relate to the take-over of Skopbank and the activities of the Bank's asset management companies.

No expense or income related to the asset management companies are shown in the profit and loss account for 1994.

9 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 acquisition cost and market value of securities in the portfolio if the market value is lower. A valuation loss of FIM 1 460 million was entered in respect of foreign securities in 1994.

10 Exchange rate gain/loss

Exchange rate gain/loss includes all net changes in the value of foreign currency claims and liabilities as well as net earnings from foreign exchange dealings. During the financial year, the markka strengthened and the US dollar, which is a key currency in the reserves, weakened significantly. An exchange rate loss of FIM 5 817 million was incurred for 1994.

11 Changes in provisions

Employees' pension contributions totalling FIM 5 million were collected from wages during 1994 and transferred to the pension provision. Interest is calculated on the employees' pension contributions and on the pension provision made during previous years at a rate equivalent to the base rate plus 2 percentage points, and the pension provision is increased by the resulting amount. The pension provision was increased by a total of FIM 90 million in 1994.

The provision in accordance with section 30 of the Act on the Bank of Finland was run down by FIM 6 157 million.

12 Result for the financial year

A result of zero markkaa was reported for the financial year.

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 62 299 kilos, with a market value of about FIM 3 634 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.

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.

Convertible foreign currency liabilities consist of convertible markka claims of international organizations and foreign banks on the Bank of Finland.

2 Claims on financial institutions

Liquidity credits are fixed-term liabilities of banking institutions entitled to central bank financing from the Bank of Finland.

Certificates of deposit are discount instruments issued by banks. They have been entered at acquisition cost at the moment of acquisition. In addition to acquisition cost, this item includes accrued interest calculated on a discount basis.

Securities with repurchase commitments (repos) are used alongside certificates of deposit in money market operations.

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

3 Claims on the public sector

Total coinage indicates the State's liability to the Bank of Finland arising from its obligation to redeem coins.

4 Claims on corporations

Credits for financing domestic deliveries have been granted either in the form of loans or bonds. Bonds are valued at nominal value. The interest rate ranges from the base rate to the base rate plus 2.5 percentage points.

The item 'Other' mainly consists of securities classified as investments and valued at nominal value.

5 Other assets

The outstanding amount of loans for stabilizing the money market decreased by FIM 1 220 million in the course of the year and totalled FIM 4 532 million at the end of 1994. A total of FIM 15 582 million of Bank of Finland financing had been committed to the take-over of Skopbank and the transfer of Skopbank's risk exposures in 1991 and 1992. By the end of 1994, FIM 5 750 million of this amount had been recouped, FIM 3 900 million was entered as losses in the profit and loss account and FIM 1 400 million was capitalized in the balance sheet.

Accrued items are mainly interest receivables. Other assets also include the difference between the nominal value of foreign securities and the lower of acquisition cost and market value if the nominal value is lower than these. Other assets also include FIM 118 million in staff housing loans. The interest rate charged on old housing loans was equivalent to the base rate, and the rate charged on loans granted after 16 February 1993 to the base rate plus 2 percentage points.

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

The losses incurred in 1992 as a result of the sale of Skopbank's shares and preferred capital certificates to the Government Guarantee Fund were capitalized in the balance sheet for 1992. Of this item, FIM 300 million was written off in the financial statements for 1993. No write-offs were made in 1994, and so the amount still to be written off stood at FIM 1 400 million.

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

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.

Minimum reserve deposits are non-interest-bearing.

10 Liabilities to the public sector

This item comprises the Government Guarantee Fund's current 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 according to the Investment Reserves Act.

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 Provisions

The Bank of Finland's pension liabilities total FIM 1 762 million; 75.4 per cent of this amount is covered by the provision.

Other provisions include the provision provided for under section 30 of the Act on the Bank of Finland.

14 Capital accounts

The Bank's primary capital and reserve fund were unchanged in 1994.

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 1994 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.

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 current regulations.

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, 30 March 1995

AUDITORS OF THE BANK OF FINLAND

Kauko Heikkinen

Arja Alho

Timo E. Korva

Matti Lahtinen

Jarmo Laivoranta

./ Kalervo Virtanen

Authorized Public Accountant

Appendices

Measures concerning monetary and foreign exchange policy and the financial markets in 1994

- January **Commencement of trade in bond forwards**
In accordance with an agreement concluded between the Bank of Finland and the primary dealers, the latter began trading in markka-denominated bond forwards on 24 January.
- February **Base rate**
The Parliamentary Supervisory Board lowered the Bank of Finland's base rate from 5.5 per cent to 5.25 per cent with effect from 1 February.
- September **Increase in the capital of Asset Management Company Arsenal Ltd**
On 8 September, the Government decided to raise the share capital of Asset Management Company Arsenal Ltd by FIM 6 billion. The capital injection was necessary to cover losses incurred during the year.
- November **Banks' access to the Bank of Finland's current account and liquidity credit facilities**
On 1 November, the Bank of Finland modified the conditions governing access by banks and other credit institutions to current account and liquidity credit facilities at the central bank. Access to these facilities was extended to cover all credit institutions subject to the minimum reserve requirement. At the same time, the partial collateralization requirement previously imposed on intra-day credit limits was replaced by the requirement of full collateralization. Those current account holders who had hitherto been required to post collateral equivalent to 25 per cent of their credit limits were obliged to deposit collateral for the full amount by 1 January 1996.
- Tax-exempt deposits**
On 18 November, Parliament approved an amendment of the law on the tax relief of deposits and bonds whereby the tax-exempt status of 24-month deposits was extended to apply to deposits made up to the end of 1995.
- Decision by the Bank of Finland to sign the EMS agreement without entry into the ERM**
On 23 November, the Bank of Finland decided to sign the agreements between the central banks of the EU member states on the European Monetary System (EMS) and Short-Term Monetary Support (STMS). The agreements entered into force as of the date Finland's membership became effective. The Board of the Bank of Finland also decided to propose to the central banks of the EU member states that the existing bilateral swap agreements with EU central banks be terminated with effect from the date of entry into force of the EMS and STMS agreements.

December

Tender rate

The Bank of Finland raised its tender rate on 9 December from 5.0 per cent to 5.5 per cent. The tender rate serves as a benchmark for short-term market rates.

Support to Skopbank

On 21 December 1994, the Government granted capital support to Skopbank by purchasing preferred capital certificates issued by Skopbank to the total value of FIM 450 million.

Main statements issued by the Bank of Finland in 1994

Statements concerning the development of the financial markets

- Statement given to the Securities Association concerning preparation for disturbances in the money market environment, 25 January.
- Statement given to the Ministry of Trade and Industry concerning the report of the working group dealing with the government's policy as regards foreign risk-taking, 10 March.
- Statement given to the Helsinki City Office concerning the primary dealer system, 19 April.
- Statement given to the Ministry of Justice on the safeguarding of rights relating to book-entry securities under exceptional circumstances, 22 June.
- Statement given to the Ministry of Finance concerning the memorandum of the saving fund working group, 26 August.
- Statement given to the Securities Association concerning a proposal for amending a regulation, 5 September.
- Statement given to the Ministry of Finance concerning the proposal for amending the Securities Markets Act in respect of the clearing and settlement of securities, 28 October.

