



BANK OF FINLAND ANNUAL REPORT 2005



BANK OF FINLAND
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2005



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Bank of Finland

The Bank of Finland is Finland's monetary authority and a member of the Eurosystem. The Bank's activities are regulated by the Statute of the European System of Central Banks (ESCB) and the Act on the Bank of Finland.

In performing its various functions, the Bank promotes price stability, the stability and efficiency of the payment and financial system as well as European integration of financial markets. All these provide scope for economic growth and employment.

In addition to monetary policy preparation and monitoring of financial stability, the core functions of the Bank of Finland are: operational central bank tasks in connection with monetary policy

implementation and payments, and the maintenance of currency supply.

The members of the Bank of Finland Board are Governor Erkki Liikanen, chairman, Matti Louekoski, Deputy Governor, Sinikka Salo and Pentti Hakkarainen. The nine members of the Parliamentary Supervisory Board supervise the activities of the Bank. A total of about 540 staff were employed in the 6 departments of the Bank's head office and the 5 regional offices.

Operating as an independent authority in connection with the Bank of Finland is the Financial Supervision Authority (FIN-FSA). It employs about 140 persons. The FIN-FSA publishes an annual report of its own.



Board of the Bank of Finland.

From the left: Pentti Hakkarainen, Matti Louekoski, Erkki Liikanen and Sinikka Salo.

Foreword

Monetary policy for the euro area in 2005 was conducted in conditions of slower economic growth and higher inflation than expected. Consumption and investment, which are especially important for employment, were subdued despite the historically low level of interest rates and robust credit and monetary growth.

The high price of oil was the most important single factor that acted as a constraint on economic growth and created inflationary pressures. Concerns about the sustainability of euro area budgetary positions in the context of the ageing population and increasing global competition also weakened consumer and investor confidence.

An accommodating stance of monetary policy prevailed throughout the year, even when taking the December increase in the policy rate into account. A monetary policy conducive to growth will be possible only if inflation expectations remain moderate. Accordingly, in 2005 it was important from the monetary policy point of view to preserve confidence in inflation staying below 2% over the medium term in accordance with the objective of price stability, notwithstanding higher oil product prices. Therefore, in its statements, the Governing Council of the ECB has repeatedly emphasised its vigilance and commitment with regard to the maintenance of price stability.

The Finnish economy is in many respects performing better than the euro area on average. This concerns economic growth, price stability and public

finances alike. Employment, too, improved considerably, despite a deceleration of economic growth, which apparently remained temporary however. The near-term economic prospects are also very favourable.

Continued solid expansion in economic activity should not be taken for granted however. In order to have the preconditions for growth in place, particular effort must be devoted to enhancing productivity in the Finnish economy. This concerns not only industry and the private service sector but also the public sector, whose resources will be especially heavily called upon over the next few years owing to population ageing. Productivity will grow through introduction of new technology, better organisation of work and ongoing product development. Promoting competition and implementing structural reforms in the public sector are key economic policy tools in achieving these objectives.

The outlook for the Finnish banking and financial sector is stable. Even so, attention needs to be paid to continued, very rapid growth in bank lending for the fourth consecutive year, boosted by tight competition for market shares. While the average household indebtedness remains at quite a reasonable level by international standards, the concentration of large housing loans on a small proportion of households makes the situation much more vulnerable for them than on average. It is essential for both lenders and households to individually ensure that, in making credit decisions, account is taken of risks related to a rise

in interest rates and a potential loss of income as well as the possibility of both upward and downward movements in the market values of residential property used as collateral.

Restructuring of the Finnish financial and insurance sector continued in 2005, with the three largest financial conglomerates currently holding an about 80% market share in both lending and life insurance, and also a large market share in non-life insurance. This has raised the question of reforming the structures of national financial supervision. On behalf of the Bank of Finland, I have presented as my point of view that, in order to achieve greater supervisory efficiency, consideration should be given to combining insurance supervision with other financial supervision, at least in respect of voluntary life insurance and non-life insurance. Another focal area in developing financial supervision lies in the strengthening of international supervisory and crisis management mechanisms. The Bank of Finland has sought to provide a strong contribution to this work in various fora.

The Bank of Finland reshaped its organisation and management system during the year under review. I would

like to express my gratitude to the whole staff for their cooperation during this reform. The purpose of the reorganisation is to ensure the Bank of Finland's continued capability of providing the level of operational performance and cost-efficiency that is also required from the other public sector bodies for meeting future challenges.

The Bank of Finland's results for the year improved discernibly, amounting to EUR 200 million. The Bank's capital position and risk-bearing ability have strengthened in recent years, reaching levels that, under current circumstances, are adequate for the discharge of its duties. This enables the making of a larger share of the Bank's profits available for the needs of the state this year than in the previous year.



Erkki Liikanen
22 February 2006

Year 2005 in brief

World economic growth continued rather strong albeit uneven in 2005. Growth was dominated by the United States on the one hand – despite the imbalances afflicting the country – and by many emerging markets, such as China and Russia, on the other. The recovery of the Japanese economy from the recession and deflation problems, which had been debilitating the country for a long time, was consolidated towards the end of the year. Euro area growth remained low, at 1.3%.

The very strong demand for energy and inflexibility of supply raised the world market price for oil and petroleum products to historically high levels. Oil prices also rose due to temporary disruptions in supply, such as the damage caused to the US oil industry by the autumn hurricanes. The high price of oil has boosted inflation in most industrial countries, at least temporarily. Nevertheless, this inflation peak does not seem to have resulted in a general increase in prices for industrial products and services, and so far inflation expectations have also remained fairly stable.

From a global perspective, the monetary policy stance was easy, and international financial markets currently have ample liquidity, resulting from a long period of light monetary policy. Key interest rates were increased gradually in the United States. Due to an accelerating inflation, US real interest rates have remained low despite interest rate hikes. The ECB kept its interest rate stable at 2%. Over the year, the ECB increasingly strongly underlined the need for continued vigilance in monetary

policy with respect to the upside risks of inflation rates.

It was not until the second half of 2005 that a distinct recovery in the euro area economy could be detected. High oil prices were one of the factors retarding growth. However, structural difficulties in euro area economies were probably the most important reasons for sluggish economic growth in the area, resulting in very low investment activity. Confidence in euro area economies was also undermined by the large budget deficits experienced by several countries. In fact, in a number of euro area countries, the ratio of the deficit to GDP exceeded the 3% limit set in the EU's Stability and Growth Pact.

The Stability and Growth Pact was renewed at the EU summit in March. The general government deficit and debt criteria of the previous agreement are included in the new pact, but flexibility of the Pact was extended to allow improved consideration of exceptional economic conditions in the implementation of the Pact. The Governing Council of the ECB emphasised the importance of taking an uncompromising stand regarding compliance with the Pact.

Euro area inflation increased more than expected and clearly exceeded its medium-term target. The principal reason for this was the increase in the price of energy. There have been no signs of general growth in domestic inflationary pressures in the euro area. Wage increases in particular have remained moderate due to the slackness of labour market conditions. Yet, monetary and

credit growth remained very strong in the euro area, which was interpreted by the Governing Council as reflecting increased upside risks of medium-term inflation.

Finland's economic growth was less than expected, remaining at 2.1%. Growth was retarded especially by the paper industry labour dispute, which started in the spring and had an adverse impact of nearly one percentage point on annual economic growth. The employment situation improved somewhat despite slower GDP growth. Over the course of 2005, the Bank of Finland paid attention to the erosion of medium-term growth potential in Finland. Signs of this erosion included low domestic investment activity, weakening terms of trade and diminution of export market shares.

Inflation has been slower in Finland than in the euro area on average. The annual average inflation rate remained at 0.7% despite significant increases in petroleum product prices over the year. Price increases in Finland were slowed down by the current moderate incomes policy agreement and tighter competition on certain service and consumer product markets.

Conditions on the Finnish financial market continued stable, and Finnish banks' profitability and capital adequacy remained strong. From the point of view of maintenance of stability, concerns arose mainly over credit and monetary growth, which continued very strong similarly to previous years. Growth of mortgage loans was particularly strong at 16.1%. The Bank of Finland estimates

that households' indebtedness does not, as yet, constitute a macroeconomic risk or a systemic risk affecting banks, but in its statements the Bank drew attention to the management of households' interest and income risks.

Several significant system-wide projects encompassing the monetary policy and payment systems and involving the Bank of Finland were under way. One of these was the adoption of a single list of collateral assets in euro area monetary policy operations and lending. The most significant change from the Bank of Finland's point of view was the launch of preparations on accepting bank loans as collateral for loans. Another key project was development of the next generation of the TARGET system (TARGET2), the large-value payment system maintained by EU-area central banks. The objective is to transfer this system onto a shared technical platform with a uniform service package. A third important project was one by the European Payments Council (EPC) on the establishing of a common payment area. The Bank of Finland took an active stand in supporting this project along with other euro area central banks and monitored its progress closely.

The Bank of Finland restructured its organisation over the course of 2005. The new structure took effect on 1 March 2005. The objective was to increase flexibility of resource management and enhance development of the management system. The number of departments was reduced to six plus one special unit, Internal Audit.

The Bank of Finland also renewed its strategy during the summer. The purpose of the new strategy is to strengthen the Bank's external influence and service competence and improve the cost efficiency and quality of its operations. The strategy also underlines competence and leadership development to ensure the Bank's continued ability to renew. To facilitate implementation of the strategy, the Bank introduced an objectives and results framework. This gives operational goals a concrete form whilst enabling monitoring of the achievement of these goals.

The renewal of the strategy drew partly from the new strategic guidelines and organisational principles of the Eurosystem approved in January 2005. Significant in the new guidelines was the inclusion of euro area financial market integration in the Eurosystem's strategic goals, along with price stability and the stability of financial markets. It was also confirmed that in addition to practical implementation, national central banks will contribute to the Eurosystem's policy making at the strategic level, too.

Strategy of the Bank of Finland

The Bank of Finland's strategy was revised in 2005. The new strategy takes the form of a development programme built around the objectives and results framework applied to the governance of the Bank.

Bank of Finland's mission

The Bank of Finland is Finland's monetary authority and a member of the Eurosystem. The Bank's activities aim at promoting price stability, the stability and efficiency of the payment and financial system and European integration of financial markets. This creates the prerequisites for economic growth and employment. The Bank of Finland is responsible for the country's currency supply and foreign exchange reserves.

Bank of Finland's strategic goal

The Bank of Finland is an active and constructive member of the Eurosystem. The Bank's operations are founded on high quality, transparency and cost efficiency. The Bank also promotes efficiency and transparency throughout the Eurosystem.

The Bank's expertise makes it a sought-after and trusted partner both in the preparation of euro area monetary policy and financial market policy as well as in domestic economic policy-making. This expertise is based on leading-edge central bank research, high-quality statistics, effective international relations and consistent development of personnel skills.

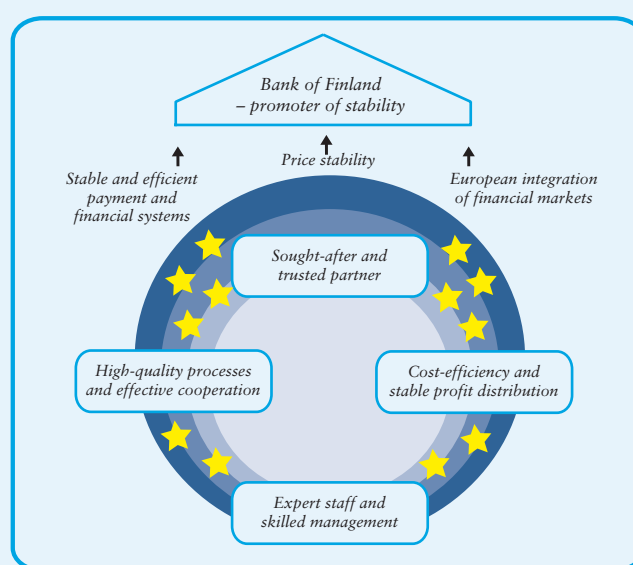
The Bank of Finland provides reliable and timely financial

stability analysis, embracing the entire financial system and integrated with the Bank's macroeconomic analysis and contingency planning against financial crises. The Bank exercises its financial stability role in close cooperation with domestic and foreign authorities.

The Bank of Finland ensures the availability of internationally competitive central bank services to credit institutions and other market participants operating in Finland. In currency supply, the Bank of Finland focuses on its supervisory and developmental role, ensuring that the Finnish currency supply system caters to

the needs of the Finnish economy and the consumers in an appropriate and cost-efficient manner within the payment system framework.

Foreign exchange and investment risks are kept at levels necessary to meet the crisis management requirements and international obligations of a euro area national central bank. The Bank's assets generate a competitive rate of return, in view of the level of risk chosen. Appropriate risk management and cost efficiency provide scope for stable profit distribution in reasonable proportion to the Bank's equity.



I: Service competence and exercise of influence

1. The Bank of Finland's influence within the Eurosystem is based on widely recognised high-level research and analysis of relevance to central bank operations.

The Bank's research and analysis focuses on issues promoting strategic decision making within the Eurosystem and on the design of analysis tools in areas of the Bank's strengths. The focal points of expertise include monetary policy modelling, development of financial and payment systems and financial stability policy, as well as knowledge of economies in transition and their economic policy. Research is conducted with a long-term approach, focusing on identified priorities. The Bank's other financial analyses reflect timely issues and the most recent research findings. The image of the Bank of Finland as a hub for interesting financial analysis is systematically promoted through expert fora and publications.

2. The Bank of Finland's influence in domestic economic policy-making builds on the Bank's ability to produce forecasts and risk assessments combining the macroeconomic and financial market approach.

The Bank of Finland contributes to domestic economic policy-making through the provision of expert services combining the macroeconomic and financial market approach. The Bank's macroeconomic forecasts emphasise financial matters and structural changes taking place in the Finnish economy. The Bank's financial market analyses make appropriate use of macroeconomic risk analysis.

3. The Bank provides services to the financial market participants operating in Finland, ensuring access to central bank services of international standard. Methods for assessing the current state of financial institutions and financial markets are designed and emergency preparedness is improved, as required by financial market integration. The Bank also promotes cooperation between financial market participants and their international influence, with a view to strengthening financial market and payment system infrastructures.

The Bank of Finland's level of emergency preparedness is based on timely information on the current state of the Finnish banking sector and the quality of the potential collateral material held by the Bank, as well as on the effectiveness of financial market infrastructure. Emergency preparedness is developed by the Bank of Finland's departments in cooperation with the Financial Supervision Authority. Contacts with the Insurance Supervisory Authority continue to be strengthened. The Bank makes an active contribution to international cooperation in the fields of prudential supervision of financial markets and crisis management.

Consistent with its responsibilities for financial market development, the Bank also promotes interaction and cooperation between Finnish financial market participants, with a view to contributing to the design of effective and transparent technological solutions, standards and regulations, especially at international level.

4. In relation to the currency supply system and its customers, the Bank sets the service level requirements to be met by the Finnish currency supply system, putting in place a performance control framework for the system.

As the authority responsible for the performance of the Finnish currency supply system and for enhancement of its service capacity, the Bank of Finland is in the process of designing a monitoring system for tracking the service level of the currency supply system and promoting the efficiency and service capacity of the system in the best interest of end users, ie the consumers and the economy. The Bank retains responsibility for the operational duties related to currency supply, which national law and Eurosystem statutes accord to national central banks.

5. Public confidence in the Bank and awareness of the Bank's activities is promoted through effective and well-targeted communications.

The Bank of Finland's communications are varied, effectively reaching diverse target groups. The Bank provides information on monetary policy, financial markets and payment instruments and on the operations of the Bank and the Eurosystem in these areas. Surveys of the Bank's public image and public awareness of issues within the Bank's sphere of competence are conducted on a regular basis.

6. The foreign currency breakdown of the Bank's financial assets and the Bank's investment policy is to be revised. The foreign exchange reserves will be gauged in order to meet crisis management requirements and international obligations.

The foreign currency breakdown of the Bank of Finland's assets, including the proportion of euro-denominated holdings, is to be reassessed. The proportion of holdings in foreign exchange reserves will, however, be reduced to an amount consistent with the Bank's international obligations and the crisis management requirements measured by stress tests. The investment policy is designed to achieve a competitive rate of return on assets, in view of both the level of risk chosen and the cost of investment involved.

7. The balance sheet policy is to be revised.

The Bank of Finland's balance sheet policy in terms of profit distribution is to be revised, with a view to allowing for stable profit distribution without jeopardising the Bank's solvency.

8. Controlled staff reduction in line with identified priorities is to be undertaken.

Concentration on strategic functions and improvements in operating practices and processes will reduce staff requirements. Adjustments are to be made in line with the large number of employees due to retire over the next few years.

9. The real value of operating expenses is to be reduced from current levels.

Through higher cost-efficiency and prioritisation, the Bank ensures that its real operating expenses, excluding pension costs and banknote printing costs, will fall over the medium term. The aim is to make the Bank of Finland one of the most efficient national central banks within the EU.

10. The speed and quality of the key processes of banking operations, economist functions and support services are to undergo systematic evaluation and improvement.

Indicators reflecting the speed and quality of the key work processes underlying the Bank of Finland's service competence, including reliability, accuracy and customer satisfaction, will be designed in step with the introduction of an objectives and results framework. Such key processes include market operations and investments, forecasting, compilation of statistics and production of publications.

II: Economy of resource use

III: Efficiency of internal processes

11. Closer cooperation is sought between the Bank of Finland's units participating in the financial stability analysis, and between the Bank's units and the Financial Supervision Authority, with a view to improving the flow of information and eliminating overlapping work.

Several different units from various departments of the Bank of Finland and the Financial Supervision Authority contribute to the financial stability analysis from various perspectives. The value chain of the financial stability function is mapped and workflows redesigned to promote timely analysis and a smooth flow of information and to remove overlaps.

12. The information and communication technology (ICT) environment upgraded in response to the needs of an organisation in which work is increasingly done by experts.

Greater emphasis is being placed on the design of systems, applications, data communications platforms and mobile work solutions supporting the work of economists and other experts. The focus of IT development is shifting to reflect these priorities. User training is arranged and development of processes undertaken to ensure that appropriate use is made of the possibilities offered by IT to improve the productivity of the Bank of Finland's functions.

IV: Competence building and working capacity

13. Staff educational level to be raised through recruitment policy and through provision of broader training opportunities.

The educational level of the Bank's staff is to be raised by lifting the proportion of employees with an academic degree and the number of staff with research training. More resources will also be devoted to various forms of professional training to raise staff competence. Exchange of staff with the national central banks of the Eurosystem is encouraged.

14. Research into the Bank's core areas of influence is stepped up and quality of research is raised.

Within the Bank's staff of economists, the proportion of researchers active in long-term research will be raised. Contacts between the research function and the Bank's key policy preparation processes are stimulated. One of the research objectives is to raise the competence of the Bank's experts to the level required for publication in international scientific journals.

15. Leadership and management enhanced.

Leadership and management are directed at improving staff motivation and wellness at work. The respective recruitment and training is geared towards building change management skills. The aim is to ensure staff awareness of the Bank's strategy and new governance system through skilled management.

Bank of Finland's activities 2005

Monetary policy and economic policy

Bank of Finland – contribution to the preparation of monetary policy

As a full member of the Eurosystem, the Bank of Finland influences the formulation of the ECB's monetary policy. As a member of the Governing Council of the ECB, the Governor of the Bank of Finland participates directly in monetary policy decision-making. In addition, Bank of Finland experts contribute to monetary policy preparation at all levels. Experts from the Bank of Finland sit as members of both the Monetary Policy Committee and its working groups whose tasks include drawing up Eurosystem staff macroeconomic projections for the euro area twice yearly. Besides the forecast for the entire euro area, forecasts are also drawn up for each individual member country on the basis of uniform assumptions.

The primary objective of monetary policy is price stability. In the pursuit of price stability, the ECB aims to keep the inflation rate below, but close to, 2% over the medium term. Without prejudice to the objective of price stability, the ECB also supports the general economic policies in the EU with a view to contributing to the achievement of the objectives of the union as laid down in the Treaty establishing the European Community.

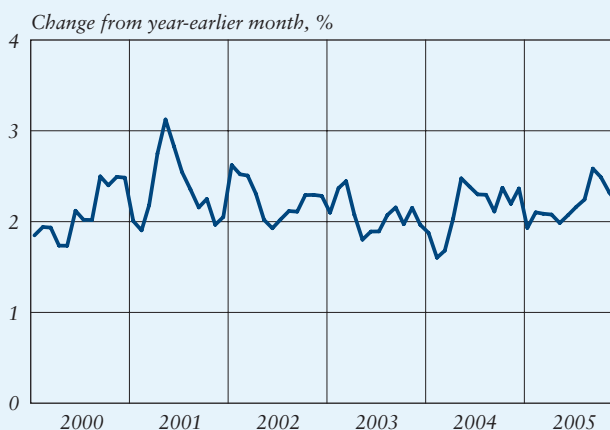
The ECB's monetary policy in 2005

Economic growth in the euro area was subdued in the first half of 2005, although the global economy continued to expand at a relatively robust pace and financing conditions in the euro area were very favourable. Having appreci-

ated from the previous year, the exchange rate of the euro somewhat weakened the price competitiveness of euro area exporters. In addition, new countries entered the global market, tightening competition and weighing down the prices of several industrial products (Chart 3). The rise in oil prices reduced real disposable income which, together with uncertainties relating to structural reforms in certain countries, kept economic agents cautious. Domestic demand in the euro area remained very subdued throughout the year. Even though economic activity recovered in the second half of 2005, economic growth in the euro area remained at 1.3% in 2005.