Statements concerning the support of the banking system

- Statement given to the Government Guarantee Fund concerning a guarantee arrangement for the Okobank Group, 15 March.
- Statement given to the Government Guarantee Fund concerning government guarantee given in respect of the raising of funds by Asset Management Company Arsenal Ltd, 26 April.
- Statement given to the Ministry of Finance concerning the memorandum of the working group on the Government Guarantee Fund, 14 July.
- Statement given to the Government Guarantee Fund concerning the agreement on complementing the agreement on the disposal of the Savings Bank of Finland – SBF Ltd, 18 August.
- Statement given to the Government Guarantee Fund concerning the support of the Asset Management Company Arsenal Ltd, 23 August.
- Statement given to the Government Guarantee Fund concerning the proposal in regard to Skopbank's foreign subsidiaries, 20 September.
- Statement given to the Government Guarantee Fund concerning a guarantee arrangement for Asset Management Company Arsenal Ltd, 10 November.
- Statement given to the State Audit Office concerning the memorandum on the limits of the banking crisis, 24 November.
- Statement given to the Government Guarantee Fund concerning the support of Skopbank, 2 December.
- Statement given to the Government Guarantee Fund concerning the sale of one of Skopbank's subsidiaries, 2 December.

Statement concerning interest subsidies

Statement given to the Ministry of Education concerning a change in the maximum interest rate on study loans, 11 March and 22 November.

Other statements

Statement given to the Ministry of Finance concerning the commemorative coin to be issued on the occasion of the 1994 European Athletics Championships, 4 February.

Statement given to the Foreign Ministry concerning the texts of the agreements of the Uruguay Round of the GATT, 18 February.

Statement given to the Ministry of Finance on developing the investment of government cash funds, 5 May.

Statement given to the Foreign Ministry concerning the submission to Parliament of bills required by Finland's membership of the European Union, 27 May.

Statement given to Parliament concerning the Government's proposal for amending the Archives Act, 31 May.

Statement given to the Ministry for Trade and Industry concerning the memorandum of the working group dealing with the definition and use of a limited company's equity and distributable profits, 14 June.

Statement given to the Office of the Council of State concerning the memorandum of the 1992 Constitution Committee, 14 June.

Statement given to the Ministry of Justice concerning the Government's draft proposal for a law on the publicity of documents issued by authorities, 15 September.

Statement given to the Ministry of Finance concerning the bill on amending customs law, 6 October.

Statement given to the Ministry of Finance concerning the amendment of the Act on the Use of Index Clauses, 20 October.

Statement given to the Ministry of Finance concerning the memorandum of the Bank of Finland Committee, 27 October.

Statement given to the Ministry of Finance concerning a commemorative coin to be issued in the honour of A.I. Virtanen and science, 16 November.

Tables

Discrepancies between constituent figures and totals are due to rounding.

0 less than half the final digit shown

· logically impossible

.. data not available

– nil

– change in contents of series

Table 1.

Monthly balance sheet of the Bank of Finland in 1994, million FIM

ASSETS

Gold and foreign currency claims	41 174	46 580	42 646
Gold	2 180	2 180	2 180
Special drawing rights	645	657	661
IMF reserve tranche	1 697	1 676	1 688
Convertible currencies	36 652	42 067	38 117
Other foreign claims	5 058	5 092	5 092
Markka subscription to Finland's quota in the IMF	5 058	5 092	5 092
Claims on financial institutions	5 481	3 053	5 083
Certificates of deposit	40	569	855
Securities with repurchase commitments	4 158	1 233	2 987
Bonds	1 045	1 013	1 003
Other	238	238	238
Claims on the public sector	1 739	1 768	1 793
Total coinage	1 739	1 768	1 793
Claims on corporations	3 288	3 273	3 256
Financing of domestic deliveries (KTR)	482	466	449
Other	2 807	2 807	2 807
Other assets	5 720	5 210	4 994
Loans for stabilizing the money market	5 552	5 032	4 832
Accrued items	-	-	-
Other	168	178	162
Valuation account	-	-	-
Capitalized expenditures and losses due to safeguarding the stability of the money market	1 400	1 400	1 400
Total	63 860	66 376	64 264

41 623	47 728	52 708	55 634	53 058	53 153	53 377	54 184	52 743
2 180	2 180	2 180	2 180	2 180	2 180	2 180	2 180	2 180
650	654	650	645	636	618	1 249	1 461	1 537
1 597	1 591	1 514	1 480	1 447	1 407	1 338	1 388	1 354
37 197	43 303	48 364	51 329	48 794	48 947	48 610	49 154	47 672
5 154	5 154	5 093	5 114	4 595				
5 154	5 154	5 093	5 114	5 114	5 114	5 114	5 114	4 595
3 314	4 405	3 846	3 614	5 677	4 658	2 940	1 586	2 520
1 937	2 017	1 365	1 424	4 170	3 087	1 766	441	443
156	1 191	1 319	1 064	387	398	63	51	1 037
983	959	924	888	882	935	873	856	802
238	238	238	238	238	238	238	238	238
1 828	1 827	1 819	1 823	1 817	1 847	1 864	1 872	1 806
1 828	1 827	1 819	1 823	1 817	1 847	1 864	1 872	1 806
3 249	3 236	3 220	3 210	3 198	3 189	3 173	3 160	3 149
431	413	397	386	374	360	345	331	316
2 819	2 824	2 824	2 824	2 824	2 829	2 829	2 829	2 833
4 993	4 996	4 901	4 889	4 890	4 692	4 704	4 692	6 524
4 832	4 832	4 732	4 732	4 732	4 532	4 532	4 532	4 532
-	-	-	-	-	-	-	-	1 832
161	164	169	157	158	160	172	160	159
-	-	-	-	-	-	122	-	-
1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400
61 561	68 746	72 988	75 683	75 153	74 053	72 694	72 008	72 737

Table 1. (cont.)

LIABILITIES

Foreign currency liabilities	248	191	142
Convertible currencies	248	191	142
Other foreign liabilities	6 157	6 199	6 207
IMF markka accounts	5 058	5 092	5 092
Allocations of special drawing rights	1 099	1 107	1 115
Notes and coin in circulation	14 084	13 855	14 194
Notes	12 561	12 324	12 638
Coin	1 523	1 532	1 556
Certificates of deposit	22 440	26 290	23 435
Liabilities to financial institutions	7 282	6 773	7 359
Call money deposits	889	426	1 083
Minimum reserve deposits	6 393	6 346	6 276
Other	0	1	0
Liabilities to the public sector	904	300	251
Cheque accounts	157	1	1
Deposits of the Government Guarantee Fund	747	299	250
Liabilities to corporations	1 947	1 857	1 804
Deposits for investment and ship purchase	1 947	1 857	1 804
Other liabilities	94	96	96
Accrued items	–	–	–
Other	94	96	96
Valuation account and provisions	4 940	5 051	5 011
Capital accounts	5 764	5 764	5 764
Primary capital	5 000	5 000	5 000
Reserve fund	764	764	764
Net earnings	–	–	–
Total	63 860	66 376	64 264

134 134	116 116	91 91	185 185	196 196	155 155	166 166	111 111	130 130
6 249 5 154 1 095	6 245 5 154 1 091	6 178 5 093 1 086	6 190 5 114 1 076	6 167 5 114 1 053	6 137 5 114 1 023	6 087 5 114 973	6 124 5 114 1 010	5 579 4 595 985
13 927 12 377 1 550	14 164 12 600 1 564	14 355 12 773 1 582	14 176 12 576 1 599	13 922 12 322 1 600	13 906 12 318 1 587	13 900 12 308 1 592	13 776 12 172 1 604	14 315 12 675 1 640
21 695	28 412	32 108	35 985	35 040	36 856	36 948	34 406	35 236
6 895 483 6 411 1	6 846 485 6 360 0	6 983 536 6 446 0	7 263 796 6 467 -	8 854 2 252 6 602 0	7 971 1 421 6 550 0	7 974 945 7 029 -	8 699 2 026 6 674 0	7 912 1 387 6 526 -
39 0 39	61 1 61	526 70 456	84 1 83	71 1 70	60 1 60	115 0 114	51 0 51	93 0 93
1 805 1 805	1 790 1 790	1 758 1 758	1 743 1 743	1 720 1 720	1 705 1 705	1 643 1 643	1 607 1 607	1 548 1 548
91 - 91	93 - 93	105 - 105	95 - 95	96 - 96	98 - 98	97 - 97	29 - 29	461 437 24
4 963	5 254	5 118	4 198	3 324	1 402	-	1 440	1 698
5 764 5 000 764 -	5 764 5 000 764 -	5 764 5 000 764 -	5 764 5 000 764 -	5 764 5 000 764 -				
61 561	68 746	72 988	75 683	75 153	74 053	72 694	72 008	72 737

Table 2.

Bank of Finland's foreign exchange reserves and forward exchange position¹, million FIM

	Gold	Special drawing rights	IMF reserve tranche	Foreign currency claims ²	Foreign exchange reserves	Forward purchase contracts, net	Foreign exchange reserves and forward position
1990	2 180	791	783	33 478	37 232	6 123	43 355
1991	2 180	932	1 136	29 381	33 629	-8 696	24 933
1992	2 180	564	1 732	25 041	29 517	-10 345	19 172
1993	2 180	664	1 747	28 882	33 473	-2 885	30 588
1994	2 180	1 537	1 354	47 672	52 743	6 079	58 822
1994							
January	2 180	645	1 697	36 652	41 174	-390	40 784
February	2 180	657	1 676	42 067	46 580	-445	46 135
March	2 180	661	1 688	38 117	42 646	-437	42 209
April	2 180	650	1 597	37 197	41 623	-110	41 513
May	2 180	654	1 591	43 303	47 728	-	47 728
June	2 180	650	1 514	48 364	52 708	-	52 078
July	2 180	645	1 480	51 329	55 634	-	55 634
August	2 180	636	1 447	48 794	53 058	-2 962	50 096
September	2 180	618	1 407	48 947	53 153	-536	52 617
October	2 180	1 249	1 338	48 610	53 377	4 533	57 910
November	2 180	1 461	1 388	49 154	54 184	5 299	59 483
December	2 180	1 537	1 354	47 672	52 743	6 079	58 822

¹ At middle spot rates.

² In 1990-91, convertible currencies only.

Table 3.

Markka's exchange rate against the ECU and the trade-weighted currency index^{1,2}

	Markka's exchange rate against the ECU	Trade-weighted currency index, 1982=100
1990	4.85697	97.3
1991	5.00580	101.4
1992	5.80140	116.4
1993	6.69420	132.4
1994	6.19108	123.2
1994		
January	6.34072	126.9
February	6.23914	125.6
March	6.31275	126.5
April	6.25477	125.5
May	6.29981	125.9
June	6.41394	127.4
July	6.35263	125.2
August	6.28705	123.8
September	6.13918	121.3
October	5.89314	116.5
November	5.86886	116.3
December	5.89101	117.0

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.

Bank of Finland's base rate

Effective	%
1.11.1979	8.50
1.2.1980	9.25
1.6.1982	8.50
1.7.1983	9.50
1.2.1985	9.00
1.1.1986	8.50
1.3.1986	8.00
19.5.1986	7.00
16.5.1988	8.00
1.1.1989	7.50
1.11.1989	8.50
1.5.1992	9.50
1.1.1993	8.50
15.2.1993	7.50
17.5.1993	7.00
15.7.1993	6.50
16.8.1993	6.00
1.12.1993	5.50
1.2.1994	5.25

Table 5.

Bank of Finland's minimum reserve system

	Reserve requirement, %			Deposits at the end of period, mill. FIM
	On liquid deposits	On other deposits	On other domestic liabilities	
1993 ¹	2.0	1.5	1.0	6 398
1994	2.0	1.5	1.0	6 526
1994				
January	2.0	1.5	1.0	6 393
February	2.0	1.5	1.0	6 346
March	2.0	1.5	1.0	6 276
April	2.0	1.5	1.0	6 411
May	2.0	1.5	1.0	6 360
June	2.0	1.5	1.0	6 446
July	2.0	1.5	1.0	6 467
August	2.0	1.5	1.0	6 602
September	2.0	1.5	1.0	6 550
October	2.0	1.5	1.0	7 029
November	2.0	1.5	1.0	6 674
December	2.0	1.5	1.0	6 526

¹ From 1 July 1993.

Table 6.

Bank of Finland's weekly repo auctions¹, million FIM

	Amount purchased during period	Amount outstanding at end of period
1993 ²	8 500	350
1994	15 066	70
1994		
January	1 712	500
February	1 563	150
March	2 453	509
April	1 593	156
May	700	500
June	1 935	600
July	1 045	475
August	1 030	50
September	590	400
October	330	60
November	1 625	350
December	490	70

¹ Amount of securities purchased at weekly auctions.

² Repo auctions were started on 22 June 1993.

Table 7.

Banks' liquidity position^{1,2} at the Bank of Finland, million FIM

	Call money deposits	Liquidity credits	Liquidity position
1990	806	132	674
1991	881	985	-103
1992	2 103	437	1 666
1993	831	425	407
1994	1 393	10	1 383
1994			
January	933	105	828
February	767	0	767
March	715	-	715
April	1 275	-	1 275
May	891	16	875
June	1 821	-	1 821
July	1 014	-	1 014
August	2 575	-	2 575
September	2 089	0	2 089
October	1 442	-	1 442
November	2 038	-	2 038
December	1 160	-	1 160

¹ Bank's call money position prior to 3 July 1992.

² Daily averages.

Table 8.

Bank of Finland's liquidity facility¹

	Bank of Finland's tender rate	Liquidity credit: interest rate margin, %-points	Liquidity credit: maturity, days	Call money deposits: interest rate margin, %-points
1992 ²	13.85	+1.00	7	-3.00
1993	7.87	+2.00	7	-2.00
1994	5.11	+2.00	7	-2.00
1994				
January	5.44	+2.00	7	-2.00
February	4.84	+2.00	7	-2.00
March	4.76	+2.00	7	-2.00
April	4.99	+2.00	7	-2.00
May	4.97	+2.00	7	-2.00
June	5.18	+2.00	7	-2.00
July	5.17	+2.00	7	-2.00
August	5.32	+2.00	7	-2.00
September	5.13	+2.00	7	-2.00
October	5.08	+2.00	7	-2.00
November	5.06	+2.00	7	-2.00
December	5.38	+2.00	7	-2.00

¹ The values for the tender rate are the arithmetical means of the values for calendar days. The values for interest rate margin and maturity are the last values recorded in each month or year.

² July-December 1992.

Table 9.