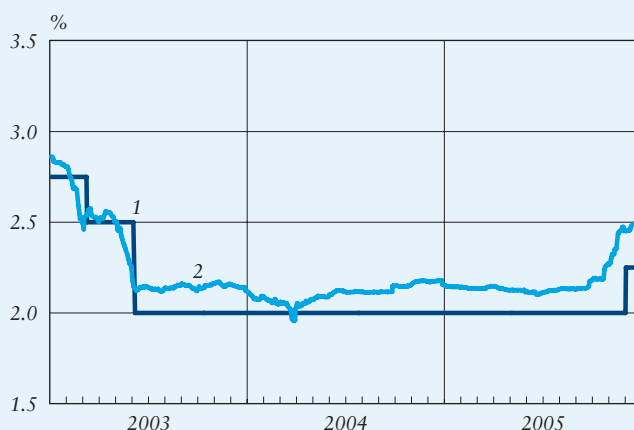
At the beginning of 2005 euro area inflation declined to around 2% (Chart 1). At that time the Governing Council of the ECB considered domestic short-term

Chart 1.
Harmonised Index of Consumer Prices for the euro area



Source: Eurostat.

Chart 2.
Eurosystem main refinancing rate and
3-month Euribor rate



1. — Main refinancing minimum bid rate
2. — 3-month Euribor rate
Sources: European Central Bank and Reuters.

Chart 3.
Euro exchange rate against US dollar and
Japanese yen



1. — USD-value of one euro (LHS)
2. — JPY-value of one euro (RHS)
Source: Reuters.

inflationary pressures to be contained and the outlook for price stability in the medium term to be favourable. However, risks to price stability were on the upside. The key ECB interest rates and market rates were at historically low levels in both nominal and real terms, and there was ample liquidity in the euro area (Chart 4). The Governing Council assessed the monetary policy stance as appropriate and left the key ECB interest rates unchanged at 2% (Chart 2). However, it noted that the materialisation of risks to price stability required continued vigilance.

In June the Eurosystem staff revised the assessment of economic growth in the euro area for 2005 and 2006 downwards. Inflation was expected to be about 2% in 2005 and to fall clearly in 2006. Inflation projections were assumed to be subject to increased upside risks.

Owing to weak developments in early 2005 and a rise in oil prices, these economic growth projections were revised downwards again in ECB staff macroeconomic projections published in September. The projections for inflation were in turn revised upwards considerably, as oil price increases had been bigger than anticipated. Inflation was projected to be slightly above 2% in 2005 and to remain slightly under 2% in 2006.

In late August, early September the nominal price of crude oil reached its all-time high, resulting from the effects of hurricanes in the United States. At its meeting in September the Governing Council concluded that, although there was still no clear evidence of domestic

inflationary pressures building up in the euro area, risks to the inflation scenario were on the upside owing to higher oil prices and their potential second-round effects. The Governing Council tightened the tone of its communication and noted that particular vigilance was needed in order to ensure that medium-term inflation expectations remain firmly anchored at levels consistent with price stability. In October the Governing Council further tightened the tone of its communication.

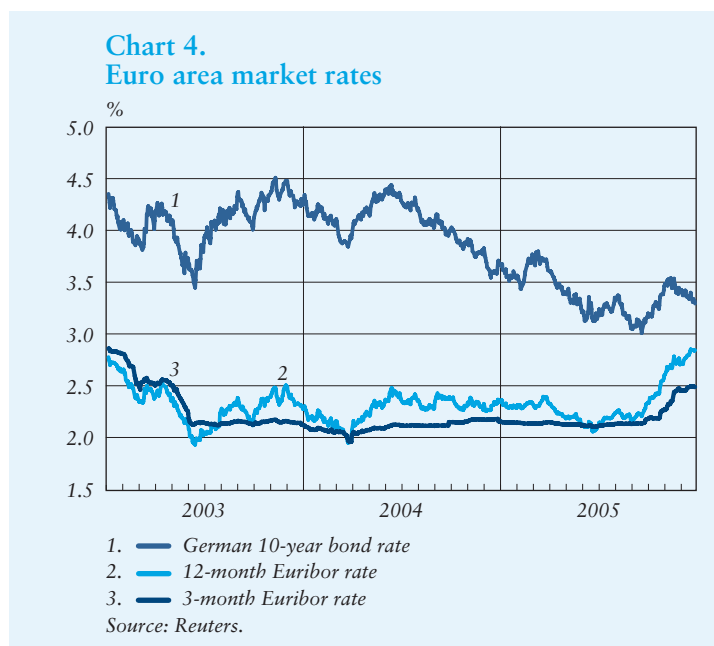
After the tone of communication was tightened, market rates began to rise and interest rate expectations gradually strengthened. At the beginning of December, the Governing Council decided to increase the key ECB interest rates by 0.25 percentage points to 2.25%, after two and a half years of maintaining rates at historically low levels.

In late 2005 there were signs that economic activity in the euro area was strengthening, consistent with expectations. Inflation rate continued to remain at around 2.5%. The average annual growth in consumer prices in the euro was 2.2%.

The Governing Council's statements on other economic policy issues

In the course of 2005 the Governing Council repeatedly addressed the challenges of euro area countries' fiscal policy and structural reforms.

The Governing Council took the view that rigorous implementation of the revised Stability and Growth Pact proce-



dures was now key to guaranteeing an effective framework for fiscal policy coordination and discipline. In its opinion it was essential that the European Commission and the Ecofin Council enforce the implementation of the Pact in order to restore confidence in the fiscal framework.

The Governing Council also frequently expressed its great concern over fiscal consolidation not progressing at the planned pace. In addition, fiscal imbalances were even expected to increase in some countries. The Governing Council therefore urged member states to step up consolidation efforts where needed. This would send the right signal to the public and support the credibility of the fiscal framework.

As for structural reform, the Governing Council stressed repeatedly that decisive and comprehensive

measures directed at achieving a more dynamic and competitive European economy with flexible labour and product markets was urgently needed. The Governing Council stated that it strongly supported the reform agenda of the renewed Lisbon Strategy which concentrates on raising employment growth, encouraging investment and stimulating innovation and productivity. Progress in this direction would not only improve the underlying growth potential of the euro area economy over the medium term, but would also help to strengthen consumer and business confidence over a shorter term. These reforms are crucial for Europe's ability to respond to the challenges arising from an ongoing deepening in the global division of labour, the fast progress of technological change and the ageing of the population.

The Bank of Finland and economic policy in Finland

A key role of the Bank of Finland is to be an expert on the Finnish economy within the Eurosystem and on the euro area in Finland. It conducts research, monitoring and forecasts on Finnish economic developments and assesses the effects of the single monetary policy of the euro area on Finnish economy. In domestic economic policy discussions the Bank of Finland has paid particular attention to problems and risks relating to development trends and structural aspects of the Finnish economy. Twice a year the Bank draws up a macroeconomic forecast of domestic economic developments. This forecast is published in the Bank of

Finland Bulletin in March and September.

In the course of 2005 the Bank of Finland revised its forecast for economic growth in Finland downwards. Having continued to expand at a robust pace, economic growth suffered a blow in spring 2005 as the paper industry was caught in a protracted labour market dispute. The Bank of Finland estimated that the almost two-month production standstill of the paper industry would reduce GDP growth for 2005 by nearly 1 percentage point. Moreover, as production developments in electronic industry were also modest in the autumn, the Bank forecasted that total output growth would increasingly hinge on continued strong private consumption and services sector.

The Bank of Finland has drawn attention to the weakening of Finland's terms of trade and the accompanying problems. Oil price increases have had a negative effect on economic growth both in Finland and the majority of other industrial countries. It has also exacerbated the unfavourable development of Finland's export and import prices. World market prices of paper industry have either fallen or stagnated after 2000. This has been due to increased supply and sluggish growth in demand in developed countries. Export prices have continued to fall at a rapid pace in the electronics sector, affected by fast technological development and tight competition. For a long time already, Finnish export growth has been slower than market growth. As a result of falling

export prices, growth in export value has even been slower in Finland than in other euro area countries. The Bank of Finland has also drawn attention to the significant change in the geographical breakdown of exports in 2005 when Russia overrode Germany and Sweden and became one of Finland's most important export countries.

The Bank of Finland has closely monitored domestic inflation developments. In 2005 inflation continued to rise more slowly than in the euro area on average. Although the effects on annual inflation of a reduction in the tax on alcoholic beverages a year earlier receded gradually, the Bank noted that tighter competition in several domestic sectors, including retail trade and teleoperators, had dampened price increases. In addition, intensified global competition has also pushed down import prices of many durable consumer goods in particular.

Labour markets have continued to show favourable employment development. At the same time, however, Bank of Finland surveys have shown that the gap between labour supply and demand has remained resilient or even deepened in 2005. During the year the Bank repeatedly expressed its concern over the inadequacy of business investments. The Bank considers that the slow renewal of production capacity weakens future productivity growth and the diversification of export structure. The low level of investments together with the trend deterioration in the terms of trade and loss of export market shares could indicate that

Finnish citizens' income expectations have settled at an unsustainable level. The Bank has warned that this can have possibly led to an incorrect assessment of the scope for household indebtedness.

The Bank of Finland has closely monitored developments in the housing market and the growth in housing loans. There are no signs of a housing price bubble in Finland, but general development in indebtedness and the concentration of indebtedness on a part of the population give cause for concern. In 2005 the Bank of Finland also took part in a longer-term structural policy discussion by taking a stand on issues including the relationship between productivity growth and market competition.

Research activities

Economic research conducted at the Bank of Finland both serves to contribute to policy preparation and to develop the Bank's own activities. At the same time, it serves to enhance the Bank's external influence. Most central banks have made efforts to improve their research activities in recent years. The Bank of Finland aims at meeting top international standards in areas of research of key importance to the Bank. This ensures that the Bank of Finland makes a strong contribution to the debate on economic policy and the development of financial markets.

Actual research work is conducted under the auspices of the research programmes of the Research Unit, and in the Institute for Economies in Transition. Both units operate as part of the Bank of Finland Monetary Policy and Research Department. The Research Unit's resources were strengthened by increasing the number of Research Supervisors from two to three. The new Research Supervisor is responsible for research related to financial stability analysis.

In connection with changes made to the strategy of the Bank of Finland, the Bank's research policy guidelines were revised and clarified. Recommendations for further improvement of the Bank of Finland's research activities, put forward by external experts in 2004, were adopted in the guidelines, as applicable. The new research policy guidelines also emphasise that the core function of the Research Unit is to conduct research that fulfils the strictest academic standards.

They also stress the importance of finding synergy between research and policy preparation.

Increasing emphasis has been placed on the role of financial stability analysis. The Institute for Economies in Transition continues to be responsible for the monitoring and research on economic developments and economic policy in transition economies, particularly in Russia and China.

Monetary research

Research activity and projects in the Bank of Finland continue to be carried out under the auspices of the two research programmes. The first programme concentrates on the modelling of monetary policy and the second on the future of the financial services sector. The latter has been broadened to include stability analysis.

The programme on monetary policy modelling focused on inflation expectations and the significance of real-time information for inflation dynamics. One research theme was related to the decomposition of economic growth into its time varying components. The Bank also participated in a broad research project of Eurosystem central banks aimed at analysing inflation persistence in the member countries. The project was finalised in 2005.

The programme for the future of the financial sector addressed themes related to asymmetric information in credit markets, risk-taking by companies, determination of banks' capital buffers and the fragility of the financial system. The

Bank launched work on the development of a forecasting model for the banking sector. Similarly, 2005 saw the launch of a project using the Bank of Finland simulator aimed at analysing the stress resilience of the settlement system.

The Bank of Finland's history project, launched in December 2004, will continue as planned.

Research on economies in transition

The geographical focus of the research and monitoring conducted at the Bank of Finland Institute for Economies in Transition (BOFIT) is on Russia and China. The Institute's research efforts concentrate on macroeconomic policy and monetary and fiscal economy in particular. Attention is also paid to structural transformation in the countries of interest.

In 2005, BOFIT research subjects included the integration of Russian securities markets with international markets and the effects of exchange rate changes on inflation in the CIS countries. The Institute strives to get all completed research work published in international journals and other research publications.

As regards monitoring, BOFIT continued to publish BOFIT Viikkokatsaus / BOFIT Weekly Review, the monthly BOFIT Russia Review and the quarterly BOFIT China Review. In response to the developments in Russia and China and the countries' growing importance in the global economy, there was increasing demand for the Institute's expertise, both within and outside the Eurosystem. Lectures, popularised

articles and statements by the BOFIT's experts continued to be in great demand.

Scientific meetings

As in previous years, the Bank of Finland organised a number of international scientific meetings. In September the Bank organised, in collaboration with SUERF (Société Universitaire Européenne de Recherches Financières), an international conference on open market operations and financial markets. In October, the Bank, together with CEPR (Centre for European Policy Research), organised a conference on competition and efficiency in payment systems. In November, the Bank organised a scientific meeting on productivity and the business cycle. The meeting was organised in cooperation with CEPR, EABCN (Euro Area Business Cycle Network) and the European Central Bank.

The Institute for Economies in Transition held its spring seminar in April in Moscow in cooperation with the Russian CEFIR (Centre for Economic and Financial Research). The seminar is currently probably the most significant European conference in the field of economies in transition and only a small part of submitted paper can be selected for the seminar. In February BOFIT organised a seminar on monetary policy in CIS countries in collaboration with UACES (University Association for Contemporary European Studies).

Financial markets and statistics

Stability and efficiency of financial markets

The Bank of Finland's macroprudential analysis and oversight activities seek to anticipate disturbances that could jeopardise the functioning of the payment and financial system. Macroprudential analysis undertaken by the Bank of Finland covers the financial system as a whole and forms an integral part of the Bank's other macroeconomic analysis. Oversight aims at ensuring reliability and efficiency of payment and securities settlement systems and at promoting system development. The Bank performs its stability-related tasks in close cooperation with national and foreign authorities.

The Bank of Finland publishes its assessments of the financial markets' stability twice a year. Published as a special issue of the Bank of Finland Bulletin in the autumn, it provided an extensive analysis of topics concerning the structures, integration, efficiency and stability of the financial system. In addition, a more concise assessment of financial stability was published in Issue No. 2/2005 of the Bank of Finland Bulletin. The stability reviews discussed the current status of the financial system, providing an estimate of the risks and threats to the financial markets over the short and long term. Evaluations were also made of regulatory and supervisory developments. The stability reports seek to enhance the awareness of the general public, market participants and other authorities regarding factors affecting financial system stability and efficiency.

According to the Bank of Finland's assessments, the world economy continued to grow at a robust pace in 2005, thereby helping to support financial stability and reliability. The financial and insurance sector displayed good profit performance on a global scale. The functioning of the Finnish financial system was stable and reliable in 2005, with no major threats in view. Short-term risks concern imbalances in the international financial system and any shocks arising from them, with possible spillover effects in Finland. Risks over the long term are mainly related to major ongoing structural changes in the financial and insurance sector. Adaptation of regulation and supervision to the rapidly integrating and increasingly international operating environment will pose a challenge.

The 2005 stability reports also noted that the indebtedness of the Finnish household sector was still moderate by international standards, despite strong growth in the stock of lending for house purchase. Households' debt-servicing costs have remained under control, largely thanks to the low level of interest rates, narrower margins and longer loan periods. Robust credit demand and small loan losses have improved bank profitability. However, the steep rise in lending stock may lead to increasing debt-servicing problems and higher loan losses over the medium term. Narrow lending margins and extended loan periods may also cause profitability problems for banks if their strategy for seeking income from sales of other services to customers fails to prove sustainable.

Overall, the key Finnish payment systems as well as securities clearing and

settlement systems functioned in a reliable fashion in 2005. During the year under review, the Bank of Finland issued a detailed oversight manual on its own Real-time Gross Settlement System (BoF-RTGS), taking the Eurosystem's TARGET oversight guide as the basis. This ensures that oversight over the various TARGET components will be exercised in accordance with uniform principles.

As regards payment systems, the two most important development projects currently underway are the Single Euro Payments Area (SEPA) and TARGET2. The SEPA is a project for achieving an integrated euro payments area, fostered in concert by European banks, the European Commission and the European System of Central Banks. In the year under review, Finnish banks prepared a plan for implementing a single euro payments area, in which the Bank of Finland was involved as coordinator. The next phase of TARGET, TARGET2, is in turn the most important EU-wide payment system project led by central banks. The Bank of Finland participated in developing the forthcoming system (Banking operations, p. 38) and in policy consultation concerning system development.

The Bank of Finland followed the functioning of securities clearing and settlement systems and the progress made in development projects eg through monthly oversight meetings with the representatives of the Finnish Central Securities Depository (APK). The Finnish APK and the Swedish central securities depository form together a Nordic Central Securities Depository group, and their integration project was monitored with close

interest. As the integration may have repercussions for risk management, for instance, the overseers of various countries need to ensure an adequate exchange of information and coordination of oversight. For this reason, the Bank of Finland and the Swedish central bank prepared a Memorandum of Understanding (MoU) during the year 2005.

In its activities, the Bank of Finland prepares for potential crises in financial and payment systems. As part of its crisis preparation, the Bank of Finland continued to develop its readiness to act in situations where problems of one or more monetary financial institutions or market segments threaten to jeopardise financial stability. In addition, the Bank of Finland tested backup arrangements of payment systems.

The Bank of Finland's crisis management action plan was updated to correspond to the new organisational structure. The organisational reform also led to a clarification of the oversight function.

Cooperation between national authorities

The Bank of Finland was actively involved in cooperation between Finnish authorities. During the year under review, a joint working group of financial market authorities (Bank of Finland, Ministry of Social Affairs and Health, Insurance Supervision Authority, Ministry of Finance and Financial Supervision Authority) prepared two reports on key and topical risk factors affecting financial markets. In 2005, the working group also addressed a special theme on

the implications of financial integration on the stability and regulation of the financial system. The Bank of Finland, the Financial Supervision Authority and the Insurance Supervision Authority together carried out a stress test concerning the financial system. The test evaluated the adequacy of risk buffers of key financial institutions in a scenario of clearly weaker economic developments than anticipated.

Crisis management capabilities for emergencies and potential threats to the financial system were upgraded further in 2005. The Bank of Finland participated in a readiness exercise for financial markets (PATO 2005). The exercise was conducted jointly between financial sector authorities and other financial market participants as part of the central government contingency plan for 2005. The purpose of the exercise was to test and clarify the preparations of the financial markets for crisis situations.

In 2005, the Bank organised seminars for Finnish authorities on topical issues concerning payment and settlement systems. The Bank of Finland also arranged a number of meetings where current projects in the payment systems area were discussed with representatives from banks operating in Finland and the Finnish Bankers' Association. Furthermore, the Bank of Finland participated in several projects eg for the development of financial market regulation, either as a working group member or by issuance of opinions. Cooperation with the Ministry of Finance and the European Commission was boosted by participation in employee exchange.

International cooperation between authorities

The Bank of Finland takes part in the work of a number of international committees and institutions that are of key importance for the overall functioning of the financial markets.

Within the European System of Central Banks (ESCB), stability-related questions are coordinated by the Banking Supervision Committee (BSC), in whose work the Bank of Finland participated together with the Financial Supervision Authority. Among the key issues dealt with in this committee in 2005 were, in addition to an annual stability report, a report on EU banking structures, competition in EU mortgage lending markets, the EU's Green Paper on investment funds, bank liquidity monitoring, and relationships between banks and hedge funds. The Bank of Finland also participated in the Eurosystem's joint crisis exercise and was a member of a new crisis management working group set up by the ESCB Banking Supervision Committee and the Committee of European Banking Supervisors (CEBS).

The Bank of Finland took part in the work of both ESCB and European Commission committees dealing with payment and settlement system issues. During the year under review, issues promoted by these committees included the establishment of the SEPA and TARGET2 and the development of collateral management. The Bank laid special emphasis on the need to ensure adequately automated payment transmission within the single euro payments

area. The Bank of Finland was also actively involved in the joint working group of the ESCB and the Committee of European Securities Regulators (CESR) to prepare draft standards for securities clearing and settlement systems.

In addition, the Bank was engaged in extensive cooperation with the Nordic and Baltic central banks. The joint meetings addressed issues concerning financial market integration and infrastructure alike. Further development of crisis management and initial prepara-

tions for a joint stability analysis were also on the agenda of the Nordic central banks.

EU banking supervisors, central banks and ministries of finance signed in May 2005 a Memorandum of Understanding aimed at supporting and promoting cooperation in potential crisis situations. The Memorandum is based on current EU legislation and other agreements. The new Memorandum came into force as from the beginning of July 2005.

Box 1.

Bank of Finland's payment and settlement system simulator

For almost ten years, the Bank of Finland has been developing a payment and settlement system simulator. The new simulator, BoF-PSS2, was made public in spring 2004. The simulator is freely available for research purposes and currently comprises about 40 users mainly at central banks worldwide.

The simulator has been accessed for analysing questions concerning efficiency and risks in payment systems as well as in securities clearing and settlement systems. It provides a significant quantitative approach to oversight. In 2005, for instance, liquidity usage in the APK's HEXClear system and the impact of operational disturbances on the settlement process were analysed at the Bank of Finland using the simulator. The simulator was developed further through user sponsoring, and the year under review saw the release of two new versions of the simulator. In summer 2005, the Bank of Finland published a summary of studies made by the simulator.¹ The users of the simulator from all over the world also came together for a seminar organised by the Bank of Finland in August.

¹ See www.bof.fi/eng/6_julkaisut/6.1_SPn_julkaisut/index.stm.

Integration of the Finnish financial and insurance sector

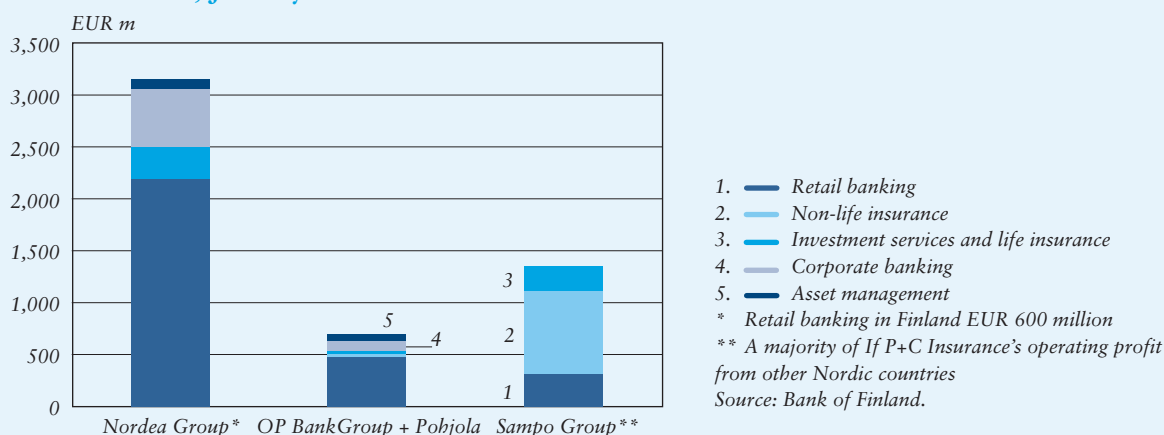
Structural arrangements in the financial and insurance sector continued in 2005. Following the Pohjola insurance company acquisition, the OP Bank Group strengthened its position as one of the three largest financial conglomerates in Finland. After the acquisition, the combined market share of the three largest financial conglomerates accounted for almost 80% of lending, 82% of life insurance business (in terms of premium income) and 56% of non-life insurance business (in terms of premium income).