Domestic interest rates¹, per cent

	HELIBOR						Long-term market rates		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
1990	13.63	13.82	13.99	14.16	14.28	14.39	13.7	13.5	13.29	.
1991	13.64	13.25	13.07	12.69	12.57	12.53	12.3	12.2	11.78	.
1992	13.49	13.30	13.27	13.08	13.00	12.96	13.1	13.0	12.04	.
1993	7.85	7.77	7.73	7.59	7.51	7.47	8.5	8.9	8.19	8.79
1994	5.11	5.20	5.35	5.78	6.10	6.33	8.5	9.3	8.40	9.07
January	5.38	5.24	5.19	5.05	5.02	5.01	6.1	6.6	5.78	6.54
February	4.82	4.81	4.82	4.88	4.96	5.05	6.1	6.6	5.86	6.58
March	4.82	4.80	4.80	4.88	5.02	5.12	6.6	7.5	6.72	7.45
April	5.01	5.06	5.13	5.43	5.61	5.75	7.7	8.6	7.63	8.29
May	4.97	5.06	5.14	5.46	5.63	5.78	7.9	8.9	7.89	8.52
June	5.20	5.33	5.61	6.24	6.60	6.86	9.1	10.0	8.97	9.53
July	5.17	5.25	5.46	6.13	6.57	6.91	9.7	10.4	9.31	9.89
August	5.35	5.60	5.96	6.77	7.24	7.54	10.3	11.0	9.95	10.59
September	5.07	5.27	5.57	6.36	6.88	7.25	10.2	11.0	9.92	10.53
October	5.07	5.22	5.39	5.82	6.29	6.69	9.5	10.5	9.35	10.08
November	5.07	5.22	5.43	6.05	6.50	6.79	9.6	10.5	9.49	10.23
December	5.41	5.53	5.70	6.18	6.69	7.02	9.6	10.5	9.52	10.21

¹ Daily averages.² The five-year yield is based on quotations for the serial bond 1/92 (15 January 1992–1999) and the ten-year yield on quotations for the housing bond 1/92 (15 March 1992–15 March 2002). Starting from 1 June 1993, the 10-year yield is based on quotations for the serial bond 1/93 (15 March 1993–15 March 2004).

Table 10.

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
1990	+ 163 326	- 26 379	- 160 797	- 23 850
1991	+ 109 568	- 30 380	- 81 969	- 2 781
1992	+ 76 230	- 137 940	+ 60 417	- 1 293
1993	+ 86 521	- 146 899	+ 50 486	- 9 892
1994	+ 35 540	- 351 820	+ 295 165	- 21 115
January	+ 5 720	- 17 000	+ 3 130	- 8 150
February	+ 3 940	- 19 430	+ 10 230	- 5 260
March	+ 5 770	- 22 180	+ 21 540	+ 5 130
April	+ 4 080	- 17 730	+ 13 435	- 215
May	+ 2 000	- 27 940	+ 20 790	- 5 150
June	+ 2 870	- 32 690	+ 24 980	- 4 840
July	+ 2 000	- 34 770	+ 29 180	- 3 590
August	+ 5 140	- 35 040	+ 32 970	+ 3 070
September	+ 590	- 36 860	+ 33 510	- 2 760
October	+ 330	- 38 290	+ 36 210	- 1 750
November	+ 1 630	- 35 210	+ 34 400	+ 820
December	+ 1 470	- 34 680	+ 34 790	+ 1 580

+ increases liquidity in the money market.

- decreases liquidity in the money market.

Table 11.

Bank of Finland's spot transactions¹ in the foreign exchange market, million FIM

	Purchases of foreign exchange (+)	Sales of foreign exchange (-)	Spot transactions, net
1990	+ 13 460	- 3 540	+ 9 920
1991	+ 35 120	- 69 940	- 34 820
1992	+ 20 050	- 70 640	- 50 590
1993	+ 25 120	- 45 080	- 19 960
1994	+ 20 930	- 12 900	+ 8 030
<hr/>			
January	+ 12 550	-	+ 12 550
February	+ 1 310	- 750	+ 560
March	-	- 2 200	- 2 200
April	-	-	-
May	-	- 920	- 920
June	-	- 1 350	- 1 350
July	-	- 930	- 930
August	-	- 4 270	- 4 270
September	-	- 1 440	- 1 440
October	+ 5 110	- 220	+ 4 890
November	+ 210	- 520	- 310
December	+ 1 750	- 300	+ 1 450

+ increases liquidity in the money market.

- decreases liquidity in the money market.

¹ According to trade date.

Table 12.

Bank of Finland's forward transactions^{1,2} in the foreign exchange market, million FIM

	Forward sales of foreign exchange (+)	Matured forward sales	Forward purchases of foreign exchange (-)	Matured forward purchases	Forward transactions, net
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
1993	+ 18 590	- 28 110	- 11 660	+ 15 190	- 5 990
1994	+ 2 990	- 1 320	- 11 800	+ 1 320	- 8 810
<hr/>					
January	-	- 830	- 1 850	-	- 2 680
February	-	-	- 950	+ 1 230	+ 280
March	-	-	-	-	-
April	-	- 330	-	-	- 330
May	-	- 110	-	-	- 110
June	-	-	-	-	-
July	-	-	-	-	-
August	+ 2 990	-	-	-	+ 2 990
September	-	-	- 2 340	-	- 2 340
October	-	- 50	- 5 040	-	- 5 090
November	-	-	- 620	+ 90	- 530
December	-	-	- 1 000	-	- 1 000

+ increases liquidity in the money market.

- decreases liquidity in the money market.

¹ According to trade date.² Incl. outright deals: these do not have an immediate impact on liquidity.

Table 13.

Foreign exchange rates: annual middle spot rates, 1989-1994, FIM

Currency	1989			1990			1991		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.552	4.290	4.012	4.089	3.823	3.532	4.555	4.046	3.539
1 CAD, Montreal	3.796	3.624	3.466	3.523	3.277	3.034	4.030	3.533	3.059
1 GBP, London	7.584	7.032	6.503	7.200	6.808	6.431	8.073	7.131	6.863
1 IEP, Dublin	6.302	6.082	5.938	6.454	6.325	6.201	7.456	6.511	6.214
1 SEK, Stockholm	0.6819	0.6654	0.6510	0.6545	0.6459	0.6369	0.7623	0.6684	0.6430
1 NOK, Oslo	0.6408	0.6213	0.6128	0.6174	0.6110	0.6079	0.7107	0.6236	0.5966
1 DKK, Copenhagen	0.6143	0.5869	0.5701	0.6298	0.6181	0.6066	0.7182	0.6322	0.6074
1 ISK, Reykjavik	0.0898	0.0758	0.0661	0.0669	0.0656	0.0646	0.0778	0.0684	0.0652
1 DEM, Frankfurt a.M.	2.3919	2.2818	2.2202	2.4282	2.3664	2.3343	2.7905	2.4380	2.3237
1 NLG, Amsterdam	2.1174	2.0226	1.9700	2.1524	2.1002	2.0705	2.4766	2.1634	2.0620
1 BEF, Brussels	0.11380	0.10890	0.10610	0.11730	0.11447	0.11210	0.13540	0.11841	0.11290
1 CHF, Zurich	2.7686	2.6243	2.4783	2.8950	2.7576	2.5965	3.1458	2.8208	2.7407
1 FRF, Paris	0.6999	0.6725	0.6557	0.7135	0.7024	0.6912	0.8162	0.7169	0.6863
1 ITL, Rome	0.00320	0.00313	0.00305	0.00324	0.00319	0.00314	0.00370	0.00326	0.00314
1 ATS, Vienna	0.3401	0.3242	0.3153	0.3452	0.3363	0.3316	0.3964	0.3464	0.3301
1 PTE, Lisbon	0.0284	0.0273	0.0267	0.0274	0.0268	0.0265	0.0321	0.0280	0.0266
1 ESP, Madrid	0.0375	0.0362	0.0344	0.0385	0.0375	0.0362	0.0443	0.0389	0.0376
1 GRD, Athens	..	..	..	..	..	..	0.0250 ¹	0.0224 ¹	0.0220 ¹
1 EEK, Tallinn	.	.	.	.	.	.	.	.	.
1 JPY, Tokyo	0.03395	0.03116	0.02824	0.02872	0.02647	0.02466	0.03508	0.03008	0.02677
1 AUD, Melbourne	3.854	3.398	3.165	3.207	2.988	2.697	3.580	3.152	2.758
1 SUR, Moscow, clearing	6.976	6.806	6.644	6.694	6.542	6.414	..	..	..
1 special drawing right (SDR)	5.68080	5.49536	5.30888	5.34498	5.18322	5.07250	6.29360	5.52733	5.13880
1 XEU (ECU), commercial	4.869	4.719	4.615	4.964	4.864	4.779	5.698	5.003	4.777

¹ For seven months.

Currency	1992			1993			1994		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	5.275	4.483	3.840	6.061	5.719	5.294	5.7999	5.2184	4.5345
1 CAD, Montreal	4.171	3.706	3.210	4.865	4.434	4.163	4.412	3.824	3.351
1 GBP, London	9.023	7.875	7.572	8.963	8.582	8.039	8.596	7.982	7.363
1 IEP, Dublin	8.733	7.636	7.201	9.101	8.371	7.996	8.284	7.799	7.238
1 SEK, Stockholm	0.8845	0.7714	0.7369	0.8106	0.7350	0.6826	0.7076	0.6758	0.6339
1 NOK, Oslo	0.8170	0.7222	0.6888	0.8585	0.8059	0.7648	0.7744	0.7393	0.6900
1 DKK, Copenhagen	0.8580	0.7444	0.6968	0.9527	0.8822	0.8296	0.8590	0.8207	0.7705
1 ISK, Reykjavik	0.0873	0.0778	0.0725	0.0924	0.0846	0.0788	0.0797	0.0745	0.0682
1 DEM, Frankfurt a. M.	3.3097	2.8769	2.7122	3.6450	3.4584	3.2704	3.3625	3.2169	3.0115
1 NLG, Amsterdam	2.9440	2.5552	2.4079	3.2395	3.0787	2.9102	3.0028	2.8684	2.6862
1 BEF, Brussels	0.16080	0.13973	0.13100	0.17670	0.16545	0.15800	0.1635	0.1561	0.1463
1 CHF, Zurich	3.6828	3.2000	2.9228	4.1700	3.8706	3.6253	4.0067	3.8179	3.5755
1 FRF, Paris	0.9682	0.8486	0.7947	1.0756	1.0096	0.9581	0.9853	0.9406	0.8749
1 ITL, Rome	0.00423	0.00364	0.00332	0.00394	0.00364	0.00337	0.00345	0.00324	0.00290
1 ATS, Vienna	0.4704	0.4088	0.3854	0.5182	0.4916	0.4653	0.4779	0.4573	0.4275
1 PTE, Lisbon	0.0370	0.0332	0.0309	0.0402	0.0356	0.0326	0.0328	0.0314	0.0294
1 ESP, Madrid	0.0498	0.0438	0.0424	0.0512	0.0451	0.0405	0.0408	0.0390	0.0357
1 GRD, Athens	0.0260	0.0235	0.0220	0.0270	0.0250	0.0230	0.0230	0.0215	0.0195
1 EEK, Tallinn	.	.	.	0.4556	0.4323	0.4088	0.4203	0.4021	0.3764
1 JPY, Tokyo	0.04234	0.03546	0.03098	0.05827	0.05168	0.04263	0.05436	0.05106	0.04672
1 AUD, Melbourne	3.632	3.289	2.757	4.306	3.885	3.569	4.102	3.814	3.330
1 SUR, Moscow, clearing	.	.	.	.	.	.	.	.	.
1 special drawing right (SDR)	7.25239	6.31546	5.70934	8.33894	7.98641	7.31083	7.93658	7.46629	6.77181
1 XEU (ECU), commercial	6.553	5.798	5.526	7.101	6.685	6.380	6.475	6.175	5.729

Table 14.

Foreign exchange rates: monthly middle spot rates in 1994, FIM

Currency	January			February			March		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	5.7999	5.6920	5.5711	5.6910	5.5838	5.5139	5.5698	5.5326	5.4678
1 CAD, Montreal	4.412	4.324	4.217	4.242	4.165	4.122	4.123	4.057	3.951
1 GBP, London	8.596	8.496	8.355	8.361	8.257	8.171	8.317	8.248	8.114
1 IEP, Dublin	8.284	8.138	8.022	8.009	7.930	7.840	7.998	7.932	7.840
1 SEK, Stockholm	0.7060	0.7001	0.6929	0.7076	0.6992	0.6933	0.7062	0.6992	0.6926
1 NOK, Oslo	0.7708	0.7580	0.7456	0.7503	0.7451	0.7402	0.7613	0.7530	0.7443
1 DKK, Copenhagen	0.8550	0.8407	0.8255	0.8304	0.8245	0.8192	0.8419	0.8343	0.8268
1 ISK, Reykjavik	0.0797	0.0779	0.0762	0.0771	0.0764	0.0756	0.0777	0.0767	0.0760
1 DEM, Frankfurt a.M.	3.3400	3.2662	3.2055	3.2455	3.2147	3.1795	3.3155	3.2688	3.2275
1 NLG, Amsterdam	2.9844	2.9173	2.8612	2.8942	2.8669	2.8384	2.9470	2.9089	2.8739
1 BEF, Brussels	0.16010	0.15706	0.15520	0.15760	0.15596	0.15400	0.16070	0.15863	0.15670
1 CHF, Zurich	3.9187	3.8683	3.8041	3.8878	3.8297	3.7898	3.8967	3.8681	3.8247
1 FRF, Paris	0.9812	0.9612	0.9439	0.9545	0.9462	0.9366	0.9678	0.9591	0.9497
1 ITL, Rome	0.00341	0.00335	0.00328	0.00336	0.00331	0.00326	0.00339	0.00332	0.00328
1 ATS, Vienna	0.4750	0.4647	0.4560	0.4617	0.4573	0.4523	0.4711	0.4647	0.4588
1 PTE, Lisbon	0.0328	0.0323	0.0318	0.0322	0.0318	0.0316	0.0321	0.0318	0.0314
1 ESP, Madrid	0.0406	0.0398	0.0394	0.0398	0.0395	0.0392	0.0404	0.0398	0.0392
1 GRD, Athens	0.0230	0.0227	0.0220	0.0230	0.0221	0.0220	0.0230	0.0223	0.0220
1 EEK, Tallinn	0.4175	0.4083	0.4007	0.4057	0.4018	0.3974	0.4144	0.4086	0.4034
1 JPY, Tokyo	0.05181	0.05109	0.05070	0.05436	0.05251	0.05097	0.05385	0.05264	0.05184
1 AUD, Melbourne	4.010	3.962	3.921	4.102	4.000	3.936	4.006	3.937	3.833
1 special drawing right (SDR)	7.93658	7.81835	7.69982	7.84146	7.74733	7.64315	7.83610	7.75651	7.69536
1 XEU (ECU), commercial	6.464	6.339	6.228	6.293	6.236	6.184	6.381	6.309	6.246