There are, however, big differences in the focal areas of the conglomerates' business operations. Nordea has a strong presence in banking in all Nordic countries. Its life insurance business is also broadly based, but the group has no non-life insurance business at all. Sampo conducts banking business on a significant scale in Finland, but its business is dominated by Nordic non-life insurance. The OP Bank Group's opera-

tions are in turn concentrated in Finland, with banking continuing to play a key role.

The emergence of financial conglomerates not only changes the legal but also the income structures of financial groups. About two thirds of the Finnish banking sector's combined income has traditionally originated from net interest income and one third from other sources of income. Expanding insurance business has led to an increase in other income and a corresponding decrease in the relative share of net interest income. For instance, two thirds of the operating profits of the three largest financial conglomerates in January–June 2005 already stemmed from sources other than net interest income. The income structure resembles the average income structure of large financial conglomerates operating in Europe, under which 45% of income is generated by net interest income and 55% by other income.

Chart.
The pre-tax results (= operating profit) by business area of the three largest financial conglomerates operating in Finland, January–December 2005



Statistics

In line with ECB statistical reporting requirements, the Bank of Finland compiles Finnish data for statistics on euro area monetary financial institutions (MFIs), as well as for other financial and balance of payment statistics for the euro area, together with corresponding national data. Community legislation assigns to the Bank of Finland the official task of compiling statistics for ESCB and EU needs. This is carried out in close cooperation with Statistics Finland.

The Bank of Finland participates through ESCB and EU cooperation in work for further improving the accessibility of statistics that serve the needs of the Economic and Monetary Union. The aim is to make euro area economic statistics available for the preparation of monetary and economic policies and for the use of the markets with a significantly better timeliness and wider coverage than is presently the case. The Eurosystem makes extensive use of the statistics; however, their availability and reliability are not yet satisfactory in every respect. During the year under review, the ECB did devote efforts not only to the regular production of financial statistics but also to the development of quarterly euro area accounts together with the Statistical Office of the European Communities, Eurostat. One of the most important Eurostat projects aims at improving the quality of government finance statistics relevant for monitoring compliance with the EU Stability and Growth Pact.

Ongoing expansion of euro area statistics puts a significant strain on the

resources of member central banks and reporting institutions. Attention was paid to this matter on Finland's initiative. Subsequently, the ESCB agreed that a closer cost-benefit assessment of statistics would be performed. The statistical extensions already decided will still take years.

The Bank of Finland's Statistics unit focused on enhancing operational efficiency through improvement of software employed for statistical compilation and through automation of manual working phases. The system for MFI statistics was elaborated in 2005 by using solutions, where applicable, similar to those employed in the recently upgraded software for balance of payments statistics. Such software harmonisation allows achievement of important cost savings. International cooperation and dialogue have made it possible to obtain useful information for software development from other countries and, conversely, to exert influence on others through presentation of the Bank's new systems and methods for statistical compilation.

The recently launched network communication project seeks to ensure a clear and user-friendly presentation of statistical data on the Bank of Finland's website. A joint dissemination of key financial statistics across the euro area as a whole became a reality at the end of the year.

In accordance with its Report on the Observance of Standards and Codes (ROSC), in spring 2005 the International Monetary Fund conducted an extensive assessment of how Finnish macro-

economic statistics comply with international recommendations. Of the Bank of Finland statistics, the assessment focused on balance of payments statistics, which were favourably considered by the IMF experts. The International Monetary Fund published its assessments on its website in November 2005.

Banking operations

Monetary policy implementation in the euro area and Finland

The Eurosystem's monetary policy operations

The main task of the Eurosystem is the implementation of monetary policy. Monetary policy implementation in the euro area is organised in a decentralised manner. The Bank of Finland executes the monetary policy operations of the euro area in Finland. The operational framework for the monetary policy of the Eurosystem consists of market operations, standing facilities and minimum reserves.¹

At its meeting on 1 December 2005, the Governing Council of the ECB increased the minimum bid rate on the main refinancing operations (MROs) by 0.25 percentage point to 2.25%, starting from the operation settled on 6 December 2005. This was the first rate increase since June 2003. Meanwhile, the interest rate for the marginal lending facility was increased to 3.25%, and the interest rate for the overnight deposit facility to 1.25%. In 2005 there were a total of 52 main refinancing operations and 13 longer-term refinancing operations (Supplementary tables 2 and 3). The only change to the operational framework for monetary policy in 2005 was the Governing Council decision to increase the allotment amounts for the longer-term refinancing operations from

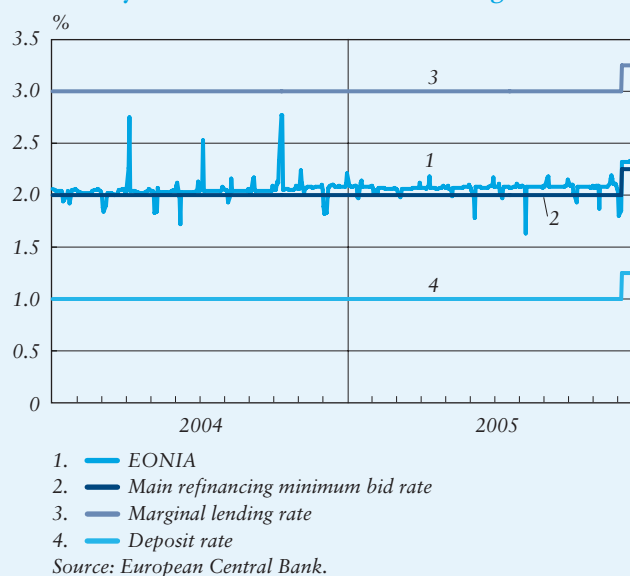
EUR 25 billion to EUR 30 billion as from 14 January 2005. Longer-term refinancing operations accounted for 23.7% on average of liquidity needs in the euro area in 2005.

The operational framework for monetary policy reformed in March 2004² functioned well, and the Eurosystem was able to perform a sound estimate of the euro area banking system's liquidity needs as a whole. The Eurosystem was capable of keeping short-term market rates broadly stable and the spread between the minimum bid rate in the MROs and short-term market rates narrow in the course of the year 2005 (Chart 5).

Owing to the nature of the operational framework for monetary policy,

² More information in the 2004 Annual Reports of the Bank of Finland and the ECB.

Chart 5.
Eurosystem interest rates and overnight rate



¹ More information in the ECB's publication 'The implementation of monetary policy in the euro area: General documentation on Eurosystem monetary policy instruments and procedures'. February 2005 (www.bof.fi).

short-term money market interest rates have tended to fluctuate towards the final days of maintenance periods. To reduce this volatility, the ECB in 2005 changed the practical implementation of the operational framework. Over the year, the ECB conducted nine liquidity adjusting fine-tuning operations (Supplementary table 4) in order to smooth the liquidity situation at the end of maintenance periods. In its MROs, it also started to allot liquidity above the benchmark amount,³ starting from October 2005. The aim was to cause short-term market rates and the marginal rate in the MROs to fall closer to the MROs' minimum bid rate used for the

conduct of ECB monetary policy. Allotment of liquidity above the benchmark amount was initially EUR 1 billion per tender operation, but in the last maintenance period it was EUR 2 billion and in the last operation of the year EUR 3 billion. These measures helped to stabilise market rates in the final days of the maintenance periods for reserve requirements, as desired. At the turn of the year, in particular, short-term money market interest rates were more stable than in previous years.

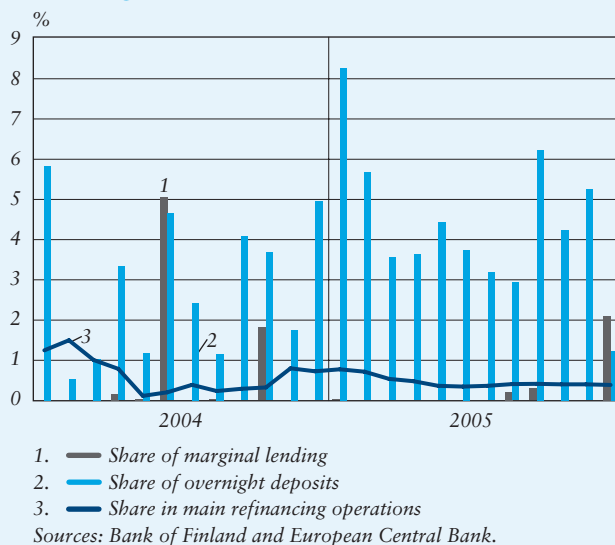
Finnish credit institutions' participation in Eurosystem monetary policy operations

The participation of Finnish credit institutions in the Eurosystem's monetary policy operations in 2005 remained broadly unchanged from the previous year. The credit institutions' share in euro area liquidity allocation in MROs increased in 2005 to EUR 1.3 billion from the previous year's average of EUR 1.2 billion (Chart 6). However, the percentage share of Finnish credit institutions decreased to 0.46%, because the average amount of liquidity allotted in Eurosystem MROs increased to EUR 290.1 billion in 2005 from EUR 220.3 billion in 2004. Mainly underlying the growth in allotted liquidity was the continuing, significant increase in the stock of banknotes in the euro area in 2005.

On the basis of the use of the marginal lending facility and the overnight deposit facility, Finnish credit institutions continued to maintain abundant liquidity throughout the year. Their recourse to the marginal lending

³ More information in the ECB Monthly Bulletin article 'The liquidity management of the ECB'. May 2002.

Chart 6.
Finnish credit institutions' shares in Eurosystem main refinancing operations and use of standing facilities



facility in 2005 was on average only EUR 0.3 million per day, accounting for 0.2% of euro area marginal lending as a whole (EUR 109.1 million per day). Finnish credit institutions' share of overnight deposits placed in the euro area as a whole was 4.0%, amounting to about EUR 118.7 million on a daily basis. Finnish credit institutions' minimum reserve requirements constituted on average 1.6% of the total euro area reserve requirement in 2005.

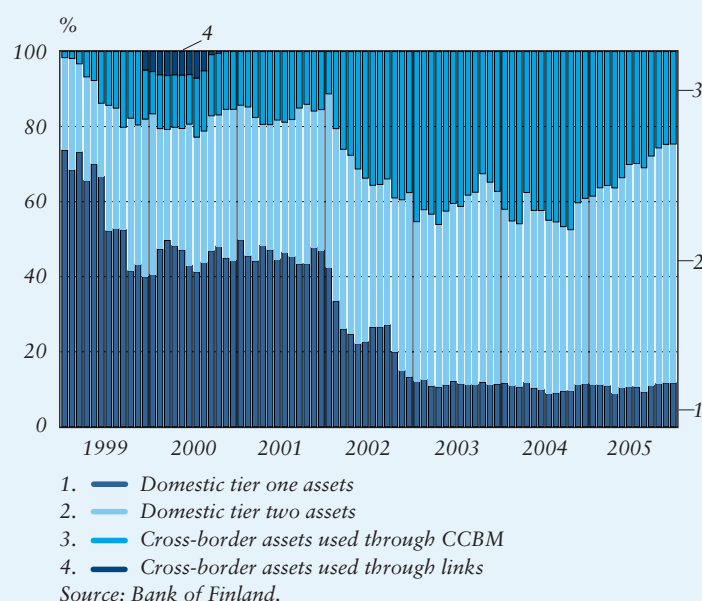
Use of collateral by Finnish credit institutions

The collateral for monetary policy operations and intraday credits provided by Bank of Finland counterparties is mainly composed of domestic securities. In 2005, the total amount of counterparties' collateral assets declined by about 10%, ie to just below EUR 8 billion. About 10% of collateral were national tier one assets,⁴ ie mainly government bonds, some 60% were national tier two assets, ie banks' certificates of deposit, and about one third were eligible assets issued elsewhere in the euro area (Chart 7). Of national eligible assets, the share of banks' certificates of deposit was slightly on the increase.

The use of cross-border collateral in relative terms started to decrease in Finland in the year under review, which slightly deviates from developments observed in the euro area as a whole. As in previous years, for transferring cross-

border eligible assets, the Bank of Finland counterparties relied exclusively on the correspondent central banking model (CCBM) operated by Eurosystem central banks. No collateral was delivered through links between central securities depositories. The CCBM may also be accessed by foreign counterparties whenever wishing to post securities issued in Finland as collateral. In this case, the Bank of Finland acts as a custodian in respect of these collateral assets for the account of the foreign central bank involved. In 2005, such securities held in custody with the Bank of Finland amounted to EUR 2.7 billion on average, which was as much as one third more than in the previous year.

Chart 7. Use of collateral in Finland since EMU start



⁴ Tier one assets fulfil uniform euro area-wide eligibility criteria, while tier two assets are in part subject to national eligibility criteria.

Box 3.

Steps towards establishing a single list of collateral

The Eurosystem is in the process of unifying the range of securities and other asset items eligible as collateral for central bank credit. The current tier one and tier two lists of eligible assets will be replaced by a single list of collateral, the composition of which will be slightly different from those of the two prior lists. While the majority of currently eligible assets are marketable debt instruments issued by governments, credit institutions and non-financial corporations, the single list of collateral will also introduce bank loans as eligible assets in Finland. In addition, bonds issued by entities in countries that are not part of the European Economic Area (EEA) have been accepted for inclusion in the single list.

The single list will be introduced gradually. The first practical steps were taken around mid-2005 with the acceptance of US, Canadian and Japanese issuers' euro-denominated debt instruments as collateral. At that time, uniform credit standards started to apply to issuers of eligible assets so that even credit institutions no longer need to provide a rating for each issue or issuance programme; instead, a high-level rating awarded to the issuer is adequate.

Bank loans granted to non-financial corporations and the general

government sector will be eligible in 2007. In Finland, credit institutions may make use of either public credit ratings, their own internal credit risk assessments or approved rating tools when assessing the credit standards of existing debtors. As from May 2007, marketable debt instruments issued by credit institutions, such as Finnish banks' certificates of deposit, must be listed on an EEA stock exchange in order to qualify as eligible collateral. A unified regime for eligible assets is scheduled to be in place in 2012, when all euro area central banks start applying the same minimum threshold of EUR 500,000 for bank loans that they accept as collateral.

In Finland, the most important change caused by the single list is the acceptance of bank loans as eligible assets. Bank loans constitute an entirely new type of collateral instrument for which appropriate handling processes need to be established. The Eurosystem has decided that each national central bank may implement the necessary arrangements and processing methods in accordance with their respective national legal and operational environments. The Bank of Finland, too, has launched preparations for enabling the use of bank loans as collateral.

Payments

The TARGET payment system operated by EU central banks ensures real-time execution of payments in central bank money with immediate payment finality. The system is open for business 11 hours per day. It opens at 8.00 a.m. and closes for customer payments at 6.00 p.m., after which monetary financial institutions still have one hour's time for transfer of funds between their accounts. The Eurosystem provides interest-free intraday liquidity without restriction against eligible collateral assets so as to enable a smooth processing of payments without delay. Minimum reserves are also available to banks during the day.

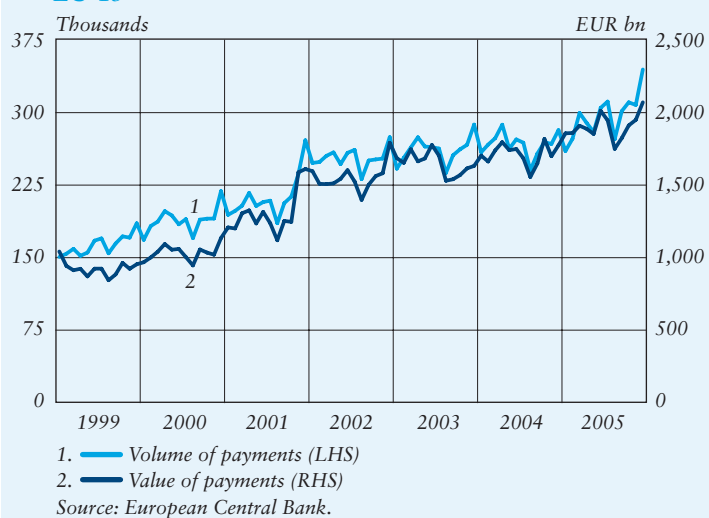
In 2005, TARGET volumes and turnover continued to increase. Payments processed through the Bank of Finland's Real-time Gross Settlement System (BoF-RTGS) increased by 3.6% from the previous year. Turnover grew by 5% and was at its highest about EUR 21 billion a day. Operationally the BoF-RTGS, a component of the large TARGET structure as a whole, was very reliable. In terms of availability, it ranked among the best three European RTGS systems.

TARGET has become increasingly popular: while in 1999 TARGET handled a daily average of 163,000 payments (intra-Member State and inter-Member State payments) with a total value of EUR 925 billion, in 2004 the daily average was already 267,000 payments with a total value of EUR 1,714 billion. The volume of inter-Member State customer payments has registered the highest growth rates, being

currently about five times higher than the figure for 1999. In Finland, the volume and turnover of TARGET payments have not changed significantly in recent years. Finnish banks send fewer customer payments through TARGET than do banks in Central and Southern Europe. Customer payments in euro sent abroad from Finland are largely handled via the EURO1 system of EBA (Euro Banking Association).

TARGET is a decentralised system having as participants, in addition to the central banks of the Eurosystem, those of the United Kingdom, Sweden, Denmark and Poland. The planning of a new more centralised TARGET started as early as 2003. TARGET2 will be technically based on a single shared platform (SSP) ensuring a harmonised level of service to

Chart 8.
Daily average volume and value of intra-Member State and inter-Member State TARGET payments within EU 15

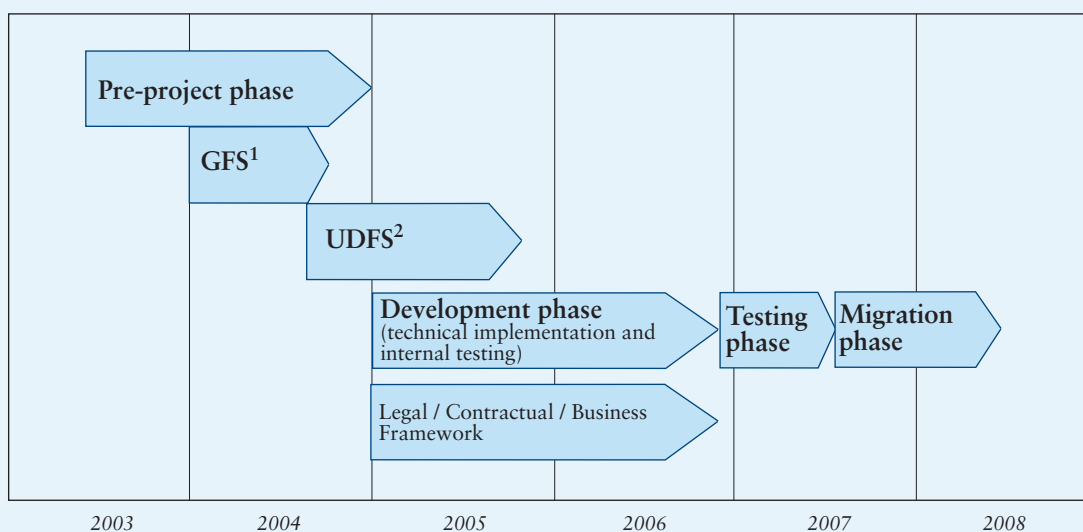


meet user requirements better than the current TARGET system. TARGET2 will be a cost effective system with uniform pricing.

The new system is scheduled to go live as a phased migration in three different country groups in 2007–2008. The Bank of Finland will be coordinating its own account holders' linking into the single shared platform. Monetary financial institutions operating in Finland will migrate to TARGET2 in the second group of countries. According to plan, the introduction of the new system for this group will take place in February 2008. At the same time, the Bank of Finland will give up its own RTGS system.

Development of TARGET2 has continued intensively both within the central banks offering the single shared platform (Deutsche Bundesbank, Banca d'Italia and Banque de France) and in the ECB's Payment and Settlement Systems Committee (PSSC) and its working groups. The ESCB has pursued its ongoing dialogue with the banking community both at the national level and within the euro area as a whole in respect of the new system's features and functionalities designed to provide greater efficiency to liquidity management and payment processing. November 2005 saw the distribution of final versions of detailed functional specifications to all users. Previously, monetary

Chart 9.
TARGET2 project phases



¹ General Functional Specifications.

² User Detailed Functional Specifications.

Source: European Central Bank.

financial institutions had already received a set of definitions enabling them to launch their own projects for changeover to the TARGET2 system. The ECB's Second Progress Report on TARGET2, published in October, confirmed the TARGET2 start date as 19 November 2007. Among other things, the report presented a pricing scheme for TARGET core services and outlined the course of events during the TARGET2 operational day, including the night-time settlement window for ancillary systems.¹ The report as a whole is available on the website of the European Central Bank (<http://www.ecb.int>).

¹ Retail payment systems, large-value payment systems, securities settlement systems and clearing houses.

Foreign reserves

The Bank of Finland takes a long-term perspective in managing its own foreign reserves and its share of the foreign reserves of the European Central Bank, handling them in a professional and active manner and on the basis of strict risk-management principles. The Bank's own foreign reserves (incl. gold and items in special drawing rights) totalled about EUR 9,546 million at the end of 2005. The share managed on behalf of the ECB amounted to some EUR 717 million.