Currency	April			May			June		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	5.5387	5.4911	5.4048	5.4519	5.4072	5.3437	5.5342	5.4276	5.2451
1 CAD, Montreal	4.014	3.974	3.912	3.963	3.918	3.852	4.044	3.925	3.774
1 GBP, London	8.221	8.139	8.046	8.207	8.134	8.044	8.373	8.267	8.129
1 IEP, Dublin	7.963	7.885	7.787	8.070	7.956	7.839	8.185	8.102	8.012
1 SEK, Stockholm	0.6996	0.6965	0.6918	0.7035	0.7008	0.6972	0.6986	0.6945	0.6883
1 NOK, Oslo	0.7498	0.7455	0.7416	0.7632	0.7529	0.7459	0.7744	0.7660	0.7617
1 DKK, Copenhagen	0.8297	0.8246	0.8205	0.8443	0.8335	0.8249	0.8590	0.8486	0.8433
1 ISK, Reykjavik	0.0768	0.0761	0.0757	0.0769	0.0762	0.0755	0.0781	0.0772	0.0760
1 DEM, Frankfurt a.M.	3.2550	3.2336	3.2105	3.3100	3.2629	3.2325	3.3625	3.3262	3.3050
1 NLG, Amsterdam	2.8958	2.8795	2.8609	2.9520	2.9075	2.8800	3.0028	2.9676	2.9471
1 BEF, Brussels	0.15810	0.15706	0.15600	0.16080	0.15852	0.15710	0.16350	0.16155	0.16060
1 CHF, Zurich	3.8568	3.8174	3.7861	3.8864	3.8275	3.7998	4.0067	3.9399	3.8903
1 FRF, Paris	0.9486	0.9438	0.9389	0.9683	0.9531	0.9443	0.9853	0.9737	0.9677
1 ITL, Rome	0.00340	0.00338	0.00334	0.00342	0.00339	0.00336	0.00345	0.00340	0.00335
1 ATS, Vienna	0.4627	0.4597	0.4564	0.4707	0.4639	0.4595	0.4779	0.4729	0.4695
1 PTE, Lisbon	0.0320	0.0317	0.0315	0.0318	0.0316	0.0314	0.0324	0.0321	0.0318
1 ESP, Madrid	0.0400	0.0398	0.0393	0.0401	0.0396	0.0392	0.0408	0.0404	0.0399
1 GRD, Athens	0.0220	0.0220	0.0220	0.0230	0.0220	0.0220	0.0223	0.0221	0.0219
1 EEK, Tallinn	0.4069	0.4042	0.4013	0.4138	0.4079	0.4041	0.4203	0.4158	0.4131
1 JPY, Tokyo	0.05344	0.05310	0.05240	0.05289	0.05215	0.05161	0.05359	0.05281	0.05210
1 AUD, Melbourne	3.998	3.934	3.856	3.997	3.916	3.779	4.077	3.981	3.793
1 special drawing right (SDR)	7.74775	7.71250	7.67690	7.70092	7.65245	7.61472	7.83207	7.74158	7.60791
1 XEU (ECU), commercial	6.291	6.251	6.219	6.371	6.288	6.245	6.475	6.398	6.356

Table 14. (cont.)

Currency	July			August			September		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	5.3767	5.2014	5.0545	5.2364	5.1384	5.0056	5.1001	4.9691	4.8681
1 CAD, Montreal	3.894	3.762	3.652	3.784	3.728	3.639	3.732	3.669	3.621
1 GBP, London	8.234	8.036	7.939	8.044	7.927	7.751	7.878	7.767	7.690
1 IEP, Dublin	8.125	7.939	7.855	7.954	7.826	7.657	7.769	7.667	7.602
1 SEK, Stockholm	0.6809	0.6695	0.6618	0.6752	0.6640	0.6529	0.6625	0.6591	0.6497
1 NOK, Oslo	0.7667	0.7573	0.7536	0.7550	0.7490	0.7339	0.7405	0.7303	0.7186
1 DKK, Copenhagen	0.8530	0.8430	0.8378	0.8384	0.8310	0.8135	0.8228	0.8128	0.8013
1 ISK, Reykjavik	0.0777	0.0759	0.0744	0.0762	0.0749	0.0738	0.0743	0.0731	0.0718
1 DEM, Frankfurt a.M.	3.3525	3.3120	3.2900	3.3235	3.2852	3.2200	3.2540	3.2038	3.1450
1 NLG, Amsterdam	2.9888	2.9526	2.9321	2.9574	2.9259	2.8683	2.9006	2.8578	2.8072
1 BEF, Brussels	0.16270	0.16068	0.16000	0.16110	0.15944	0.15630	0.15790	0.15565	0.15290
1 CHF, Zurich	3.9976	3.9249	3.8784	3.9571	3.8980	3.8122	3.8798	3.8447	3.7865
1 FRF, Paris	0.9774	0.9666	0.9630	0.9680	0.9589	0.9404	0.9493	0.9367	0.9214
1 ITL, Rome	0.00336	0.00332	0.00327	0.00331	0.00325	0.00318	0.00322	0.00317	0.00313
1 ATS, Vienna	0.4764	0.4708	0.4676	0.4722	0.4669	0.4575	0.4624	0.4552	0.4469
1 PTE, Lisbon	0.0325	0.0322	0.0321	0.0324	0.0322	0.0316	0.0318	0.0314	0.0308
1 ESP, Madrid	0.0406	0.0401	0.0399	0.0401	0.0396	0.0388	0.0391	0.0386	0.0379
1 GRD, Athens	0.0222	0.0219	0.0218	0.0219	0.0217	0.0212	0.0214	0.0211	0.0206
1 EEK, Tallinn	0.4191	0.4140	0.4113	0.4154	0.4107	0.4025	0.4068	0.4005	0.3931
1 JPY, Tokyo	0.05414	0.05276	0.05200	0.05237	0.05147	0.05061	0.05110	0.05029	0.04942
1 AUD, Melbourne	3.934	3.821	3.714	3.887	3.805	3.686	3.787	3.684	3.604
1 special drawing right (SDR)	7.76756	7.57829	7.45316	7.56503	7.47292	7.35498	7.39915	7.27337	7.14335
1 XEU (ECU), commercial	6.409	6.329	6.295	6.323	6.261	6.141	6.202	6.113	6.013

Currency	October			November			December		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.8765	4.6761	4.5345	4.8610	4.7172	4.5912	4.8979	4.8455	4.7412
1 CAD, Montreal	3.621	3.464	3.351	3.524	3.458	3.394	3.561	3.488	3.375
1 GBP, London	7.685	7.506	7.414	7.599	7.500	7.385	7.665	7.554	7.363
1 IEP, Dublin	7.594	7.416	7.309	7.479	7.385	7.238	7.525	7.435	7.267
1 SEK, Stockholm	0.6521	0.6440	0.6393	0.6501	0.6418	0.6339	0.6514	0.6447	0.6347
1 NOK, Oslo	0.7157	0.7061	0.6970	0.7107	0.7015	0.6900	0.7138	0.7068	0.6923
1 DKK, Copenhagen	0.7983	0.7855	0.7763	0.7914	0.7833	0.7707	0.7945	0.7864	0.7705
1 ISK, Reykjavik	0.0720	0.0697	0.0682	0.0710	0.0699	0.0689	0.0714	0.0704	0.0686
1 DEM, Frankfurt a.M.	3.1300	3.0745	3.0295	3.1000	3.0659	3.0115	3.1105	3.0823	3.0195
1 NLG, Amsterdam	2.7948	2.7443	2.7041	2.7670	2.7353	2.6862	2.7777	2.7528	2.6980
1 BEF, Brussels	0.15220	0.14940	0.14720	0.15070	0.14902	0.14630	0.15120	0.14992	0.14700
1 CHF, Zurich	3.7671	3.6959	3.6269	3.7018	3.6448	3.5929	3.6820	3.6450	3.5755
1 FRF, Paris	0.9178	0.8983	0.8850	0.9033	0.8930	0.8755	0.9060	0.8949	0.8749
1 ITL, Rome	0.00311	0.00302	0.00296	0.00302	0.00298	0.00293	0.00302	0.00297	0.00290
1 ATS, Vienna	0.4448	0.4369	0.4309	0.4403	0.4355	0.4275	0.4418	0.4379	0.4291
1 PTE, Lisbon	0.0307	0.0301	0.0297	0.0304	0.0300	0.0295	0.0304	0.0301	0.0294
1 ESP, Madrid	0.0378	0.0370	0.0364	0.0372	0.0368	0.0362	0.0372	0.0366	0.0357
1 GRD, Athens	0.0205	0.0201	0.0197	0.0201	0.0199	0.0195	0.0202	0.0199	0.0195
1 EEK, Tallinn	0.3912	0.3843	0.3787	0.3875	0.3832	0.3764	0.3888	0.3853	0.3774
1 JPY, Tokyo	0.04891	0.04747	0.04672	0.04911	0.04813	0.04730	0.04909	0.04838	0.04745
1 AUD, Melbourne	3.619	3.452	3.330	3.732	3.559	3.411	3.800	3.752	3.680
1 special drawing right (SDR)	7.11862	6.90651	6.77181	7.08121	6.93950	6.82967	7.11001	7.03528	6.90100
1 XEU (ECU), commercial	5.993	5.865	5.773	5.910	5.838	5.729	5.932	5.874	5.744