Bank of Finland's foreign reserve assets

The size of the Bank of Finland's foreign reserves under existing conditions is fairly stable. The Bank of Finland holds reserves in order to meet any additional transfer needs of foreign reserves to the ECB and the financing requirements of the International Monetary Fund (IMF), as well as to prepare for contingencies, such as serious disruptions in the financial markets. Any foreign exchange intervention is conducted within the Eurosystem using primarily the assets of the ECB. As the liquidity requirement on the own foreign reserves of Eurosystem national central banks has become less stringent, a slightly greater emphasis than in the pre-EMU period can be laid on the aim to obtain a return on invested reserves.

The key objectives of the investment policy for the foreign reserve assets are security, liquidity and return. The market value of assets in foreign currencies must not fluctuate excessively because of the

various risks involved. In addition, part of the reserves must be sufficiently liquid; it must be possible to convert them into cash sufficiently quickly and at low cost whenever needed. The aim is to obtain the best possible return within these constraints.

The main risks associated with the investment of foreign reserves are exchange rate risk, interest rate risk,

credit risk and liquidity risk. In defining the investment policy for the foreign reserve assets, a combination of the various risks and return expectations is sought that best corresponds to the Bank's long-term objectives. The cornerstone of the investment policy is effective portfolio diversification.

The Bank attempts to limit exchange rate risk by spreading its holdings of foreign reserve assets among different currencies (Table 1). The currency distribution is normally reviewed at 2–3 year intervals. Between the reviews, the distribution of reserve assets among the different currencies is kept as close as possible to the distribution fixed in the previous review. In 2005, the currency distribution remained unchanged.

Interest rate risk is measured and managed in terms of duration and the value-at-risk (VaR) method. Duration describes changes in the value of investment portfolios resulting from a change in market interest rates. This method is used to measure the probability distribution of gains and losses in the value of the reserves as a result of movements in currencies, interest rates and interest rate differentials. The target duration of 2.5 years, which is applied to all the currencies included in the Bank of Finland's foreign reserves, remained unchanged in 2005. The VaR method has been used comprehensively in risk management since the end of 2004. In addition, interest rate risk is restricted by spreading investments among debt instruments with different maturities in all reserve currencies.

Table 1.
Distribution of the Bank of Finland's foreign reserve assets

	31 Dec 2005 %
US dollar	30
Pound sterling	25
Japanese yen	5
Danish krone	22.5
Swedish krona	12.5
Swiss franc	5

Source: Bank of Finland.

Table 2.
Return on the Bank of Finland's reserve assets in 2005

Interest income	% per annum
US dollar	2.08
Pound sterling	5.47
Japanese yen	-0.01
Danish krone	2.80
Swedish krona	3.16
Swiss franc	1.96
Interest income on assets (excl. gold and items in special drawing rights)	3.08
Exchange rate changes, net	4.74
Total return on reserve assets (excl. gold and items in special drawing rights)	7.82
Interest income on gold	0.82

Source: Bank of Finland.

Liquidity risk is mitigated by investing the bulk of the reserves in debt instruments issued by governments and in short-term investments for which these instruments serve as collateral.

Approximately a quarter of the foreign reserves are invested in debt instruments issued by entities with a high credit rating, such as non-financial corporations. In the long run, these investments generate higher returns than corresponding government debt instruments, because of the credit risk attached to them and the fact that they are less liquid than government debt instruments. The credit risk inherent in the credit portfolio is also measured using the VaR method. Effective portfolio diversification is crucial in the management of credit risk. Diversification is achieved by setting maximum limits and minimum credit rating criteria for issuers and counterparty banks and maximum limits for the VaR figures derived for the credit risk on the credit portfolio.

The portfolio that is assessed to be best suited to the Bank of Finland's long-term investment objectives is expressed in terms of currency distribution and currency-specific benchmark portfolios. The currency distribution and the structure of benchmark portfolios largely determine the return on invested reserves (Table 2). The aim of active investment is to obtain a return on invested reserves that is higher than the return on the benchmark portfolios.

A risk management unit, separate from the portfolio management function, is responsible for the risk management of

the foreign reserves, the setting of benchmark portfolios and monitoring compliance with limits as well as the calculation of return. The unit reports on risk management issues to a Board member whose responsibilities do not include investment operations. The organisational reform implemented in March 2005 led to the establishment of a risk committee convening under the leadership of a Board member and assuming responsibility for an independent assessment and control of risks inherent in investment and risk management.

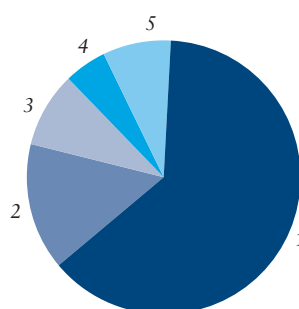
As with many other central banks, the Bank of Finland's foreign reserves also comprise gold. The Bank's gold reserves amount to 49 tons. The Central Bank Gold Agreement, renewed in spring 2004 for five years, permits a maximum investment of 25 tons of the Bank of Finland's gold reserves. This corresponds to the level at which the Bank of Finland maintained its gold deposits in September 1999, when it was one of the 15 European national central banks that agreed to restrict their gold sales and deposits.

Return on gold investment is assessed relative to a benchmark. In 2005, the return on the Bank of Finland's gold investments amounted to 0.82% compared with 1.03% in the previous year.

The ECB's foreign reserves

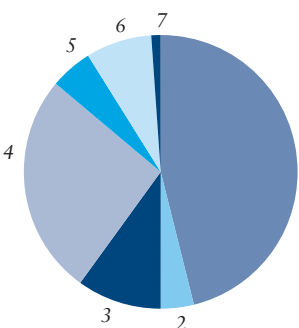
Management of the foreign reserves of the European Central Bank has been distributed among the various Eurosystem national central banks. The foreign

Chart 10.
Distribution of the Bank of Finland's foreign reserves excl. gold, as of 31 Dec 2005



1. Governments' domestic debt instruments 63%
 2. Governments' foreign debt instruments and supranational organisations' debt instruments 15%
 3. Money market instruments 9%
 4. Corporate debt instruments 5%
 5. Financial debt instruments 8%
- Source: Bank of Finland.

Chart 11.
Distribution of the Bank of Finland's credit portfolio by credit rating, as of 31 Dec 2005



1. AAA 46%
 2. AA+ 4%
 3. AA 10%
 4. AA- 26%
 5. A+ 5%
 6. A 8%
 7. A- 1%
- Source: Bank of Finland.

reserves managed on behalf of the ECB comprise assets denominated in US dollars and Japanese yen as well as gold. Since any foreign exchange intervention by the Eurosystem is conducted using the assets of the ECB, security and liquidity are the basic requirements for the investment of the foreign reserves.

The ECB's foreign reserves are managed by the national central banks, subject to constraints fixed at the ECB. The currency distribution of invested reserves is kept fixed. The ECB has set benchmark portfolios for the currencies in the reserves. Risks and returns on the foreign reserves are subject to continuous monitoring.

At the end of 2005, the foreign reserves of the European Central Bank amounted to approximately EUR 43.5 billion. The ECB's Annual Report provides information on the management of the reserves.

Maintenance of currency supply

In addition to maintaining the supply of euro cash in Finland, the Bank of Finland is responsible for issuing both new banknotes and coins as well as putting those returned from circulation and deemed fit back into circulation. With regard to coins, the Bank of Finland's primary task is to issue new ordinary coins, as coins are rarely removed from circulation due to their lack of wear and tear.

To ensure the maintenance of currency supply, the Bank of Finland operates five regional branch offices throughout Finland (Vantaa, Tampere, Kuopio, Oulu and Turku). In addition, six regional cash depots, run by cash-in-transit companies, operate regional cash storage facilities to alleviate cash transportation needs for sparsely populated areas and to safeguard the security of currency supply.

In 2005, the amount of euro cash issued in Finland continued to increase rapidly at more than 20% (Chart 12), reflecting the previous years' trend. Following the currency changeover of 2002, the value of the banknotes in circulation in Finland has more than doubled. This rise is not so much due to the increased use of cash in domestic retail payments, but rather the wider use of euro banknotes both within and outside the euro area. Issuance of banknotes throughout the euro area has also increased strongly

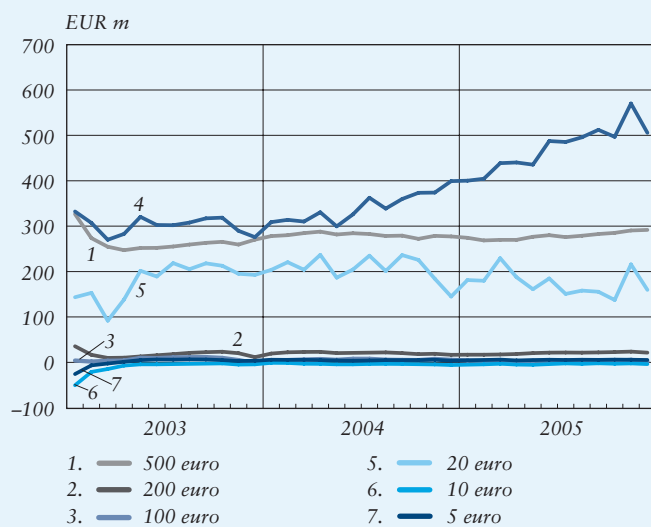
Looking at net issuance by the Bank of Finland, the proportion of banknotes of smaller denominations for change purposes (ie EUR 5 and EUR 10) has not

Chart 12.
Markka/euro banknotes issued by Finland



Source: Bank of Finland.

Chart 13.
Net annual issue of euro banknotes in Finland



Source: Bank of Finland.

increased to any noticeable extent. Of larger denominations, issuance of EUR 100 and EUR 200 banknotes has not increased much, either (Chart 13). This is partly due to their less active use in cash payments, owing to their distribution being handled by banks, and because the higher denomination of EUR 500 banknote is available for cash saving and larger cash payments.

The most common banknotes in use are the EUR 20 and EUR 50 denomination notes, as these are the denominations distributed to consumers mainly through automatic telling machines (ATMs). Of these, the EUR 20 banknote is the most common cash payment instrument in retail purchases. Accounting for a half, the EUR 50 banknote is the principal contributor to the annual net growth of banknotes in circulation, followed by the EUR 500 denomination, the demand for which has remained very stable in terms of value. The migration abroad of these banknotes is significant, since not all issued banknotes have been returned to the Bank of Finland.

The demand for euro coins has also continued to increase in Finland, albeit at a lesser pace than the demand for banknotes. Coins are typically used for change purposes, and euro coins do not migrate to other euro area countries to the same extent as euro banknotes. Growth of demand for euro coins has continued to decline, but remained at the 10% rate in 2005. As in previous years, growth of demand in value terms has been fastest in the EUR 1 and EUR 2 denominations.

In the first year since the introduction of the euro, the return frequency for euro banknotes was the highest in Finland of all euro area countries, especially for EUR 20 and EUR 50 banknotes typically used in ATMs, for which the return frequency was particularly high. On average, euro banknotes flowed through the central bank by more than 7 times a year. Now the return frequencies have halved and are close to the euro area averages for the various banknotes. The slowdown of the return frequency in Finland is mainly due to the banknotes being increasingly circulated via shops and private cash depots, without meanwhile going through the Bank of Finland. In the wake of the slower return frequency, the number of banknotes handled by the Bank of Finland has reduced since the introduction of the euro. In 2005, the number of banknotes handled at the Bank of Finland remained at 336 million, which accounts for approximately half of the number of banknotes handled in the last year (2001) of the markka period (Table 19 in the Supplementary Tables).

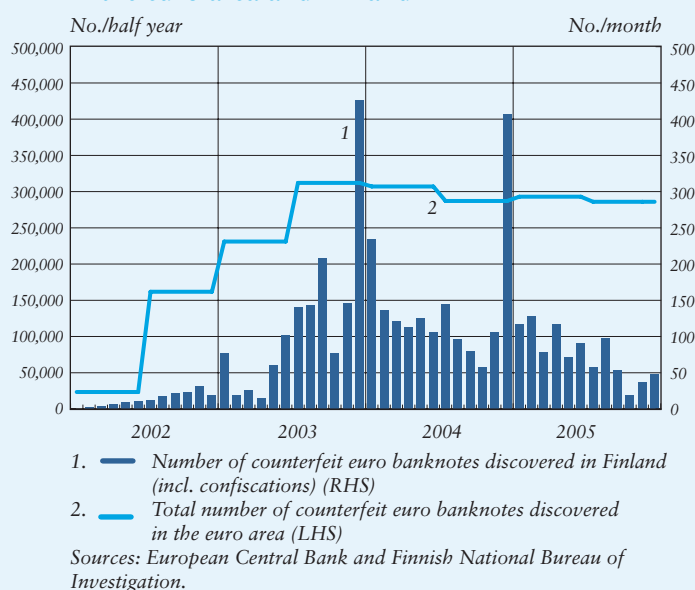
Reduction in counterfeits in the euro area and Finland

When compared internationally, the security features of euro banknotes have so far been superior, which is why the annual number of counterfeit banknotes has remained lower than during the time when national banknotes were used. The authenticity and security features of euro banknotes are highly sophisticated and technically difficult to produce and

imitate. Indeed, the guiding principle in designing the security features has been the prevention of counterfeit banknotes. Throughout the euro area, the number of counterfeit banknotes has continued to decline slightly, and no serious waves of counterfeit banknotes have emerged. The Eurosystem and the ECB are currently developing a new, even more secure and durable euro banknote series, which is scheduled to be issued gradually at the end of the decade.

The number of counterfeit banknotes found in Finland in 2005 was again the lowest of all the euro area countries. This is most probably due to Finland's remote geographical location. As in previous years, the majority of the counterfeit banknotes found in Finland originate from counterfeit series being distributed elsewhere in the euro area, with attempts having been made to spread them in Finland. Wide-spread electrification of Finnish payment systems, reduced use of cash and increased vigilance at shops have made euro counterfeit banknotes very rare in Finland. In spring 2005, the Bank of Finland organised six banknote seminars for professional cash handlers. Prompt action by the police and media have also contributed to counterfeiters and distributors of counterfeit banknotes being caught up quickly in Finland. In 2005, a total of 850 counterfeit euro banknotes were discovered in circulation in Finland, down 37% on 2004. The statistics for 2003 and 2004 were deteriorated by the large confiscation operations carried out in December (Chart 14).

Chart 14.
Counterfeit euro banknotes discovered in the euro area and Finland



Framework for the sorting and recycling of euro banknotes

In December 2004, the Governing Council of the ECB approved the general principles of a framework for euro banknote recycling. Throughout 2005, euro area countries have worked on introducing this framework. The framework contains the requirements for banknote sorting, recycling and cash-in machines covering the authenticity and fitness examination of euro banknotes to be returned back to circulation. The need for authenticity examination has resulted in banknotes being circulated via the central bank before being distributed from cash dispensers. Following the implementation of the model, euro

banknotes no longer need to be returned for inspection at the central bank, but the authenticity and fitness of the banknotes will be tested by the sorting or recycling machines. This offers private professional cash handlers increased logistical freedom in currency supply and may reduce the need for sorting at euro area central banks in the next few years. In Finland, cash-in-transit companies operate banknote sorting machines in their cash depots. No decision has been made on the introduction of euro banknote recycling machines in Finland.

Over the course of 2006, euro area countries will introduce regulations on the return to circulation of euro banknotes. Upon implementation of the new system by no later than the end of 2006, all euro banknote recycling machines must have been tested at one of the euro area central banks. A list of approved recycling machines will be published and updated on the ECB's website.

Other activities

Communications

Over the course of the review period, the Bank of Finland enhanced its communications by making increased use of the potential offered by net-based communication. All of the Governor's press conferences in connection with the publication of the Bank's quarterly bulletin *Euro & talous* were broadcast live via the Bank's website. All speeches and presentations by the Governor and other members of the Board were also made available without delay on the website.

Net-based solutions are an increasingly important part of the Bank's communication services and the services provided to experts and the general public. In line with the Bank's strategy, a major development project was initiated in summer 2005 to revamp the Bank's online services to meet the needs of an increasingly expert-dominated organisation. Preparations were made in 2005 to switch over increasingly to online publications and to replace some printed publications with electronic versions.

The Bank's publications *Euro & talous* and *Bank of Finland Bulletin* appeared quarterly. In the autumn, a special issue on the stability of the financial markets was published of both publications. The Bank of Finland's annual report was published in the spring in Finnish, Swedish and English. The annual report of the Parliamentary Supervisory Council was published in Finnish and Swedish. Three publications appeared in the publication series E. The annual report of the Bank of Finland's

pension fund was published in Finnish and Swedish.¹

In addition to translation work commissioned by the Bank of Finland and the Finnish Financial Supervision Authority, the Bank of Finland continued to be responsible for the translation into Finnish of the ECB's key publications. In 2005, the Bank of Finland translated into Finnish the ECB's Annual Report and the quarterly issues of the Monthly Bulletin as well as a revised version of *The Single Monetary Policy in Stage Three: General documentation on Euro system monetary policy instruments and procedures*.

In honour of the bicentenary of the birth of J. V. Snellman, the Bank of Finland published a study on the statute of Snellman, in early 2006.

The number of visitors at the Bank of Finland museum remained close to the previous year's level, totalling 12,000. The 'Studia Monetaria' lectures on aspects of macro economics and economic history became an established activity at the Museum. Guided group visits totalled 180, which is slightly less than in the previous year.

¹ A list of Bank of Finland publications in 2005 is included in the Appendices. The publications by the Bank of Finland and the Institute for Economics in Transition, and many of the publications by the European Central Bank, are available on the Bank's website (www.bof.fi).

International activities

The Bank of Finland in the European System of Central Banks

The highest decision-making body of the European Central Bank and the Eurosystem is the Governing Council of the ECB. The Governor of the Bank of Finland, Erkki Liikanen, is one of the members of the Council. Matti Louekoski, Deputy Governor of the Bank of Finland, is Erkki Liikanen's personal alternate member and assistant at the meetings of the Governing Council.

In 2005, the Governing Council of the ECB held 24 meetings, including two teleconferences and two meetings outside Frankfurt: one on 4 May 2005 in Berlin and one on 6 October 2005 in Brussels.

The Governor of the Bank of Finland is also a member of the General Council of the ECB, which includes the governors of all EU member states as well as the President and Vice-President of the ECB. In line with previous years' practice, the General Council of the ECB convened quarterly in 2005.

Board members and experts from the Bank of Finland also participated in the work of the European System of Central Banks during all preparation stages. All committees (13) and most of the working groups (approximately 60 permanent or fixed-term) included a representative from the Bank of Finland. A total of over 80 experts from the Bank participated in the work of the committees and working groups in 2005. The committees and working groups

convened according to their respective needs, within their mandate, several times a year. In addition, many other experts of the Bank took part in preparations for the meetings of the Council, committees and working groups.

Bank of Finland and international economic policy

The Bank of Finland participates in international cooperation through various organisations and cooperation bodies. According to Finnish law, the Bank of Finland is responsible for the contacts of the Finnish Republic with the International Monetary Fund (IMF). In addition, the Bank of Finland participates in the activities of the Bank for International Settlements (BIS) and the Organization for Economic Co-operation and Development (OECD). The Bank of Finland is also represented in four committees of the European Union.

International Monetary Fund

Finland's representative in the highest authority governing the IMF, the Board of Governors, was the Bank of Finland's Governor Erkki Liikanen, with Matti Louekoski, Deputy Governor of the Bank of Finland, being his alternate. The Board of Governors of the IMF convened its annual meeting in September. The Fund's advisory committee, the International Monetary and Financial Committee (IMFC), met twice during the year, chaired by Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

Responsibility for the Fund's operations rests with the 24-member Executive

Board and the Managing Director, who acts as the Board's Chairman. The duties of the Managing Director were the responsibility of Rodrigo de Rato from Spain, who took up his five-year post in the middle of 2004. Mr de Rato continued extensive delineation of the IMF's activities and strategic guidelines, started in 2004. This work culminated in a report submitted by Mr de Rato to the International Monetary and Financial Committee in September 2005.

Within the International Monetary Fund, Finland belongs to the Nordic-Baltic constituency, which has one common representative in the Board of the Fund. Since early 2004, the constituency has been represented in the Board by Jon Solheim of Norway. The central bank of Norway coordinated the preparation of constituency positions. The purpose of this coordination is to form a common position for the constituency about issues discussed in the Fund, which is communicated by the member of the Board in the meetings of the Board of the Fund. The Bank of Finland participated in the coordination within the constituency in cooperation with the Ministry of Finance.¹ In January 2006, Tuomas Saarenheimo from Finland assumed the two-year office in the Executive Board of the IMF as representative for the Nordic-Baltic constituency. Thereby, responsibility for the preparation of joint constituency positions was transferred to the Bank of Finland.

¹ More information on the views presented by the Nordic-Baltic constituency in the Board of the IMF is available in the 'Biannual Report on Recent Policy Developments in the International Monetary Fund' at <http://www.bof.fi>.

The Nordic-Baltic Monetary and Financial Committee (NBMFC) convened twice in 2005 to prepare constituency positions. Finland's representative in the Committee was Matti Louekoski, Deputy Governor of the Bank of Finland. Work of the NBMFC was prepared by an alternate committee, where the Bank of Finland was represented by Olli-Pekka Lehmuusaari. This committee also convened twice in 2005.

Representation of the constituency in the Board of the IMF beyond 2010 was prepared by a select working group operating under the NBMFC, which was chaired by Kjell Peter Söderlund from the Bank of Finland. Work on this issue is continuing.

Statistics experts of the IMF evaluated Finland's macro economic statistics in May and produced findings in the Report on the Observance of Standards and Codes (ROSC). According to the report, Finland satisfies well the international standards of quality, scope and currentness approved for the compilation of macro economic statistics. Finland also boasts an effective statutory system, which enables high-quality statistics functions.

In October, an expert group of economists from the IMF conducted an Article IV consultation in order to assess the economic situation and policies in Finland. In the statement published at the end of the consultations, the expert group concluded that Finland's economic growth has continued exceptionally strongly, with the overall growth for 2005 again exceeding the euro area

average. According to the IMF, the growth rate for 2006 will most probably be more than 3%.

However, the expert group assesses that favourable economic prospects are threatened by the rising cost of public services stemming from an ageing population, unless the sector succeeds in improving efficiency of its operations. Furthermore, the government's objective of balancing central government finances by 2007 may not be reached, if public expenditure is not restricted with additional measures, as the relaxing of taxes on earnings has weakened public finances. The expert group considered it contradictory that Finland ranks high in international comparisons on competitiveness, and yet there is uncertainty stemming from economic prospects, which is reflected in modest investment activities and lack of entrepreneurship in the country. With the transition to an older society occurring earlier in Finland than elsewhere in the European Union, Finland can set an example by timely adapting institutions and mindsets to economic change.

EU committees

Economic and Financial Committee

The European Union's Economic and Financial Committee (EFC) prepared issues related to economic and monetary union for discussion by the EU Council convening in the composition of Economic and Finance Ministers (ECOFIN). The members of the Economic and Financial Committee comprise repre-

sentatives of the Ministries of Finance of EU member states and national central banks, as well as of the ECB and the European Commission. Until 17 March 2005, the Committee was attended by Sinikka Salo, Member of the Bank of Finland's Board. Thereafter, Finland has been represented by Pentti Hakkarainen, Member of the Bank of Finland's Board. Paavo Peisa, Adviser to the Bank of Finland's Board, was alternate member of the Committee until 29 September 2005, when he was succeeded by Hannu Mäkeläinen, Adviser.

In accordance with the new procedural arrangements adopted in connection with the enlargement of the EU, representatives of national central banks will participate in those meetings of the Committee where issues related to the economic situation, financial markets, production of statistics and International Monetary Fund are discussed. The Committee, in its extended composition, met seven times in 2005.

The Economic and Financial Committee organised a meeting in March and September in relation to this new system of regulation and supervision of the financial markets of the EU member states. These so-called Financial Stability Table forum discussions were attended by not only the Committee members but also by representatives of the supervisory committee and the committee on financial services. In the course of the discussions, Finland's representatives called attention to the further enhancement and systematisation of the monitoring of the stability of financial

markets. The Committee also discussed the future challenges facing the EU's banking supervision.

As regards IMF issues, the Committee prepared common directions for the EU for meetings of the International Monetary and Financial Committee and analysed matters relating to the future of the IMF. A sub-committee handling IMF matters has been set up under the Economic and Financial Committee. In this subcommittee, the Bank of Finland is represented by Olli-Pekka Lehmussaari, Adviser to the Bank of Finland's Board.

Economic Policy Committee

The EU's Economic Policy Committee (EPC) prepared issues for the Council of Ministers in relation to the broad economic policy guidelines and structural political issues belonging to the revised Lisbon strategy. This Committee was composed of representatives from the member states' Ministries of Finance and central banks as well as from the European Commission and ECB. Adviser Tapio Peura of the Bank of Finland continued as alternate member of the Finnish delegation in 2005. The EPC held a total of 12 meetings in the year under review.

Committee of European Banking Supervisors

The Committee of European Banking Supervisors (CEBS) discussed issues concerning regulation and supervision of the banking sector. Members of this Committee included Kaarlo Jännäri, Director General of the Financial

Supervision Authority, and Heikki Koskenkylä, Head of Department at the Bank of Finland.

Committee on Monetary, Financial and Balance of Payments Statistics

The task of the Eurostat's advisory Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) is to contribute to cooperation between the ECB and the Eurostat as regards the preparation of statistics and to issue statements on its area of expertise. In the review period, the emphasis was on improving the recording of public sector financial transactions for the excessive deficit procedure. In 2005, the Bank of Finland's representative in this group was Jorma Hilpinen, Adviser.

Balance of Payments Committee

The purpose of the Eurostat's Balance of Payments Committee, established in 2005, is to assist the Eurostat in the adoption of a European Parliament and Council regulation on EU balance of payments statistics. Jorma Hilpinen, Adviser, attended this Committee as the Bank of Finland's representative.

Bank for International Settlements

The Governor of the Bank of Finland regularly attended the meetings of the Bank for International Settlements (BIS), which were held six times in 2005. These meetings discussed, among other things, international financial and foreign exchange markets as well as central banks' administration and organisation.

OECD

Representatives of the Bank of Finland participated, as usual, in the activities of the Organisation for Economic Cooperation and Development (OECD) through two committees. The OECD's Economic Policy Committee included Antti Suvanto, Head of Monetary Policy and Research, and Veli-Matti Mattila, Head of Economic Development and Analysis. The Committee on Financial Markets was attended by Heikki Koskenkylä, Head of Financial Markets and Statistics, and Jyrki Haajanen, Economist.

Other International Cooperation

The Bank of Finland has been engaged in training cooperation with the Bank of Russia to develop the latter's personnel. Two seminar-type training visits to Finland were organised in 2005 under this programme. In addition to bilateral cooperation, the Bank of Finland has also taken part in the ESCB's joint EU-TACIS project 'Central Bank Training III', a project to develop the experts of the Bank of Russia in 2004–2005.

Nordic cooperation continued in the review period at both Governor and expert level. The traditional annual get-together of the Governors of Nordic central banks was arranged in Norway. Attended by Governors, members of the Boards and other experts, the meeting focused on central bank security. The Governors also met unofficially several times during the year.

Management and organisation

Organisation

Parliamentary Supervisory Council

The Parliamentary Supervisory Council monitors the Bank of Finland's administration and activities. The council is made up of nine members, who were, at the end of 2005: Olavi Ala-Nissilä (chairman), Jouni Backman (vice-chairman), Ilkka Kanerva, Arja Alho, Janina Andersson, Sirkka-Liisa Anttila, Timo Kalli, Martti Korhonen and Jyrki Katainen. The Council's economic policy advisor was Dr Jaakko Kiander and its secretary Anton Mäkelä, LL.M. Parliament relieved Ben Zyskowicz of membership of the Council with effect from 22 April 2005. He was succeeded by Jyrki Katainen with effect from 26 April 2005. Upon her appointment to the Government, Mari Kiviniemi was relieved of membership of the Council with effect from 6 September 2005. She was succeeded by Timo Kalli with effect from 9 September 2005. Furthermore, Eero Heinäluoma was relieved with effect from 23 September upon his appointment to the Government, and he was succeeded by Jouni Backman with effect from 27 September.

The tasks of the Parliamentary Supervisory Council include monitoring the Bank of Finland's administration and activities. For example, the Council ratifies, on the motion of the Bank's Board, the grounds of the Bank's annual accounts and decides on the confirmation of the Bank's profit and loss account and balance sheet as well as on the measures concerning the result for the financial year. The Parliamentary Supervisory Council prepares an annual review

of the Bank's activities and administration and, where needed, draws up reports on issues of current interest. The Council also submits proposals to the Government on the filling of positions of the Board of the Bank of Finland, appoints the deputy governor of the Board and confirms the Bank's pension and survivors' pension regulations.

The Parliamentary Supervisory Council also supervises the appropriateness and efficiency of the operations of the Finnish Financial Supervisory Authority (FIN-FSA). Reports are made to the Council at least once a year on the operational objectives of the FIN-FSA and their achievement. The Parliamentary Supervisory Council also nominates the members, deputy members, chairman and vice-chairman of the FIN-FSA's Board and confirms its procedural rules.

In addition, the Parliamentary Supervisory Council acts as the Board of the Finnish National Fund for Research and Development.

Board

The Board of the Bank of Finland is responsible for the handling of the matters assigned to the Bank. The members of the Board of the Bank of Finland are Erkki Liikanen, Governor, Matti Louekoski, Deputy Governor, Sinikka Salo and Pentti Hakkarainen.

1 March 2005 reorganisation

In February 2005, the Bank's Board confirmed the Bank's new organisation and division of responsibilities of the Board, effective as of 1 March 2005.

Organisation of the Bank of Finland

31 December 2005

PARLIAMENTARY SUPERVISORY COUNCIL

Olavi Ala-Nissilä, Chairman, **Jouni Backman**, Vice Chairman, **Ilkka Kanerva**,
Arja Alho, **Janina Andersson**, **Sirkka-Liisa Anttila**,
Timo Kalli, **Jyrki Katainen** and **Martti Korhonen**

Anton Mäkelä, Secretary to the Parliamentary Supervisory Council

BOARD

Erkki Liikanen Governor	Matti Louekoski Deputy Governor	Sinikka Salo Member of the Board	Pentti Hakkarainen Member of the Board
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Heikki T. Hämäläinen, Secretary to the Board

Overall responsibility for ESCB affairs	Financial Markets and Statistics <i>Heikki Koskenkylä</i> • Financial Stability • Oversight of Market Infrastructure Statistics • Balance of Payments • Financial Statistics • Information Management	Monetary Policy and Research <i>Antti Suvanto</i> • Forecasting • Library and Information Services • Monitoring Institute for Economies in Transition (BOFIT) Research	Banking Operations <i>Pentti Pikkarainen</i> • Investments • Market Operations • Risk Management Payments and Settlement • Back Office • TARGET Division
General Secretariat <i>Kjell Peter Söderlund</i> Communications European and International Affairs Legal Affairs Senior Secretarial Staff Strategy and Organisation	Currency Department <i>Urpo Levo</i> • Regional Offices Kuopio, Oulu, Tampere, Turku, Vantaa		Administration <i>Esa Ojanen</i> • Accounting • Administrative Services • Language Services • Real Estate Management Information Technology Personnel Security
Internal Audit <i>Erkki Kurikka</i>			

The Financial Supervision Authority, headed by Kaarlo Jännäri, operates in association with the Bank of Finland.

Under the new organisation, operations have been divided into more comprehensive departments than before. The objective is to enhance implementation of the strategy and use of resources as well as improve cooperation and information flow. Bigger departments clarify the management system and the allocation of responsibilities. The new organisation is composed of six departments and an internal audit unit.

Monetary Policy and Research

The Monetary Policy and Research Department participates in the preparation and analysis of the Eurosystem's monetary policy and is responsible for the production of macro economic forecasts. The department also includes the Bank's research department and the Institute for Economies in Transition (BOFIT). Research focus is mainly emphasised by monetary policy and the functioning of financial markets and payment systems. BOFIT concentrates on monitoring and analysing developments in Russia and China in particular.

Financial Markets and Statistics

The Financial Markets and Statistics Department focuses on the maintenance and development of stable and effective financial and payment systems in Finland, and is responsible for compiling Finnish data for financial and balance of payment statistics for the euro area, together with corresponding national data. The department develops structures to ensure control and management in the event of crises or a state of emergency

endangering the financial system. Furthermore, the department contributes to the enhancement of security and effectiveness of international financial systems, particularly at the EU, euro area and Nordic level.

Banking Operations

In executing market operations, the Banking Operations Department is responsible for the implementation of the Eurosystem's monetary policy in Finland, management of foreign reserve assets as well as risk management. It provides monetary financial institutions operating in Finland with the necessary central bank services in matters relating to liquidity, credit and savings in both domestic and international payment transactions.

Currency Department

The key task of the Currency Department is to ensure effective and secure currency supply systems in Finland. The department is responsible for the issuance, quality and authenticity of euro banknotes and coins and for arranging regional currency supply management in Finland. It also participates in communication about euro banknotes and coins and arranges relevant training.

Administration

Administration within the Bank of Finland is responsible for human resource management and financial administration and the provision of internal services in a cost-effective and customer-driven manner. The depart-

ment's functions include accounting, preparation of financial statements, monitoring of capital adequacy, internal accounting and budgeting, provision of IT services, preparation of IT solutions as well as development and maintenance of IT in accordance with the internal customer-supplier framework. The department is also responsible for the preparation of the human resource policy, personnel development and wellbeing as well as other HR management services. The department's functions further include security services, risk management and continuity and capacity planning. Administration within the Bank of Finland is also responsible for property management and the technical upkeep of premises, procurement, office, transportation and canteen services, document management and publication services as well as translation and linguistic revision services.

General Secretariat

The department is responsible for the factual and legal quality of matters being prepared for discussion by the Bank's Board, internal and external communications and monitoring the implementation of decisions. The department also coordinates the Bank of Finland's contribution to the meetings of the ECB's Governing Council and assists the Bank's Board in the handling of matters relating to international connections. Furthermore, the department takes care of matters relating to the activities of the Parliamentary Supervisory Council.

Internal Audit

Internal Audit within the Bank of Finland produces added value to the Bank's operations by providing independent and objective audit functions designed to improve the Bank's operational reliability. The focus is on assessing the effectiveness of risk management, supervisory, management and administrative processes.

Financial Supervision Authority

Operating in cooperation with the Bank of Finland but executing its supervisory tasks as an independent authority, the Financial Supervision Authority (FIN-FSA) seeks to promote stable conditions in the financial markets and enhance public confidence in the operations of the supervised entities and markets. One member and one deputy member to the FIN-FSA's Board is appointed upon the proposal of the Bank of Finland. The FIN-FSA produces an annual report of its activities.

The Bank of Finland's Board approves the FIN-FSA's annual budget. These costs arising from the FIN-FSA's operations are covered by supervision fees subsequently collected from supervised entities. The Bank of Finland is also responsible for providing administrative and support functions to the FIN-FSA.

Management system

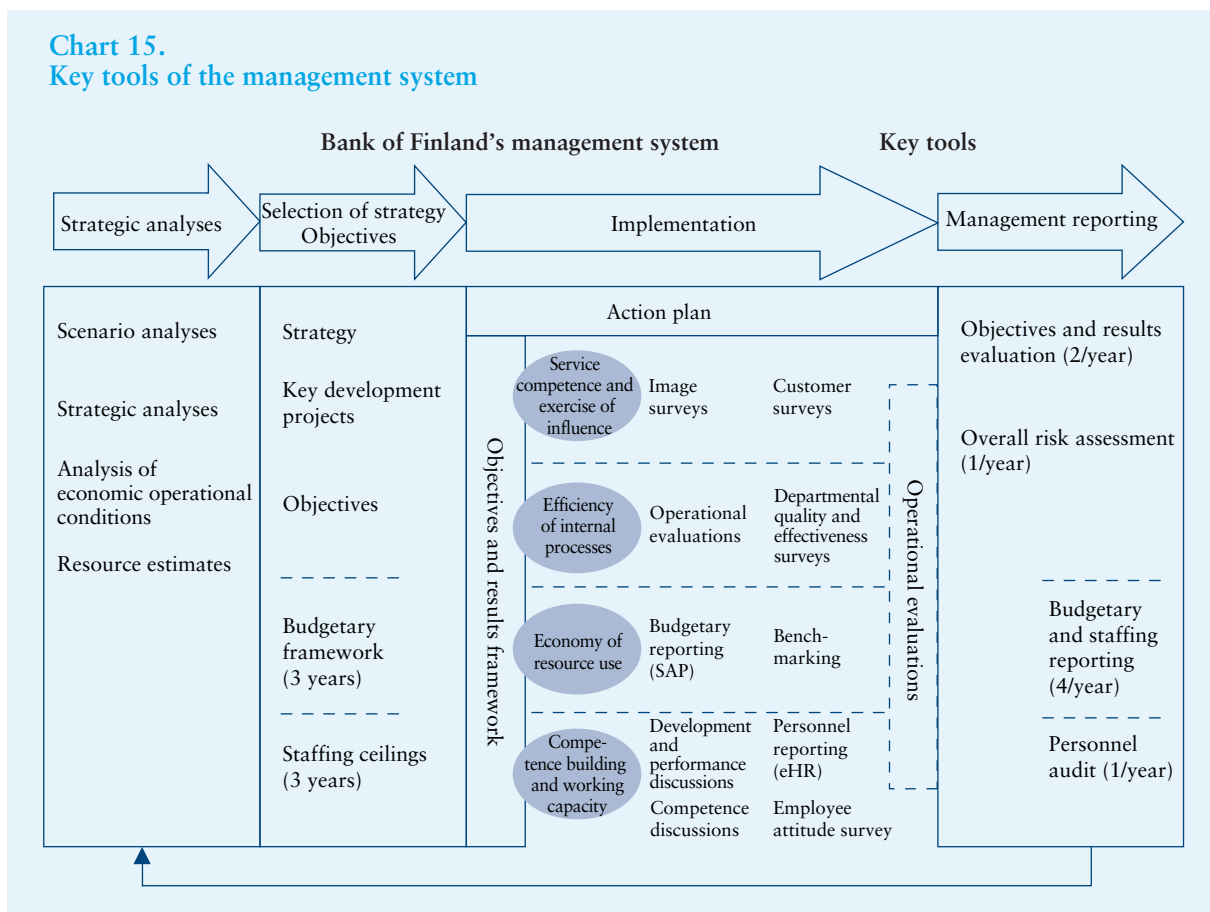
Strategy, staffing ceilings and the budgetary framework, action planning, overall risk evaluation and goals achievement feature prominently in the Bank of Finland's management system. Performance and appraisal discussions with the employees are also an important part of the management system.

The system underwent major changes during 2005. The Bank of Finland's Board approved the Bank's new strategy, where key goals have been described in a more explicit and precise manner. To facilitate implementation of

the strategy, the Bank introduced a tool known as the objectives and results framework, which will be taken into use over 2005–2006. This framework provides departments with operational goals as regards the ability to service and influence, efficiency of internal processes, effective use of resources, the ability to renew as well as competence. The objectives and results framework also serves as a tool for monitoring accomplishment of the objectives.

The budgetary process was revised in that the Bank's Board sets a binding

Chart 15.
Key tools of the management system



personnel and budgetary framework for the following three years prior to the commencement of departmental action planning. Plans are made on a three-year rolling basis. The revision also involved shortening of the time used for action planning and inclusion of overall risk assessment in the process.

Following the revision of the action planning process, departments report to the Bank's Board on the accomplishment of the objectives on a six-monthly basis using the objectives and results framework. Status reports on the implementation of the budgetary framework and staffing ceilings and the Bank's performance and balance sheet are prepared on a quarterly basis.

During 2005, risk management was consolidated by incorporating into the action planning process evaluation of overall risks. This involves evaluation of the risks and threats relating to the bank's operations, personnel, assets, property, processes and objectives. They are subject to systematic scrutiny and are evaluated relative to the Bank's strategy and objectives.

Personnel

The human resource priorities at the Bank have centred on making provisions for a large number of retirements, reductions in staff size and the renewal of the staff structure, a cost-efficient and customer-oriented organisation and professional supervisory skills. In the wake of the introduction of the new organisation structure on 1 March 2005, resource goals were specified for each department. In addition, senior management made the decision that 50% at the maximum of all vacancies will be filled.

At the end of 2005, the Bank of Finland employed 544 staff, with 483 employed at the head office and 61 in currency supply maintenance. The number of staff in attendance declined by 2.9% during 2005.

Of the total staff, 56% held expert positions (incl. supervisory positions). The average age of the staff was 45.8 years. External recruitments totalled 27, and they were focused on persons with labour market experience; hence the proportion of younger age groups did not increase. The average age of externally recruited employees was 31 years.

The Financial Supervision Authority (FIN-FSA) employed 138 staff at the end of 2005. The FIN-FSA uses the Bank of Finland's human resource services for its operations.

Human resource functions under change

The year saw continuation of the transfer of the Bank of Finland's pension provision services to the State Treasury Office. The transfer is scheduled to be

completed by the end of 2006. The Bank of Finland's pension fund is responsible for pension financing and pension provisions. The pension fund pays pensions to approximately 900 retired Bank employees.

Payroll management was outsourced to Personec Oy, with effect from 1 September 2005.

In support of the decentralisation of the human resource management functions, the Bank introduced a SAP-based electronic human resource database known as eHR, with effect from the beginning of the year. The supervisor portal serves as a management tool, which enables superiors to access and handle information on their subordinates and to run HRM processes. Through the employee portal, staff can independently view and update their personal data. Electronic forms and acceptance procedures speed up the various HRM processes. Up-to-date personnel reports and key statistics provide support to the Bank's managers and supervisors in their work. The single entry approach for the data reduces overlapping work, administrative routines and the use of multiple registers and forms. The system also offers a basic register for HRM professionals.

New functionalities will be incorporated into the system gradually. At the beginning of 2006, new procedures in time management and insider reporting will be introduced for the entire personnel. Time management processes will be streamlined and electronic time management methods will replace a pro-

portion of the conventional paper-based reports. Insider notifications, monitoring and reports will be handled through a new portal.

Already some of the work previously carried out by the HR unit has been eliminated through the introduction of eHR. The aim is to handle an increasing part of the human resources management tasks through eHR by introducing modules that support personnel development and competence management.

Labour market activities

The collective civil service agreement is valid from 1 March 2004 to 15 February 2006. At the end of 2005, collective bargaining negotiations were initiated, aimed at reaching a two-year collective civil service agreement for the years 2006–2008.

The structure of the shop steward organisation was developed in 2005. The number of committees within the codetermination regime was adjusted to reflect the Bank's renewed organisation.

Employee wellbeing at work and competence development

In November 2005, an employee satisfaction survey was carried out at the Bank of Finland and the Financial Supervision Authority (FIN-FSA) in cooperation with Psycon Oy. An average of 88.3% and 88.0% of Bank and FIN-FSA staff, respectively, responded to the survey. The results will be used in management and organisational development activities.

The policy on competence development, responsibilities for organising training and induction training for new bank employees were revised in 2005.

The basic education level of Bank employees increased in 2005, with 52% of the staff holding a university-level degree. Staff were encouraged to enter a job rotation process, both internally and externally, to broaden and strengthen their skills. Internal staff mobility was 8% during 2005.

EUR 0.9 million was used for training in 2005. Training for economists centered on general equilibrium macro models and related simulation and estimation programs. Experts' language and communication skills were enhanced in both Finnish and English language courses, and supervisory management courses with emphasis on group-based professional counselling were continued. In addition, Bank employees participated in ESCB-wide leadership, introductory and interactive skills courses and in expert exchange programmes with the ECB. Training in computer skills was dominated by the information technology licence courses.