Table 15.

Deliveries of notes and coin, million FIM

Notes delivered by Setec Oy					
1000 markka	-	9 000.0	4 600.0	2 100.0	-
500 "	-	4 500.0	1 225.0	2 150.0	-
100 "	6 380.0	3 107.0	4 030.0	5 000.0	6 000.0
50 "	588.5	925.0	1 500.0	1 000.0	-
20 "	-	-	-	400.0	800.0
10 "	859.0	607.5	-	-	-
Total	7 827.5	18 139.5	11 355.0	10 650.0	6 800.0
in millions of notes	161.5	128.3	77.4	96.4	100.0
Notes destroyed, in millions of notes	98.8	82.3	156.2	116.1	93.8
Coins delivered by the Mint of Finland					
Ordinary coins					
10 markka	.	.	.	300.0	199.8
5 "	59.1	49.6	6.7	234.7	95.0
1 "	55.8	15.0	5.0	92.6	152.0
50 penni	37.9	40.2	25.0	9.9	1.5
20 "	2.6	-	-	-	-
10 "	20.2	35.0	15.0	12.0	6.0
5 "	0.1	-	-	-	-
Commemorative coins					
1000 markka	.	.	35.0	-	-
100 "	25.0	25.0	30.0	-	9.1
Total	200.7	164.8	116.8	649.2	463.4
Coins destroyed, in millions of coins					
Ordinary coins	75.5	474.3	141.4	221.6	289.4
Commemorative coins	-	0.1	0.0	0.1	0.0

Table 16.

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

Notes and coin in circulation, at the end of the year, million FIM					
Notes					
1000 markka	3 473.8	3 240.6	3 375.8	4 053.0	3 829.2
500 "	2 785.2	2 600.9	2 547.2	2 593.0	2 286.6
100 "	5 599.6	5 921.2	5 806.7	5 489.7	5 195.7
50 "	950.6	939.2	867.0	721.3	647.1
20 "	.	.	.	283.8	364.2
10 "	561.1	575.4	583.2	272.6	58.7
5 "	20.9	20.8	20.8	20.5	.
1 "	7.6	7.7	8.0	8.2	.
Total	13 398.8	13 305.9	13 208.7	13 442.1	12 381.5
Ceased to be legal tender on 1 January 1994	(9.4) ¹	(9.4) ¹	(9.4) ¹	(9.4) ¹	303.0
Coins					
Ordinary coins					
10 markka	.	.	.	208.2	325.7
5 "	352.8	374.2	384.9	433.9	416.2
1 "	374.0	386.7	384.6	387.0	371.3
50 penni	102.1	112.5	117.6	113.6	84.8
20 "	70.5	45.6	36.4	30.7	.
10 "	45.7	76.9	90.8	96.3	85.6
5 "	26.8	22.1	20.5	19.2	.
1 "	7.7	7.6	7.6	7.5	.
Total	979.6	1 025.6	1 042.4	1 296.4	1 283.6
Commemorative coins					
1000 markka	.	.	35.0	35.0	35.0
100 "	44.0	65.9	92.6	90.4	98.1
50 "	74.0	72.8	71.1	71.8	71.3
25 "	19.9	19.9	19.8	19.8	19.7
10 "	38.4	38.3	38.3	38.2	38.2
Total	176.3	196.9	256.8	255.2	262.3
Total coins	1 155.9	1 222.5	1 299.3	1 551.6	1 545.9
Ceased to be legal tender on 1 January 1994	(15.7) ²	(15.7) ²	(15.7) ²	(15.7) ²	109.3

¹ Notes issued before 1963.

² Coins issued before 1963.

Table 17.

Notes sorted at the Bank of Finland, in millions

1000 markka	10.5	4.0	4.2	5.6	6.0
500 "	12.7	9.4	9.4	11.1	10.9
100 "	209.2	246.7	255.1	296.3	317.5
50 "	62.8	72.0	62.0	64.8	47.9
20 "	.	.	.	0.6	15.8
10 "	92.8	139.8	142.0	116.5	48.8
Total					
sorted manually	61.1	31.3	10.7	4.0	0.3
sorted mechanically	326.9	440.6	462.0	490.9	446.6

Table 18.

Bank of Finland interbank funds transfer system

	Account holders, number	Transactions					
		Between banks, number	Value, million FIM	Between the Bank of Finland and the banks, number	Value, million FIM	Total number	Total value, million FIM
1991 ¹	23	72 337	4 753 208	66 733	612 617	139 070	5 365 825
1992	21	81 127	5 465 954	70 825	883 871	151 952	6 349 825
1993	19	66 375	5 941 650	48 831	712 137	115 207	6 653 787
1994	21	62 817	5 880 570	42 544	476 226	105 361	6 356 796
January	19	4 919	494 354	4 331	58 476	9 250	552 830
February	19	4 877	485 078	3 739	37 636	8 616	522 714
March	19	6 116	521 393	4 280	25 228	10 396	546 621
April	18	5 311	482 410	3 170	29 737	8 481	512 147
May	18	5 032	449 036	3 439	49 424	8 471	498 460
June	18	5 205	452 321	3 291	47 741	8 496	500 062
July	18	4 823	429 468	3 359	52 058	8 182	481 526
August	18	5 620	498 751	3 703	39 106	9 323	537 857
September	18	5 404	504 971	3 485	38 827	8 889	543 798
October	18	5 140	434 147	3 406	38 940	8 546	473 087
November	19	5 166	526 344	3 391	31 919	8 557	558 263
December	21	5 204	602 297	2 950	27 134	8 154	629 431

¹ From 18 March 1991.

Table 19.