Table 3.
Highlights of human resource management

	2004	2005
Staff size		
Operational strength	559.5	543.5
Total man years	601.2	565.4
Turnover rate for those leaving the Bank's service	18%	8%
Turnover rate for those entering the Bank's service	5%	5%
Internal mobility	7%	8%
Number of newly retired employees	36	25
Average age of newly retired employees	57 years	57 years
Number of pensions currently paid	875	917
Staff costs¹/man-year	EUR 41.1 million/ 601.2 man years EUR 68,406/ man year	EUR 39.1 million/ 565.4 man years EUR 64,976/ man year
Staff structure		
Average staff age	45.6 years	45.8 years
Proportion of experts and superiors	54%	56%
Proportion of women	51%	50%
Education level index ²	5.3	5.4
Salaries and bonuses		
Salaries in relation to market salaries ³	101.8%	102.0%
Increases in salaries	3.27%	3.75%
General increase	2.15%	2.55%
Sectoral allowance	0.30%	0.40%
Personal pay increases	0.82%	0.80%
Bonuses as a proportion of payroll	0.64%	0.23%
Average pay for women/average pay for men	99.6%	98.8%
Pensions		
Pensions paid ⁴	EUR 16.0 million	EUR 16.6 million
Competence		
Training costs/payroll	3.7%	3.2%
Training days/man-year	5.2	4.4
Wellness at work		
Absence from work due to sick leave	2.8%	3.5%
Job satisfaction index (employee attitude survey 2005)	n/a	3.35

¹ Staff costs include paid salaries, indirect salary-related expenses, statutory social security costs and other indirect costs arising from, for example, training, industrial safety activities, optional social security and occupational health services. In the Bank of Finland's profit and loss account, corresponding items include the FIN-FSA's costs.

² Education level index is calculated from the basic level of education of staff included in the operational strength. The educational level index varies between 1 and 8.

³ The Bank of Finland's reference group in the HAY market salary survey is made up of organisations representing the banking and financial sectors, public sector, and industrial and service sectors. The Bank of Finland's remuneration policy is targeted at the median level of the HAY market salary survey.

⁴ Includes pensions paid to the retired employees of the FIN-FSA.
Source: Bank of Finland.

Budget and operating costs

The Bank of Finland's operating expenses for 2005 totalled EUR 88.0 million, representing an increase of around EUR 1.5 million (1.9%) on the previous year. Operating income totalled approximately EUR 12.4 million, thus the net operating expenses and income totalled EUR 75.5 million.

Operating expenses for 2006 are estimated at being approximately EUR 8.6 million more than in 2005. The expected increase is due to growth in banknote procurement, pension costs and depreciation. In addition, outsourcing services in particular, included under other expenses, will increase expenses. Staff costs will remain almost unchanged (growth 0.7%).

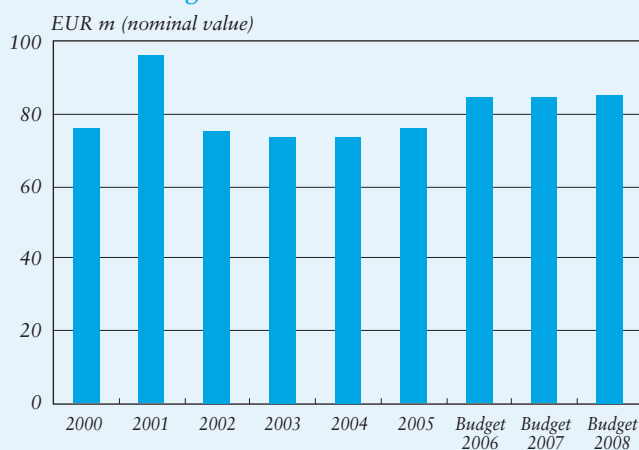
Over the medium term, expenses are estimated to remain fairly stable. Operating expenses excluding banknote procurement and pensions are estimated

to increase by 4.3% by the end of the reference period (2006–2008). The estimated growth is based on the completion of large investments and the first of the related depreciation write-downs. This will result in a considerable increase in depreciation, totalling EUR 2.9 million (20.4%), during the reference period. In the following three years, the total sum of pensions payable will grow by EUR 4 million on 2005. The remaining growth in operating expenses is explained by an increase of EUR 2 million in banknote procurement costs.

Investment expenditure totalled EUR 14 million in 2005. Of this, 72.4% was devoted to real estate projects designed to achieve a more cost-effective use of the Bank's premises, while 24.5% went on other long-term investments. In addition to the cost of long-term investments, the budget for purchases also included EUR 0.4 million entered directly as depreciation items.

Investments for 2006 are estimated at approximately EUR 7.3 million more than in 2005. This growth is mainly due to costs of the renovation work already ongoing in the Bank's premises. Over the medium term, investments will range between about EUR 6 and 8 million.

Chart 16.
The Bank of Finland's net operating expenses
2000 – budget 2008



Source: Bank of Finland.

Table 4.
Bank of Finland's operating expenses and income, EUR million

<i>1. Operating expenses and income</i>	<i>Budget 2008</i>	<i>Budget 2007</i>	<i>Budget 2006</i>	<i>Outturn 2005</i>
<i>Expenses</i>				
<i>Salaries and fees</i>	28.1	28.5	28.9	28.8
<i>Social security</i>	3.5	3.5	3.7	3.6
<i>Other</i>	23.4	23.8	25.2	22.5
	55.0	55.8	57.7	54.9
<i>Depreciation</i>				
<i>IT equipment</i>	2.5	2.5	2.4	1.6
<i>Money handling machines</i>	1.0	1.0	0.9	0.9
<i>Buildings</i>	11.6	11.1	10.8	10.6
<i>Other fixed assets</i>	1.8	1.6	1.4	1.0
	17.0	16.2	15.5	14.1
Total	71.9	72.0	73.2	69.0
<i>Banknote procurement</i>	4.8	4.8	4.8	2.7
<i>Pensions</i>	20.3	19.5	18.6	16.3
Total operating expenses	97.0	96.3	96.6	88.0
<i>Income</i>				
<i>Services sold to the Financial Supervision Authority</i>	-2.1	-2.1	-2.2	-2.2
<i>Real estate</i>	-8.3	-8.2	-8.1	-8.0
<i>Other</i>	-1.7	-1.8	-2.0	-2.3
Total income	-12.1	-12.1	-12.2	-12.4
Net	84.9	84.2	84.3	75.5
<i>2. Purchases</i>				
<i>IT equipment and software</i>	3.3	3.5	4.4	2.6
<i>Other equipment and machinery</i>	1.6	1.9	5.4	1.2
Total purchases	4.9	5.4	9.8	3.9
<i>3. Real estate projects</i>				
<i>Head office premises</i>	0.2	0.5	8.0	6.8
<i>Vantaa premises</i>	1.0	1.0	3.0	2.4
<i>Other premises</i>	0.3	0.9	0.6	1.0
Total real estate projects	1.5	2.3	11.5	10.2

Source: Bank of Finland.

Financial statements

Balance sheet, EUR million

	31 Dec 2005	31 Dec 2004
Assets		
<i>Gold and gold receivables (1)</i>	686	507
<i>Claims on non-euro area residents denominated in foreign currency (2)</i>	8,719	8,790
<i>Receivables from the IMF</i>	384	591
<i>Balances with banks and security investments, external loans and other external assets</i>	8,336	8,199
<i>Claims on euro area residents denominated in foreign currency (3)</i>	854	775
<i>Claims on non-euro area residents denominated in euro (4)</i>	0	0
<i>Balances with banks, security investments and loans</i>	0	0
<i>Lending to euro area credit institutions related to monetary policy operations denominated in euro (5)</i>	1,692	2,450
<i>Main refinancing operations</i>	1,200	1,800
<i>Longer-term refinancing operations</i>	492	650
<i>Other claims on euro area credit institutions denominated in euro (6)</i>	0	2
<i>Intra-Eurosystem claims (7)</i>	6,407	4,639
<i>Share in ECB capital</i>	74	74
<i>Claims equivalent to the transfer of foreign reserve assets</i>	717	717
<i>Claims related to TARGET and correspondent accounts (net)</i>	1,686	–
<i>Net claim related to the allocation of euro banknotes within the Eurosystem</i>	3,930	3,848
<i>Other assets (8)</i>	840	786
<i>Euro area coins</i>	31	17
<i>Tangible and intangible fixed assets</i>	209	210
<i>Other current assets</i>	471	425
<i>Other</i>	129	134
Total assets	19,198	17,948

Totals/sub-totals may not add up because of rounding.

	31 Dec 2005	31 Dec 2004
Liabilities		
Banknotes in circulation (1)	9,374	8,313
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro (2)	3,536	3,156
Current accounts (covering the minimum reserve system)	3,535	3,156
Deposit facility	1	0
Liabilities to other euro area residents denominated in euro (3)	1	0
Liabilities to non-euro area residents denominated in euro (4)	1	1
Liabilities to euro area residents denominated in foreign currency (5)	0	0
Liabilities to non-euro area residents denominated in foreign currency (6)	509	930
Deposits, balances and other liabilities	509	930
Counterpart of special drawing rights allocated by the IMF (7)	173	163
Intra-Eurosystem liabilities (8)	11	526
Other liabilities (9)	153	179
Revaluation account (10)	974	514
Provisions (11)	2,735	2,580
Capital and reserves (12)	1,530	1,474
Primary capital	841	841
Reserve fund	689	633
Profit for the financial year (13)	200	112
Total liabilities	19,198	17,948

Profit and loss account, EUR million

	1 Jan – 31 Dec 2005	1 Jan – 31 Dec 2004
<i>INTEREST INCOME (1)</i>	403	397
<i>INTEREST EXPENSE (2)</i>	-73	-115
<i>NET INTEREST INCOME (3)</i>	331	282
<i>REALISED GAINS/LOSSES RELATED TO FOREIGN EXCHANGE RATE MOVEMENTS (4)</i>	67	-196
<i>REALISED SECURITIES PRICE DIFFERENCES (5)</i>	1	29
<i>CHANGE IN FOREIGN EXCHANGE RATE AND PRICE DIFFERENCE PROVISION (6)</i>	-68	167
<i>NET RESULTS OF FINANCIAL OPERATIONS, WRITE DOWNS AND RISK PROVISIONS</i>	331	282
<i>NET SHARE OF MONETARY INCOME (7)</i>	3	-22
<i>SHARE IN ECB PROFIT (8)</i>	-	-
<i>OTHER CENTRAL BANKING INCOME (9)</i>	3	3
<i>CENTRAL BANKING PROFIT</i>	336	263
<i>OTHER INCOME (10)</i>	23	24
<i>OPERATING EXPENSES</i>		
<i>Staff costs (11)</i>	-49	-69
<i>Administrative expenses (12)</i>	-17	-18
<i>Depreciation of fixed assets (13)</i>	-6	-4
<i>Banknote procurement costs (14)</i>	-3	-1
<i>Other expenses (15)</i>	-8	-9
<i>OPERATING PROFIT</i>	277	186
<i>PENSION FUND</i>		
<i>Income of the pension fund (16)</i>	55	58
<i>Expenses of the pension fund (17)</i>	-19	-18
<i>CHANGES IN PROVISIONS (18)</i>	-113	-114
<i>PROFIT FOR THE FINANCIAL YEAR (19)</i>	200	112

Appendices to the financial statements

	1 Jan – 31 Dec 2005		1 Jan – 31 Dec 2004	
Foreign currency futures contracts, EUR m				
Purchase contracts	931.9		–	
Sales contracts	931.9		–	
Shares and other interests, nominal value, EUR m				
Bank for International Settlements ¹	22.4	(1.96%)	11.5	(1.96%)
Shares in housing companies	6.2		6.2	
Other shares and interests	0.1		0.1	
Total	28.6		17.7	
Bank of Finland's liability share in the APK fund, EUR m				
	0.3		0.3	
Liability arising from pension commitments, EUR m				
The Bank of Finland's pension liability	470.3		457.8	
– of which covered by reserves	442.1		406.5	
Staff banking office, EUR m				
– Deposits	20.0		20.3	
– Loans	4.6		4.8	

¹ In parentheses, the Bank of Finland's relative holding of BIS shares in circulation. Previously, the holding was reported as a percentage of the potential maximum amount of the BIS share capital.

The Bank of Finland's real estate

<i>Building</i>	<i>Address</i>	<i>Year of completion</i>	<i>Volume m³ (approx.)</i>
<i>Helsinki</i>	<i>Rauhankatu 16</i>	<i>1883/1961</i>	<i>49,500</i>
	<i>Unioninkatu 33¹</i>	<i>1848</i>	<i>11,710</i>
	<i>Rauhankatu 19</i>	<i>1954</i>	<i>38,790</i>
	<i>Snellmaninkatu 6²</i>	<i>1857/1892/2001</i>	<i>26,930</i>
	<i>Snellmaninkatu 2²</i>	<i>1901</i>	<i>3,200</i>
	<i>Ramsinniementie 34</i>	<i>1920/1983/1998</i>	<i>4,600</i>
<i>Kuopio</i>	<i>Puutarhakatu 4</i>	<i>1993</i>	<i>11,900</i>
<i>Oulu</i>	<i>Kajaaninkatu 8</i>	<i>1973</i>	<i>17,700</i>
<i>Tampere</i>	<i>Hämeenkatu 13²</i>	<i>1942</i>	<i>36,000</i>
<i>Turku</i>	<i>Linnankatu 20</i>	<i>1914</i>	<i>10,500</i>
<i>Vantaa</i>	<i>Suometsäntie 1</i>	<i>1979</i>	<i>311,500</i>
<i>Inari</i>	<i>Saariselkä</i>	<i>1968/1976/1998</i>	<i>6,100</i>

¹ Unioninkatu 33 (11,710 m³) has been altered to become a separate real estate unit and sold to the University of Helsinki. Ownership will be transferred, 1 September 2006.

² Transferred to the ownership of the Bank of Finland's pension fund from the beginning 2002.

The Board proposes to the Parliamentary Supervisory Council that EUR 66,218,415.81 of the profit of EUR 200,218,415.81 be transferred to the reserve fund according to section 21, subsection 2 of the Act on the Bank of Finland and that the remaining EUR 134,000,000.00 be made available for the needs of the state.

Helsinki, 22 February 2006

THE BOARD OF THE BANK OF FINLAND

Erkki Liikanen, Chairman

Matti Louekoski

Sinikka Salo

Pentti Hakkarainen

Notes to the financial statements

Accounting conventions

The Bank of Finland observes the economic-based accounting principles and techniques adopted by the Governing Council of the ECB, and the Bank's annual accounts are drawn up in accordance with these harmonised principles. In accordance with section 11 of the Act on the Bank of Finland, the Parliamentary Supervisory Council confirms, on the proposal of the Board, the principles applied in drawing up the annual accounts.

Gold and items denominated in foreign currency

In the annual accounts, foreign currency-denominated items and gold have been converted into euro at the rates and prices prevailing on the balance sheet date. Items denominated in foreign currency have been revaluated on a currency-by-currency basis. Securities have been valued on an item-by-item basis. Revaluation differences related to foreign exchange rate movements and securities price movements are treated separately. In the case of gold, however, no distinction is made between price and exchange rate differences; rather, a single revaluation is made.

Repurchase agreements and reverse repurchase agreements

Reverse repurchase agreements are recorded as collateralised deposits on the

assets side of the balance sheet. Repurchase agreements, or repos, are recorded as collateralised loans on the liabilities side of the balance sheet. Securities sold under repurchase agreements remain on the Bank's balance sheet.

Claims and liabilities between National Central Banks of EU countries

Transactions between the National Central Banks (NCBs) of EU countries are primarily processed via TARGET, the Trans-European Automated Real-time Gross settlement Express Transfer system. These transactions give rise to bilateral balances in accounts held between EU central banks. These bilateral balances are novated to the ECB daily, leaving each NCB with a single net bilateral position vis-à-vis the ECB only.

Fixed assets

As from the beginning of the financial year 1999, fixed assets have been valued at acquisition price less depreciation. Depreciation is calculated on a straight-line basis over the expected economic lifetime of an asset, starting from the second calendar month following acquisition.

The counteritem of buildings and land capitalised in the 1999 balance sheet at market prices is the revaluation account. Depreciation in respect of buildings and land has been entered by adjusting the revaluation account downwards so that depreciation does not affect the Bank's income or expense.

The economic lifetimes of assets are calculated as follows:

- computers, related hardware and software, and motor vehicles: 4 years
- equipment and furniture: 10 years
- buildings: 25 years.

Fixed assets with a value of less than EUR 10,000 are written off during the year of purchase.

<i>Key for subscription of the ECB's capital</i>	
<i>1 May 2004, %</i>	
<i>Nationale Bank van België</i>	
– <i>Banque Nationale de Belgique</i>	2.5502
<i>Deutsche Bundesbank</i>	21.1364
<i>Bank of Greece</i>	1.8974
<i>Banco de España</i>	7.7758
<i>Banque de France</i>	148712
<i>Central Bank and Financial Services Authority of Ireland</i>	0.9219
<i>Banca d'Italia</i>	13.0516
<i>Banque centrale du Luxembourg</i>	0.1568
<i>De Nederlandsche Bank</i>	3.9955
<i>Oesterreichische Nationalbank</i>	2.0800
<i>Banco de Portugal</i>	1.7653
<i>Suomen Pankki – Finlands Bank</i>	1.2887
<i>Subtotal Eurosystem</i>	71.4908
<i>Česká národní banka</i>	1.4584
<i>Danmarks nationalbank</i>	1.5663
<i>Eesti Pank</i>	0.1784
<i>Central Bank of Cyprus</i>	0.1300
<i>Latvijas Banka</i>	0.2978
<i>Lietuvos bankas</i>	0.4425
<i>Magyar Nemzeti Bank</i>	1.3884
<i>Central Bank of Malta / Bank Centrali ta' Malta</i>	0.0647
<i>Narodowy Bank Polski</i>	5.1380
<i>Banka Slovenije</i>	0.3345
<i>Národná banka Slovenska</i>	0.7147
<i>Sveriges Riksbank</i>	2.4133
<i>Bank of England</i>	14.3822
<i>Subtotal non-euro area NBCs</i>	28.5092
<i>Total</i>	100.0000

Euro banknotes and monetary income

The ECB and the 12 participating NCBs, which together comprise the Eurosystem, have issued euro banknotes as from 1 January 2002.¹ The total value of euro banknotes in circulation is allocated to the NCBs on the last banking day of each month in accordance with the banknote allocation key.² The ECB has been allocated a share of 8% of the total value of euro banknotes in circulation, with the remaining 92% being allocated to NCBs according to the capital key. This is disclosed under the balance sheet liability item 'Banknotes in circulation'. The difference between the value of the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest,³ are disclosed under the sub-item 'Intra-Eurosystem claims/liabilities: Net claim/liability related to the allocation of euro banknotes within the Eurosystem'. In the Bank of Finland's balance sheet, the item is on the asset side.

From 2002 until 2007 the intra-Eurosystem balances arising on the euro banknotes are to be adjusted in order to

¹ ECB decision of 6 December 2001 on the issue of euro banknotes (ECB/2001/15).

² The banknote allocation key is derived from the percentages that result from deducting the ECB's percentage share in the total euro banknote issue and applying the subscribed capital key of the ECB to the NCBs' remaining share.

³ ECB decision of 6 December 2001 on the allocation of monetary income of the national central banks of participating Member States from the financial year 2002 (ECB/2001/16).

avoid significant changes in NCBs' relative income positions as compared to previous years. The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the period from July 1999 to June 2001 and the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments will be reduced in annual stages until the end of 2007, after which the monetary income on banknotes will be allocated fully in proportion to the NCBs' paid-up shares in the capital of the ECB. The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under 'Net interest income'.

The income accruing to the ECB on the share of 8% of the total value of euro banknotes in circulation is generally distributed to the NCBs.⁴ For 2004, this income was not distributed because the ECB's net profit for the year was less than its income on euro banknotes in circulation. For 2005, the ECB's income on euro banknotes in circulation was not distributed for the sake of increasing the ECB's exchange rate and price difference provisions.

If the ECB incurs an annual loss, the loss can be offset against the ECB's general reserve fund, and if necessary, by a decision of the Governing Council, against the monetary income of the relevant financial year in proportion and up to the amount allocated to the NCBs.

⁴ ECB decision (ECB/2002/9).

Accounting principles applied to the profit and loss account

Income and expenses are entered in the profit and loss account.

Realised income and expenses are entered in the profit and loss account. Realised foreign exchange rate gains and losses have been calculated using the daily net average rate method. Gains and losses related to securities price movements have been calculated using the average cost method.

Unrealised gains are entered in the revaluation account.

Unrealised losses are entered in the profit and loss account, if they exceed previous revaluation gains registered in the revaluation account in the balance sheet. Unrealised losses taken to the profit and loss account are not reversed against any future unrealised gains in subsequent years. If unrealised losses are entered in the profit and loss account in respect of a security or a currency, the average price of the security or the net average rate of the currency is adjusted correspondingly before the beginning of the next financial year.

Unrealised net gains and losses in respect of securities and foreign currency-denominated items are entered on an item-by-item basis and currency-by-currency basis and in respect of gold separately.

The difference between the acquisition price and nominal value of securities is entered as income or expense over the maturity of the security.

Income and expenses of the Bank of Finland's pension fund and the Financial

Supervision Authority (FIN-FSA) are entered in the Bank's profit and loss account.

Pension fund

In 2001 the decision was made to create a pension fund in the Bank of Finland's balance sheet for the management of the Bank's pension liability. The purpose of this measure, which came into force from the beginning of 2002, is to ensure that the funds related to the coverage of the pension liability are invested in a lucrative manner. A separate annual report will be prepared on the pension fund of the Bank of Finland.

Off-balance sheet items

Forward foreign exchange transactions are taken into account when the net average cost of a currency position is calculated. Gains and losses arising from off-balance-sheet items are treated in the same manner as gains and losses arising from on-balance-sheet items.

Notes to the balance sheet

Assets

1. Gold and gold receivables

The Bank's holdings of gold total 1,576,835 troy ounces. In the annual accounts, gold has been valued at market price. At the beginning of 1999 the Bank of Finland – and the other central banks participating in the Eurosystem – transferred about 20% of its gold holdings to the ECB.

	31 Dec 2005	31 Dec 2004
<i>Gold</i>		
<i>Holdings of gold (troy ounces)</i>	1,576,835	1,576,831
<i>Price:</i>		
<i>euro per troy ounce</i>	434.86	321.56
<i>Market price value, EUR</i>	685,696,274	507,182,825
<i>Change in the market value, EUR</i>	178,513,450	-13,915,608

The slight change in the amount of gold is the result of balancing transactions.

2. Claims on non-euro area residents denominated in foreign currency

This item includes foreign-currency claims on non-euro area residents included in the Bank's foreign reserves and holdings of Special Drawing Rights (SDRs) allocated by the International Monetary Fund (IMF). Receivables from the IMF consist of the following items (in millions):

	31 Dec 2005		31 Dec 2004	
	EUR	SDR	EUR	SDR
<i>Reserve tranche in the IMF</i>	227.7	198.3	462.7	406.0
<i>SDRs</i>	130.1	113.3	121.6	106.7
<i>Other receivables from the IMF</i>	6.7	5.8	6.6	5.8
	364.5	317.4	590.8	518.5

Finland's quota in the IMF amounts to SDR 1,263.8 million. The reserve tranche is the part of the Bank's quota that has been paid to the IMF in foreign currency. Another part of the quota was formerly paid to the IMF in markka. The IMF has lent this part back to the Bank of Finland. The net effect of the markka quota on the Bank's balance sheet is zero, since the above-mentioned receivables and the liability are included in the same item.

The Bank of Finland's SDR allocation amounts to EUR 130.1 million. The SDRs are reserve assets created and allocated by the IMF to its member countries. They are used in currency transactions as normal currency units. The value of 'Receivables from the IMF' changes on the basis of foreign exchange transactions between the member countries. In addition, its value is affected by interests earned and paid as well as remuneration on the Bank's claims in the IMF.

The Bank of Finland's receivables from the IMF total EUR 364.5 million. On 31 December 2005, the exchange rate between SDR and EUR was 1.21. This item also includes the SDR valuation in the financial statements.

In addition to IMF counteritems, this item includes balances with banks and security investments, as well as external loans and other external assets.

At the beginning of 1999 the Bank of Finland transferred part of its claims denominated in US dollars and Japanese yen to the ECB.

3. Claims on euro area residents denominated in foreign currency

This item consists of balances with banks and investments in securities of euro area residents denominated in foreign currency.

4. Claims on non-euro area residents denominated in euro

This item includes euro-denominated receivables from the Bank for International Settlements (BIS).

5. Lending to euro area credit institutions related to monetary policy operations denominated in euro

This item consists of the balances of monetary policy instruments.

Main refinancing operations are liquidity-providing operations which are executed weekly on the basis of standard tenders. Main refinancing operations play a pivotal role in fulfilling the objectives of Eurosystem's market operations and provide the bulk of refinancing to the banking sector. Claims on the main refinancing operations amounted to EUR 1,200 million at the end of 2005.

Longer-term refinancing operations are liquidity-providing transactions that are executed once a month on the basis of standard tenders. Claims on the longer-term refinancing operations totalled EUR 491.7 million. Fine-tuning operations were also conducted during 2005 but there were no outstanding balances on them at the end of the year. Fine-tuning reverse operations are

executed on an ad hoc basis in order to smooth the effects on interest rates caused by unexpected liquidity fluctuations in the money market.

6. Other claims on euro area credit institutions denominated in euro

This item consists of balances with credit institutions in the euro area.

7. Intra-Eurosystem claims

This item includes intra-Eurosystem claims. The share in the ECB's capital of each NCB participating in the Eurosystem is determined on the basis of so-called capital key. The capital key is calculated relative to the population and gross domestic product of each country. It is adjusted every five years and when new members join the EU. The claims are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component. They are denominated in euro at a value fixed at the time of their transfer. This item also consists of the Bank of Finland's claims resulting from TARGET payments. The counterpart to the claims is the ECB, since the claims and liabilities between NCBs resulting from TARGET payments have been netted so that each bank has one balance with the ECB. This item also includes net claim related to the allocation of the value of euro banknotes in the Eurosystem.

8. Other assets

This item consists of coins in circulation in the euro area, securities classified as securities held as investment assets and

fixed assets (buildings, machinery and equipment). In 2005 the Bank of Finland participated in a share issue in which the member banks of the Bank for International Settlements (BIS) had the possibility to subscribe to BIS shares so that their relative holding of BIS shares remains unchanged after the share issue. The Bank of Finland used this right in full and subscribed to additional BIS shares, valued at EUR 10.9 million.

The item also includes pension fund asset and investment items, valuation results of off-balance-sheet items, accruals and other assets.

Liabilities

1. Banknotes in circulation

This item consists of the Bank of Finland's share, valued at EUR 9,374 million, of the total amount of euro banknotes in circulation.

2. Liabilities to euro area credit institutions related to monetary policy operations denominated in euro

This item includes credit institutions' RTGS account balances. Credit institutions meet their reserve requirements by maintaining the average of their daily RTGS account balances at least as high as the reserve requirement during the maintenance period. The minimum reserve system primarily pursues the aims of stabilising money market interest rates and enlarging the structural liquidity shortage of the banking system.

This item also consists of credit institutions' overnight deposits.

3. Liabilities to other euro area residents denominated in euro

This item consists of euro-denominated liabilities to credit institutions other than those subject to the reserve requirement.

4. Liabilities to non-euro area residents denominated in euro

This item consists of balances of international organisations and non-euro area banks with the Bank of Finland.

5. Liabilities to euro area residents denominated in foreign currency

This item consists of assets denominated in foreign currency deposited by the State Treasury for its own payments.

6. Liabilities to non-euro area residents denominated in foreign currency

This item includes repurchase agreements entered into for the purpose of managing foreign reserve assets.

7. Counterpart of special drawing rights allocated by the IMF

This item is the counteritem of SDRs (cf. item on the asset side). Originally the amount of SDRs and their counteritem were equal. As a result of transactions, the Bank of Finland's claims related to SDRs were bigger than their counteritem at the end of 2005. The counteritem has remained at SDR 143 million for several years.

8. Intra-Eurosystem liabilities

This item consists of liabilities arising from the distribution of the ECB's income derived from banknotes.

9. Other liabilities

This item consists of accruals and other liabilities.

10. Revaluation account

This item includes revaluations of land and buildings and other valuation differences arising from changes in accounting practice. In addition, the item includes unrealised valuation gains arising from the market valuation of foreign currency-denominated items and securities.

11. Provisions

Under section 20 of the Act on the Bank of Finland, provisions can be made in the annual accounts, if they are necessary for safeguarding the real value of the Bank's funds or for smoothing out variations in profit and loss arising from changes in exchange rates or market values of securities. These provisions totalled EUR 2,293 million. The change in the provisions is attributable to the profit and loss account items 'Change in foreign exchange rate and price difference provision', EUR 68 million, and 'Change in the provision for safeguarding the real value of capital', EUR 76.5 million.

In addition, a provision is made in the annual accounts to cover Bank of Finland's pension liabilities. The Bank's pension liabilities total EUR 470 million: 94% of this amount is covered by the pension provision, ie EUR 442 million.

12. Capital and reserves

This item consists of the Bank's primary capital and reserve fund. Under section 21 of the Act on the Bank of Finland, the loss shall be covered from the reserve fund, if the annual accounts of the Bank show a financial loss. If the reserve fund is insufficient to cover part of the loss, the uncovered part may be left temporarily uncovered. Any profits in subsequent years shall be used first to cover such uncovered losses.

13. Profit for the financial year

The profit for the financial year 2005 totalled EUR 200 million.

Notes to the profit and loss account

1. Interest income

Interest income amounted to EUR 403 million. The largest proportion, EUR 311 million, consisted of interest income on foreign reserve assets. The remaining EUR 56 million consisted of interest income on euro-denominated claims, of which EUR 43 million was interest income on monetary policy operations and EUR 13 million interest income on foreign reserve assets transferred to the ECB. Interest income due to the claims and liabilities pertaining to the ECB's share of euro banknotes, the application of the ECB's capital key and the adjustments, EUR 33 million, is entered on a net basis.

2. Interest expense

Interest expense amounted to EUR 73 million. Interest totalling EUR 48 million was paid on minimum reserve deposits. Interest expense also includes interest on intra- Eurosystem liabilities and interest paid on TARGET balances with non-participating EU central banks, EUR 13 million.

3. Net interest income

Net interest income, calculated as the difference between interest income and expense, amounted to EUR 331 million.

4. Realised gains/losses related to foreign exchange rate movements

This item includes realised gains and losses arising from the sale of currency

positions. In 2005, realised gains related to foreign exchange rate movements amounted to EUR 67 million.

5. Realised securities price differences

This item includes realised gains and losses arising from the sale of securities. In the accounts, securities are treated on an item-by-item basis. In 2005, the realised gains related to securities price movements amounted to EUR 1 million.

6. Change in foreign exchange rate and price difference provision

In 2005, the provision was increased by EUR 68 million, in accordance with the financial reporting policy.

7. Net share of monetary income

This item shows the net sum of monetary income paid to the Eurosystem and monetary income redistributed from the Eurosystem. The amount of each NCB's monetary income is determined by using the actual income that derives from the ' earmarkable assets ' that are held against the liability base. The liability base consists of the following items: banknotes in circulation; liabilities to credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem liabilities resulting from TARGET transactions, and net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled. ' Earmarkable assets ' consist of the following items: lending to

credit institutions related to monetary policy operations denominated in euro; euro-denominated claims equivalent to the transfer of foreign reserve assets to the ECB; net claims resulting from TARGET transactions; net claims related to the allocation of euro banknotes; and the proportion of gold that corresponds to the application of capital key from the total amount of gold of each NCB. Gold is not considered to generate income. If the value of NCB's ' earmarkable assets ' exceeds or falls short of the value of its liability base, income is calculated for the difference by applying the average rate of return on the ' earmarkable assets ' of all NCBs taken together. The monetary income pooled by the Eurosystem is to be allocated among the NCBs according to the subscribed capital key. The net share of monetary income totalled EUR 2.2 million. This item also includes the residual and redistributed amount of monetary income that was used to offset the financial loss incurred by the ECB in 2004.

8. Share in ECB profit

The ECB did not distribute any profit for the financial year 2004.

9. Other central banking income

This item includes dividend income, commissions and fees and other income.

10. Other income

This item consists of the Financial Supervision Authority's supervision fees, EUR 15 million, and miscellaneous other income.

11. Staff costs

Salaries amounted to EUR 37 million. Social security costs and employer's pension insurance contributions amounted to EUR 12 million.

12. Administrative expenses

This item includes rents, meetings and interest group-related costs, expense arising from the purchase of services and cost of equipment. In addition, the item includes expenses involved in training, travel and recruitment of staff.

13. Depreciation of fixed assets

Depreciation of fixed assets amounted to EUR 16 million. Of this, EUR 9 million was covered by the revaluation reserve. Consequently, net depreciations for the Bank of Finland totalled EUR 6 million. The Bank's pension fund accounts for EUR 1 million of depreciations. The pension fund's incomes and expenses are presented as separate items in the profit and loss account.

14. Banknote procurement costs

Banknote acquisition costs amounted to EUR 3 million.

15. Other expenses

The bulk of other expenses is related to the use and maintenance of property.

16. Income of the pension fund

This item includes income of the Bank of Finland pension fund's investment activities, EUR 46 million. In addition, the item includes the Bank of Finland's and the FIN-FSA's employer contributions as

well as employee's share of premium income, EUR 9 million.

17. Expenses of the pension fund

The item includes expenses of the Bank of Finland pension fund's investment activities, pensions paid, EUR 17 million, management costs and depreciations.

18. Changes in provisions

The provision for safeguarding the real value of capital, made in accordance with section 20 of the Act on the Bank of Finland, was increased by EUR 76.5 million. The addition to the pension provision in the profit and loss account amounted to EUR 36 million.

19. Profit for the financial year

The Profit for the financial year 2005 totalled EUR 200 million. The Board proposes to the Parliamentary Supervisory Council that EUR 134 million of the profit would be made available for the needs of the state.

Auditors' report

In our capacity as the auditors elected by Parliament, we have audited the accounting records, financial statements and administration of the Bank of Finland for the financial year 2005 in accordance with generally accepted auditing standards.

During the financial year the Bank's Internal Audit unit audited the Bank's accounting records and activities. We have examined the internal audit reports.

We have read the Bank's annual report and received explanations from the Board concerning the Bank's activities.

The Authorised Public Accounting Firm Ernst & Young Oy has audited the accounting records and the financial statements in accordance with Article 27 of the Statute of the European System of Central Banks and of the European Central Bank. We have studied the audit report dated 28 February 2006.

The financial statements have been drawn up in accordance with the principles on financial statements approved by the Parliamentary Supervisory Council and current rules and regulations. The financial statements give a true and fair view of the Bank's financial position and results.

We propose that the profit and loss account and balance sheet for the financial year audited by us be approved. We recommend that the profit for the financial year be disposed of as proposed by the Board.

Helsinki, 23 March 2006

Timo Seppälä

Arto Bryggare

Esko Kiviranta

Markku Koskela

Veli Vanhanen

Authorised Public Accountant

Authorised Public Accountant

./ Kalervo Virtanen

Authorised Public Accountant

Statement

regarding the audit as defined in Article 27 of the European System of Central Banks Statute

In our capacity as independent auditors as defined in Article 27 of the European System of Central Banks Statute, recommended by the Governing Council of the European Central Bank and appointed by the Council of the European Union, we have audited the accounting records and the financial statements of the Bank of Finland for the period 1 January–31 December 2005. The financial statements, which comprise the profit and loss account, balance sheet and notes to the financial statements, have been prepared by the Board.

The financial statements have been audited to the extent necessary to obtain reasonable assurance that the financial statements are free of material misstatement.

In our opinion, the financial statements have been prepared in accordance with the Accounting Principles and Methods approved by the Governing Council of the European Central Bank on 5 December 2002. The financial statements present a true and fair view of the profitability and financial position of the Bank of Finland.

Helsinki, 28 February 2006

Ernst & Young Oy
Authorised Public Accounting Firm

Eija Niemi-Nikkola
Authorised Public Accountant

Appendices

Monetary policy measures of the Eurosystem in 2005

January

In accordance with the decision of the Governing Council of the ECB on 14 January 2005, the allotment amounts for the longer-term refinancing operations to be conducted in the year 2005 was increased from EUR 25 billion to EUR 30 billion.

December

In accordance with the decision of the Governing Council of the ECB on 1 December 2005, the minimum bid rate on the main refinancing operations was increased by 0.25 percentage point to 2.25%, starting from the operation settled on 6 December 2005. The interest rates on the marginal lending facility and the deposit facility were also increased by 0.25 percentage point, to 3.25% and 1.25% respectively.

Key measures affecting the financial markets in 2005

Measures by the European System of Central Banks (ESCB)

January

The European Central Bank (ECB) announced its support for SWIFT's initiative to develop a common communication protocol for securities infrastructure within the EU. All market participants were invited to contribute actively to discussion on the project.

The ECB published its annual review of the international role of the euro. The review focused on developments between mid-2003 and mid-2004. It provided evidence of the increased use of the euro in euro area countries' trade with non-euro area countries. Interest shown by investors in euro-denominated bonds has also increased the willingness of non-euro area corporations to issue debt instruments in euro.

The ECB released a report on banking structures in the new EU Member States. According to the report, the banking sectors of the new Member States share a number of common structural characteristics. The report notes that the banking sectors' profitability is good and competition on a sound basis. Regulation and banking supervision are reckoned to have made significant progress compared with the situation prevailing at the end of the 1990s.

The Governing Council of the ECB decided that relayed links may be used between securities settlement systems for the cross-

border transfer of collateral for Eurosystem credit operations.

February

The ECB published a new version of its report 'The implementation of monetary policy in the euro area: General documentation on Eurosystem monetary policy instruments and procedures'.

The ECB updated its publication concerning statistical data on payment and securities settlement systems in the new Member States as well as in Bulgaria and Romania (Blue Book).

The ECB released its TARGET2 Progress Report.

March

The Governing Council of the ECB issued a critical statement to the ECOFIN Council on the proposed changes to the Stability and Growth Pact. The statement emphasised the importance of sound monetary and fiscal policies for the success of Economic and Monetary Union.

May

The ECB announced the signing of a Memorandum of Understanding (MoU) between European banking supervisors, central banks and ministries of finance on cooperation in financial crisis situations. The aim of the MoU is to support and promote cooperation in the event of a crisis.

June

The ECB provided an updated assessment of links between securities settlement systems eligible for

the settlement of collateral for Eurosystem credit operations.

July

The Governing Council of the ECB approved the gradual introduction of a single list in the collateral framework of the Eurosystem.

August

The ECB published statistical data on payment and securities settlement systems in the old EU Member States (Blue Book).

The ECB released a policy statement on national central banks' provision of retail payment services in euro to market participants.

The ECB published an assessment of euro retail payment systems against the applicable core principles.

The ECB declared to support the European Commission's long-term plan for financial services, 'Green Paper on Financial Services Policy 2005–2010'.

October

The ECB released a report on EU banking structures. The report identified significant differences between the structures of banking sectors across EU countries. However, these differences are expected to diminish in the context of further integration. The report envisaged large cross-border corporate deals still lying ahead, despite a slowdown in the pace of consolidation since the end of 2002.

A two-year training programme in Russia, TACIS,

financed by the European Union, saw completion. The programme enabled provision of additional training to more than 800 banking supervisors and organisation of seminars for politicians, market participants and representatives from academia. The project was implemented by the ECB in partnership with nine euro area central banks.

The ECB published a report on EU banking sector stability, prepared by the ESCB Banking Supervision Committee. According to the report, bank profitability was generally good. Considerable differences between Member States exist, however. The banking sector has benefited from robust credit demand and abundant market liquidity in recent years. Risks to the banking sector are mainly perceived as arising from global financial and economic imbalances.

The ECB released its second progress report on TARGET2.

EU regulatory projects and their implementation in Finland

January

The International Financial Reporting Standards were introduced as from the beginning of the year. It became mandatory for publicly traded accounting entities to draw up their financial statements in accordance with the IFRSs.

The European Commission set up a Legal Certainty Group,

composed of legal experts, to consider legislation relating to securities clearing and settlement systems.

April

The provisions of the Consumer Protection Act on distance marketing of financial services and products came into force in Finland. One of the purposes of the revised legislation is to improve customer protection in connection with distance marketing of financial services.

May

A working group set up by the Ministry of Finance to prepare the national implementation of the Directive on takeover bids in Finland announced the completion of its report. The report proposed national implementation of the Directive as from 1 January 2006 provided that the reformed Finnish Companies Act enters into force simultaneously. The Ministry of Finance working group set up in 2004 had been commissioned to prepare, in the form of a Government bill, a proposal that takes market developments into account for legislation needed to enforce the Directive on takeover bids and related Commission statutes. The working group submitted proposals relating to the overall reform of the Companies Act, suggesting closer coordination between company legislation and securities market legislation.

The European Commission published a Green Paper on

Financial Services Policy 2005–2010. The paper contains preliminary plans for the development of the financial services policy in the next few years. The Green Paper is open for public discussion and comment.

July

The Finnish Securities Markets Act was amended so as to correspond to the Directive of the European Parliament and of the Council (2003/71/EC) on the prospectus to be published when securities are offered to the public or admitted to trading. The purpose of the Prospectus Directive is to harmonise the requirements that EU countries place on the issuance, approval and dissemination of prospectuses. Amendments were also made to the Securities Markets Act concerning the obligation of listed companies and securities intermediaries to maintain insider registers.

The European Commission issued a regulation proposal aimed at preventing the use of payment systems for criminal purposes. The regulation proposal concerns information on the payer, accompanying transfers of funds.

September

A review by the Committee of European Banking Supervisors (CEBS) of the need to reform or amend the existing Directive on deposit-guarantee schemes concluded that the current system functions well and that there is no need to make significant additions or amendments.

Looking ahead, however, it may be necessary to reconsider the matter owing to changes in the financial markets and the possibility of deposit protection becoming a barrier to market entry.

The European Parliament adopted a proposal for a capital requirements directive (Basel II), which is one of the most important international projects in the area of financial legislation. The proposed directive aims at better ensuring that credit institutions and investment firms have adequate capital resources commensurate with the risks taken.

December

The European Commission issued a proposal for a Directive on payment services in the international market (known as the New Legal Framework). The aim is to remove the remaining legal barriers and to enable the creation of a single payments area within the EU.

The European Commission published a White Paper on Financial Services Policy 2005–2010. The paper is based on the Green Paper published earlier in spring and represents the Commission's final stand on how the EU financial markets should be developed in future towards a more competitive, more effective and more integrated whole.

Other key regulatory projects and measures

June

The Committee of European Banking Supervisors (CEBS) published a new, more extensive version of draft guidelines concerning the implementation of Pillar 2 within the new capital adequacy framework. In issuing these guidelines, the Committee seeks to promote uniform implementation of capital adequacy regulation and supervision across Europe.

July

The Committee of European Banking Supervisors (CEBS) published two new draft guidelines for the implementation of the Basel II capital adequacy reform, inviting market participants to submit their comments thereon. The Committee also solicited market participants' comments on its consultation paper dealing with the Committee's role and tasks. Based on experiences in the first year of operations, the paper provides an outline of the key objectives of the Committee's work and the means to achieve them. The paper also discusses how the Committee intends to meet its near-term challenges.

The Savings Directive became effective. It concerns exchange of information that enables taxation

of interest income of natural persons in the Member State of residence.

August

In Finland, a Government bill proposes amendments to legislation on taxation at source so that dividends paid on shares under nominee registration will be subject to 15% tax withholding or more if required under the applicable tax agreement. Dividend payers would no longer need to disclose information on beneficiaries to the authorities, unless separately requested to do so.

September

An interim report by Matti Loukoski, Deputy Governor of the Bank of Finland, commissioned by the Ministry of Social Affairs and Health, was published on the need to reform Finnish legislation concerning employee pension insurance companies.