Banks' intraday credit limits

	Total limits at end of month, mill. FIM	Collateralized part of limits at end of month, mill. FIM	Average usage rate of limits during month, %		Total limits at end of month, mill. FIM	Collateralized part of limits at end of month, mill. FIM	Average usage rate of limits during month, %
January	.	.	.	January	13 725	3 551	10.6
February	.	.	.	February	13 732	3 553	9.9
March	17 940	4 703	7.6	March	14 200	3 671	8.7
April	17 940	4 778	9.7	April	13 847	3 582	8.6
May	17 940	4 778	7.7	May	13 307	3 447	9.5
June	17 940	4 778	6.0	June	13 193	3 418	7.3
July	17 940	4 778	7.1	July	13 379	3 465	10.7
August	16 865	4 453	6.4	August	13 411	3 473	7.3
September	16 790	4 378	8.3	September	13 381	3 465	10.0
October	16 790	4 378	10.8	October	13 308	3 447	8.8
November	16 710	4 298	12.7	November	13 331	3 453	11.7
December	13 325	3 551	11.5	December	13 961	4 135	11.6

The usage rate of limits is calculated on the basis of current account balances at hourly intervals from March 1993 to August 1993 (trial stage) and at one-minute intervals from September 1993. The rate is calculated on the basis of debt balances only.

Table 20.

Domestic clearing operations

	Debit entries		Credit entries		Total entries	
	Number, thousands	Value, million FIM	Number, thousands	Value, million FIM	Number, thousands	Value, million FIM
1990	..	..	..	..	266 476	818 593
1991	..	..	..	..	336 899	1 436 690
1992	200 792	949 717	152 096	610 147	352 888	1 559 864
1993	206 509	1 021 592	150 291	650 571	356 800	1 672 163
1994	222 620	1 063 408	151 362	802 040	373 982	1 865 448
January	16 646	96 684	12 957	65 312	29 603	161 996
February	15 902	88 645	13 012	62 307	28 914	150 952
March	18 963	92 293	14 698	76 240	33 661	168 533
April	17 129	78 993	11 572	59 105	28 701	138 098
May	20 578	89 355	13 220	68 585	33 798	157 940
June	19 613	86 947	12 730	77 093	32 343	164 040
July	20 095	77 836	11 288	57 794	31 383	135 630
August	21 438	85 263	11 786	64 048	33 224	149 311
September	19 353	84 301	12 418	68 078	31 771	152 379
October	18 750	90 753	12 346	69 354	31 096	160 107
November	16 858	95 150	12 724	67 833	29 582	162 983
December	17 295	97 188	12 611	66 291	29 906	163 479

Bank of Finland publications 1994

- Markka & talous** Quarterly bulletin in Finnish.
- Bank of Finland Bulletin** 11 monthly issues (double issue for June – July).
- Annual publications in 1994** Bank of Finland Year Book 1993 (available separately in Finnish, Swedish and English).
Finnish Bond Issues in 1993 (trilingual edition in Finnish, Swedish and English).
- Economic studies 1994**
- Series A,
studies intended for
the general public
- A:89 RALF PAULI (ed.) Pankkitoiminnan rakennemuutos Suomessa (Structural Change in the Finnish Banking Sector); various authors; in Finnish with English summary
- A:90 ARI AALTONEN – ESKO AURIKKO – JARMO KONTULAINEN Rahapolitiikka Suomessa (Monetary Policy in Finland)
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Payment, currency and country codes (separately in Finnish, Swedish and English).
- Statistical reports** Financial Markets; published monthly (trilingual edition in Finnish, Swedish and English).
Balance-of-payments statistics; published monthly (trilingual edition in Finnish, Swedish and English).
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The management and organization of the Bank of Finland at the end of 1994

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Jussi Ranta, Vice Chairman
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Mauri Miettinen
Tuulikki Hämäläinen
Olavi Ala-Nissilä

Jörn Donner
Esko Seppänen
Tellervo Renko

Board

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

Harri Holkeri, Member of the Board
Accounting Department
Administration Department
Data Processing Department
Legal Affairs
Maintenance of the currency supply
(Payment Instruments Department and
Branches)
Security

Esko Ollila, Member of the Board
Budgeting
Financial Markets Department
Payments and Settlement Department
Personnel Department
Chairman of the Board of the Financial
Supervision Authority

Kalevi Sorsa, Member of the Board
Economics Department
Information Services
Publication and Language Services
Research Department
Unit for Eastern European Economies

Matti Vanhala, Member of the Board
Market Operations Department
Monetary Policy Department

Secretary to the Board and
the Parliamentary Supervisory Board,
Heikki T. Hämäläinen

Pentti Koivikko, Director
Reports to Harri Holkeri, Member of the Board
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
Personnel Department: terms and conditions of employment;
staff numbers and basic staff administration services

The Financial Supervision Authority, which functions in connection with the Bank of Finland, publishes its own organization chart.

Head office

Departments	Offices			
Accounting Dpt Ossi Leppänen	Accounts Office Tuula Colliander			
Administration Dpt Urpo Levo	Administrative Services Office Anna Posti, ad int.	Technical Office Harri Brandt	Vantaa Real Estate Office Taisto Lehtinen	
Data Processing Dpt Pertti Simola	Banking Services Seija Lomma	Data Centre Kari Helander	Monitoring Services Matti Ahrenberg	
	Office and Internal Services Juhani Rapeli	Workstation and Tele-communications Services Kari Sipilä		
Economics Dpt Johnny Åkerholm	Forecasting Office Martti Lehtonen	Information Management Ilkka Lyytikäinen	Project Office Anne Brunila	
Financial Markets Dpt Kaarlo Jännäri Heikki Koskenkylä* Peter Nyberg* Ralf Pauli*	Market Structure Office Heikki Solttila, ad int.	Payment Systems Office Veikko Saarinen	Securities Markets Office Markku Malkamäki	
Information Services Dpt Esa Ojanen	Balance of Payments Office Jarmo Nurminen	Information Management Jorma Hilpinen	Library Merja Alakulppi	
Internal Audit Dpt Timo Männistö	Head of Office Erkki Kurikka, ad int.			
Market Operations Dpt Markus Fogelholm	Intervention Office Olli-Pekka Lehmuusaari	Investment Office Oili Wuolle	Planning Office Anneli Isopuro	
Monetary Policy Dpt Pentti Pikkarainen	Monitoring Office Sinikka Salo	Planning Office Harri Lahdenperä, ad int.		
Payments and Settlement Dpt Raimo Hyvärinen	Correspondent Banking Office Jyrki Varstala	Financial Services Offices Mauri Lehtinen	Systems Office Hannu Wiksten	
Payment Instruments Dpt Antti Heinonen	Bank Vault Manager Kenneth Sainio	Development Manager Kyösti Norhomaa	Systems Manager Seppo Eriksson	
	Helsinki – Vantaa Regional Office Kari Lottanen			
Personnel Dpt Riitta Jokinen Anton Mäkelä*	Personnel Affairs Office Sirpa Ahrenberg			
Publication and Language Services Antero Arimo	Language Services Pirjo Kivelä	Publications Office Antero Arimo**		
Research Dpt Pekka Ilmakunnas Kari Puumanen*				
Unit for Eastern European Economies Kari Pekonen				
Special Units	* Adviser to the Board		** In addition to own duties	
Information Antti Juusela	International Secretariat Kjell Peter Söderlund	Legal Affairs Arno Lindgren	Management Secretarial Staff Heikki T. Hämäläinen	Organization and Management Development Pirkko Pohjoisaho-Aarti
				Security Jyrki Ahvonen

Branches

Branches	Branch Managers
Kuopio	Pekka Konttinen
Oulu	Renne Kurth
Tampere	Reino Ylönen
Turku	Martti Hagman

SETEC OY

Board: Pentti Koivikko, Urpo Levo, Veli Tarvainen
Managing Director: Veli Tarvainen
Management Group: Tom Ahlers, Pekka Kariola, Juhani Salovaara, Kristian Silfverberg,
Veli Tarvainen, Tapio Yrjönen

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