Main opinions issued by the Bank of Finland 2005

Opinions concerning legislation on and development of the financial markets

- To the Ministry of Finance concerning implementation of the EU's new Prospectus Directive, 24 January
- To the Ministry of Finance concerning an interim report by the real estate fund working group, 11 February
- To the Ministry of Finance concerning the application of the Finnish Central Securities Depository (APK) to reduce the amount of compensation payable under liability insurance, 15 April
- To the Finnish Central Securities Depository (APK) concerning amendment of its rules, 15 April
- To the Financial Supervision Authority concerning draft standards, 28 April, 11 May, 21 June, 28 June, 1 July, 5 August, 31 August, 14 September
- To the Insurance Supervision Authority concerning contingency preparedness instructions for the insurance sector, 2 May
- To the Ministry of Justice concerning a proposal for legislation on credit information, 31 May
- To the Ministry of Finance concerning amendment of the rules of the Investor Compensation Fund, 20 June
- To the Ministry of Finance concerning a decree on securities prospectuses, 27 June
- To the European Commission on the post-FSAP Green Paper, 29 July
- To the Ministry of Finance concerning a working group report on public bids, 12 August
- To the Ministry of Finance concerning legislative proposals for repeal of the wealth tax act, valuation of assets in taxation and certain other related laws, 16 August
- To the Financial Supervision Authority concerning the covering of costs in connection with the approval process for the Internal Ratings-Based Approach, 19 August
- To the Ministry of Finance concerning amendment of the rules of the Finnish Central Securities Depository (APK), 1 September
- To the G10's Committee on Payment and Settlement Systems (CPSS) concerning a report on the development of payment systems, 2 September
- To the Ministry of Finance concerning confirmation of the total amount of contributions to be accrued in the Investor Compensation Fund in 2005, 6 September
- To the Ministry of Justice concerning the review of the European Commission Action Plan for Company Law, 3 October
- To the Financial Supervision Authority concerning a proposal for its fees in connection with the joint supervisory approval process for the Internal Ratings-Based Approach, 20 October
- To the Ministry of Finance concerning confirmation of the Helsinki Stock Exchange's trading rules and amendments thereto, 24 November
- To the Financial Supervision Authority concerning its draft interpretation on permitted collection activities for credit institutions, 15 December

Bank of Finland publications in 2005

<p>Euro & talous Bank of Finland Bulletin Bank of Finland Annual Report</p>	<p>Finnish-language quarterly and special annual issue on the stability of the financial markets. English-language quarterly and special annual issue on the stability of the financial markets. Published separately in Finnish, Swedish and English.</p>
<p>Studies Series E, doctoral theses and analytical studies</p>	<p>E:31 Harry Leinonen (ed.), Liquidity, risks and speed in payment and settlement systems – a simulation approach. E:32 Maritta Paloviita, The role of expectations in euro area inflation dynamics. E:33 Jukka Railavo, Essays on macroeconomic effects of fiscal policy rules. Doctotal thesis.</p>
<p>Discussion Papers</p>	<p>27 research reports by various departments of the Bank of Finland appeared in the Bank of Finland Discussion Papers series.</p>
<p>Statistical publications</p>	<p>Financial markets; published monthly (trilingual edition in Finnish, Swedish and English). Finland's balance of payments – Statistical online bulletin; published monthly (trilingual edition in Finnish, Swedish and English). Finland's balance of payments – Annual online statistics (trilingual edition in Finnish, Swedish and English). Equity investment in Finland's balance of payments; published annually online (trilingual edition in Finnish, Swedish ad English) Direct investment in Finland's balance of payments; published annually online (trilingual edition in Finnish, Swedish and English). Finnish Bond Issues; published annually (trilingual edition in Finnish, Swedish and English).</p>
<p>Publications of the Institute for Economies in Transition</p>	<p>20 studies (in English) appeared in the series BOFIT Discussion Papers. 13 issues (in English or Finnish) appeared in the online series BOFIT Online. BOFIT Viikkokatsaus, online publication, weekly (in Finnish). BOFIT Weekly, online publication, weekly (in English). BOFIT Russia Review, monthly survey (in English). BOFIT China Review, online quarterly publication (in English).</p>
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Bank of Finland representation in ECB and EU bodies, 2005

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Matti Louekoski, Alternate and Accompanying Person

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Market Operations Committee

Pentti Pikkarainen
Tuomas Välimäki

Banking Supervision Committee

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Heikki Koskenkylä
(from 29 March 2005)

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(until 3 October 2005)
Jarmo Kontulainen
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Antti Juusela
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The Bank of Finland and the EU Committees

Economic and Financial Committee

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(until 16 March 2005)
Pentti Hakkarainen
(from 17 March 2005)
Paavo Peisa, Alternate
(until 28 September 2005)
Hannu Mäkeläinen
(from 29 September 2005)

Economic Policy Committee

Tapio Peura, Alternate

Committee of European

Banking Supervisors
Heikki Koskenkylä

Supplementary tables

Totals/sub-totals may not add up because of 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, EUR m

<i>Assets</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>
1 Gold and gold receivables	507	507	507
2 Claims on non-euro area residents denominated in foreign currency	8,394	8,208	8,329
2.1 Receivables from the IMF	579	571	571
2.2 Balances with banks and security investments, external loans and other external assets	7,816	7,637	7,758
3 Claims on euro area residents denominated in foreign currency	951	1,057	984
4 Claims on non-euro area residents denominated in euro	0	0	0
4.1 Balances with banks, security investments and loans	0	0	0
4.2 Claims arising from the credit facility under the ERM II	–	–	–
5 Lending to euro area credit institutions related to monetary policy operations denominated in euro	2,598	2,890	2,130
5.1 Main refinancing operations	1,916	2,113	1,353
5.2 Longer-term refinancing operations	682	777	777
5.3 Fine-tuning reverse operations	–	–	–
5.4 Structural reverse operations	–	–	–
5.5 Marginal lending facility	–	–	–
5.6 Credits related to margin calls	–	–	–
6 Other claims on euro area credit institutions denominated in euro	2	2	2
7 Securities of euro area residents denominated in euro	–	–	–
8 General government debt denominated in euro	0	–	–
9 Intra-Eurosystem claims	4,639	4,493	4,482
9.1 Share in ECB capital	74	74	74
9.2 Claims equivalent to the transfer of foreign reserve assets	717	717	717
9.3 Claims related to the issuance of ECB debt certificates	–	–	–
9.4 Claims related to TARGET and correspondent accounts (net)	–	–	–
9.5 Claims related to other operational requirements within the Eurosystem	3,848	3,702	3,691
10 Other assets	753	782	765
Total assets	17,845	17,939	17,199

Totals/sub-totals may not add up because of rounding.
Source: Bank of Finland.

<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
520	520	520	570	570	620	620	620	686
8,031	7,903	7,850	8,196	8,408	8,116	8,175	8,251	8,719
579	538	538	520	522	521	517	470	384
7,452	7,365	7,313	7,676	7,886	7,595	7,658	7,781	8,336
1,104	1,104	1,069	1,011	898	1,021	999	920	854
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
-	-	-	-	-	-	-	-	-
2,215	1,515	1,827	1,730	1,761	1,809	1,922	1,921	1,692
1,333	727	1,039	1,130	1,160	1,119	1,231	1,230	1,200
882	788	788	600	600	690	690	690	492
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	0	-	-	-	-
-	-	-	-	-	-	-	-	-
2	2	0	0	0	0	0	0	0
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
4,539	4,733	4,482	4,616	6,019	4,710	4,904	4,525	6,407
74	74	74	74	74	74	74	74	74
717	717	717	717	717	717	717	717	717
-	-	-	-	-	-	-	-	-
-	194	438	-	1,403	202	400	-	1,686
3,748	3,748	3,772	3,825	3,825	3,717	3,713	3,734	3,930
829	832	816	879	868	894	892	833	840
17,241	16,609	17,082	17,002	18,523	17,171	17,511	17,070	19,198

Table 1.
(cont.)

<i>Liabilities</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>
1 Banknotes in circulation	8,229	8,136	8,268
2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	1,819	2,553	2,251
2.1 Current accounts (covering the minimum reserve system)	1,818	2,552	2,250
2.2 Deposit facility	1	1	1
2.3 Fixed-term deposits	–	–	–
2.4 Fine-tuning reverse operations	–	–	–
2.5 Deposits related to margin calls	–	–	–
3 Other liabilities to euro area credit institutions denominated in euro	–	–	–
4 Liabilities to other euro area residents denominated in euro	0	0	1
4.1 General government	–	–	–
4.2 Other liabilities	0	0	1
5 Liabilities to non-euro area residents denominated in euro	1	1	1
6 Liabilities to euro area residents denominated in foreign currency	0	0	0
7 Liabilities to non-euro area residents denominated in foreign currency	699	603	610
7.1 Deposits, balances and other liabilities	699	603	610
7.2 Liabilities arising from the credit facility under the ERM II	–	–	–
8 Counterpart of special drawing rights allocated by the IMF	163	163	163
9 Intra-Eurosystem liabilities	2,083	1,608	1,018
9.1 Liabilities related to promissory notes backing the issuance of ECB debt certificates	–	–	–
9.2 Liabilities related to TARGET and correspondent accounts (net)	2,083	1,608	1,018
9.3 Liabilities related to other operational requirements within the Eurosystem	–	–	–
10 Other liabilities	229	277	290
11 Revaluation account	514	514	514
12 Capital and reserves	4,108	4,083	4,083
12.1 Primary capital	841	841	841
12.2 Reserve fund	633	633	633
12.3 Pension provisions	366	366	366
12.4 Other provisions	2,267	2,243	2,243
Total liabilities	17,845	17,939	17,199

Totals/sub-totals may not add up because of rounding.
Source: Bank of Finland.

<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
8,408	8,494	8,709	8,853	8,845	8,843	8,919	9,001	9,374
2,377	2,715	3,097	2,324	3,873	2,614	2,841	2,273	3,536
2,377	2,714	3,097	2,324	3,872	2,613	2,841	2,272	3,535
0	1	1	0	0	1	0	1	1
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
1	1	1	12	12	1	1	0	1
-	-	-	-	-	-	-	-	-
1	1	1	12	12	1	1	0	1
1	1	1	1	1	1	1	8	1
0	0	0	0	0	0	0	0	0
311	192	57	91	150	29	56	34	509
311	192	57	91	150	29	56	34	509
-	-	-	-	-	-	-	-	-
166	166	166	172	172	172	172	172	173
960	-	-	100	-	-	-	58	11
-	-	-	-	-	-	-	-	-
960	-	-	100	-	-	-	58	-
-	-	-	-	-	-	-	-	11
270	295	305	376	396	463	473	476	153
660	660	660	989	989	962	962	962	974
4,086	4,086	4,086	4,086	4,086	4,086	4,086	4,086	4,465
841	841	841	841	841	841	841	841	841
689	689	689	689	689	689	689	689	689
407	407	407	407	407	407	407	407	442
2,149	2,149	2,149	2,149	2,149	2,149	2,149	2,149	2,493
17,241	16,609	17,082	17,002	18,523	17,171	17,511	17,070	19,198

Table 2.
Main refinancing operations of the Eurosystem

Date of settlement	Bids, EUR m	Allotment, EUR m	Allotment to Finnish credit institutions, EUR m	Participating credit institutions, number	Variable rate tenders			Running for (...) days
					Minimum bid rate, %	Marginal rate, %	Weighted average rate, %	
	1	2	3	4	5	6	7	8
2005								
4 Jan	324,154	259,000	2,429	321	2.00	2.06	2.07	7
12	343,643	265,000	2,255	332	2.00	2.06	2.07	7
19	362,771	279,500	1,672	364	2.00	2.06	2.07	7
26	368,794	273,000	1,916	358	2.00	2.06	2.07	7
2 Feb	332,197	277,500	1,919	329	2.00	2.06	2.06	6
8	327,172	275,500	1,977	305	2.00	2.06	2.06	8
16	352,917	276,500	1,900	341	2.00	2.05	2.06	7
23	349,248	284,500	2,113	352	2.00	2.05	2.06	7
2 Mar	329,036	275,000	1,800	325	2.00	2.05	2.06	7
9	320,545	272,500	1,722	335	2.00	2.05	2.05	7
15	317,574	276,500	1,074	350	2.00	2.05	2.05	7
23	346,871	291,000	1,353	370	2.00	2.05	2.05	7
30	312,429	276,000	1,447	337	2.00	2.05	2.06	7
6 Apr	292,103	275,000	1,113	350	2.00	2.05	2.05	7
13	313,575	270,500	1,411	348	2.00	2.05	2.05	7
20	328,593	282,000	1,408	370	2.00	2.05	2.05	7
27	329,984	280,500	1,333	351	2.00	2.05	2.05	7
4 May	339,182	273,000	1,216	301	2.00	2.05	2.05	7
11	349,569	267,500	1,263	325	2.00	2.05	2.05	7
18	358,949	272,500	686	342	2.00	2.05	2.05	7
25	376,920	271,000	727	351	2.00	2.05	2.05	7
1 Jun	369,397	281,500	964	337	2.00	2.05	2.06	7
8	365,346	279,000	970	316	2.00	2.05	2.05	7
15	372,104	283,500	969	340	2.00	2.05	2.05	7
22	378,472	310,000	1,039	364	2.00	2.05	2.05	7
29	353,941	308,000	1,054	343	2.00	2.05	2.06	7

Sources: European Central Bank and Bank of Finland.

Date of settlement	Bids, EUR m	Allotment, EUR m	Allotment to Finnish credit institutions, EUR m	Participating credit institutions, number	Variable rate tenders			Running for (...) days
					Minimum bid rate, %	Marginal rate, %	Weighted average rate, %	
	1	2	3	4	5	6	7	8
6 Jul	389,743	307,500	1,036	336	2.00	2.05	2.05	7
13	388,642	298,500	1,235	334	2.00	2.05	2.05	7
20	406,178	308,500	1,033	355	2.00	2.05	2.05	7
27	391,489	317,000	1,130	357	2.00	2.05	2.06	7
3 Aug	414,656	314,000	1,531	336	2.00	2.05	2.06	7
10	432,277	308,000	1,029	345	2.00	2.05	2.05	7
17	445,746	303,000	1,026	354	2.00	2.05	2.06	7
24	474,374	310,000	1,160	367	2.00	2.05	2.06	7
31	433,707	293,000	1,417	339	2.00	2.05	2.06	7
7 Sep	447,874	294,500	1,114	332	2.00	2.05	2.06	7
14	435,111	279,500	1,069	356	2.00	2.06	2.06	7
21	396,280	287,500	1,410	402	2.00	2.06	2.06	7
28	364,417	293,500	1,119	361	2.00	2.06	2.07	7
5 Oct	382,662	288,000	1,110	348	2.00	2.06	2.07	7
12	380,299	281,000	1,072	372	2.00	2.07	2.07	7
19	383,949	296,000	1,224	397	2.00	2.06	2.07	7
26	371,445	301,500	1,231	384	2.00	2.06	2.07	8
3 Nov	354,563	294,000	1,241	340	2.00	2.05	2.06	6
9	366,131	295,000	1,224	350	2.00	2.05	2.06	7
16	401,859	293,500	1,000	393	2.00	2.05	2.06	7
23	403,121	311,000	1,230	434	2.00	2.08	2.10	7
30	361,548	306,500	1,252	379	2.00	2.09	2.11	6
6 Dec	354,476	333,500	1,200	300	2.25	2.29	2.31	8
14	378,799	308,500	1,250	345	2.25	2.29	2.30	7
21	391,591	314,000	1,200	393	2.25	2.30	2.31	8
29	315,797	315,000	1,200	386	2.25	2.25	2.42	6

Table 3.
Longer-term refinancing operations of the Eurosystem

Date of settlement	Bids, EUR m	Allotment, EUR m	Allotment to Finnish credit institutions, EUR m	Number of participants	Marginal rate, %	Weighted average rate, %	Running for (...) days
	1	2	3	4	5	6	7
2005							
27 Jan	58,133	30,000	113	164	2.09	2.10	91
24 Feb	40,340	30,000	95	145	2.08	2.09	91
31 Mar	38,462	30,000	788	148	2.09	2.10	91
28 Apr	47,958	30,000	0	148	2.08	2.09	91
26 May	48,282	30,000	0	140	2.08	2.08	98
30 Jul	47,181	30,000	400	141	2.06	2.07	91
28 Jun	46,758	30,000	200	166	2.07	2.08	92
1 Sep	62,563	30,000	32	153	2.08	2.09	91
29 Sep	52,795	30,000	458	142	2.09	2.10	84
28 Oct	51,313	30,000	200	168	2.17	2.19	90
1 Dec	52,369	30,000	150	152	2.40	2.41	84
22 Dec	89,877	12,500	52	165	2.45	2.45	98
23 ¹ Dec	45,003	17,500	90	127	2.44	2.45	97

¹ An exceptional operation based on longer-term refinancing operation (LTRO) procedures was carried out by the ECB because an erroneous bid had prevented the ECB from executing its LTRO to the full amount on the previous day.

Source: European Central Bank.

Table 4.
Other tender operations

Date of settlement	Type of operation	Bids, EUR m	Allotment, EUR m	Number of participants	Variable rate tenders			
					Fixed rate tenders	Fixed rate, %	Marginal rate, %	Weighted average rate, %
	1	2	3	4	5	6	7	8
2005								
18 Jan	Variable rate liquidity-absorbing fine-tuning operation	33,065	8,000	28	–	2.05	2.05	1
7 Feb	Variable rate liquidity-absorbing fine-tuning operation	17,715	2,500	24	–	2.05	2.05	1
8 Mar	Fixed rate liquidity-absorbing fine-tuning operation	4,300	3,500	5	2.0	–	–	1
7 Jun	Fixed rate liquidity-absorbing fine-tuning operation	3,708	3,708	5	2.0	–	–	1
12 Jul	Fixed rate liquidity-absorbing fine-tuning operation	9,605	9,605	11	2.0	–	–	1
9 Aug	Fixed rate liquidity-absorbing fine-tuning operation	500	500	1	2.0	–	–	1
6 Sep	Variable rate liquidity-absorbing fine-tuning operation	51,060	9,500	41	–	2.09	2.10	1
11 Oct	Fixed rate liquidity-absorbing fine-tuning operation	23,995	8,500	22	2.0	–	–	1
5 Dec	Fixed rate liquidity-absorbing fine-tuning operation	21,240	7,500	18	2.0	–	–	1

Source: European Central Bank.

Table 5.
Key interest rates of the Eurosystem

<i>Fixed rate tenders</i>			<i>Variable rate tenders</i>		
<i>Interest rate on main refinancing operations</i>			<i>Minimum bid rate</i>		
<i>Decision date</i>	<i>Effective</i>	<i>%</i>	<i>Decision date</i>	<i>Effective</i>	<i>%</i>
22 Dec 1998	1 Jan 1999	3.00	8 Jun 2000	28 Jun 2000	4.25
8 Apr 1999	14 Apr 1999	2.50	31 Aug 2000	6 Sep 2000	4.50
4 Nov 1999	10 Nov 1999	3.00	5 Oct 2000	11 Oct 2000	4.75
3 Feb 2000	9 Feb 2000	3.25	10 May 2001	15 May 2001	4.50
16 Mar 2000	22 Mar 2000	3.50	30 Aug 2001	5 Sep 2001	4.25
27 Apr 2000	4 May 2000	3.75	17 Sep 2001	19 Sep 2001	3.75
8 Jun 2000	15 Jun 2000	4.25	8 Nov 2001	14 Nov 2001	3.25
			5 Dec 2002	11 Dec 2002	2.75
			6 Mar 2003	7 Mar 2003	2.50
			5 Jun 2003	6 Jun 2003	2.00
			1 Dec 2005	6 Dec 2005	2.25
<i>Standing facilities</i>					
<i>Interest rate on deposit facility</i>			<i>Interest rate on marginal lending facility</i>		
<i>Decision date</i>	<i>Effective</i>	<i>%</i>	<i>Decision date</i>	<i>Effective</i>	<i>%</i>
22 Dec 1998	1 Jan 1999	2.00	22 Dec 1998	1 Jan 1999	4.50
22 Dec 1998	4 Jan 1999	2.75	22 Dec 1998	4 Jan 1999	3.25
21 Jan 1999	22 Jan 1999	2.00	21 Jan 1999	22 Jan 1999	4.50
8 Apr 1999	9 Apr 1999	1.50	8 Apr 1999	9 Apr 1999	3.50
4 Nov 1999	5 Nov 1999	2.00	4 Nov 1999	5 Nov 1999	4.00
3 Feb 2000	4 Feb 2000	2.25	3 Feb 2000	4 Feb 2000	4.25
16 Mar 2000	17 Mar 2000	2.50	16 Mar 2000	17 Mar 2000	4.50
27 Apr 2000	28 Apr 2000	2.75	27 Apr 2000	28 Apr 2000	4.75
8 Jun 2000	9 Jun 2000	3.25	8 Jun 2000	9 Jun 2000	5.25
31 Aug 2000	1 Sep 2000	3.50	31 Aug 2000	1 Sep 2000	5.50
5 Oct 2000	6 Oct 2000	3.75	5 Oct 2000	6 Oct 2000	5.75
10 May 2001	11 May 2001	3.50	10 May 2001	11 May 2001	5.50
30 Aug 2001	31 Aug 2001	3.25	30 Aug 2001	31 Aug 2001	5.25
17 Sep 2001	18 Sep 2001	2.75	17 Sep 2001	18 Sep 2001	4.75
8 Nov 2001	9 Nov 2001	2.25	8 Nov 2001	9 Nov 2001	4.25
5 Dec 2002	6 Dec 2002	1.75	5 Dec 2002	6 Dec 2002	3.75
6 Mar 2003	7 Mar 2003	1.50	6 Mar 2003	7 Mar 2003	3.50
5 Jun 2003	6 Jun 2003	1.00	5 Jun 2003	6 Jun 2003	3.00
1 Dec 2005	6 Dec 2005	1.25	1 Dec 2005	6 Dec 2005	3.25

Source: European Central Bank.

Table 6.
Euro area banking system's liquidity position, averages of daily positions, EUR bn

Maintenance period ending in ¹	Liquidity-providing factors					Liquidity-absorbing factors					Credit institutions' current accounts	Base money
	Euro-system's net assets in gold and foreign currency	Monetary policy operations of the Eurosystem				Deposit facility	Other liquidity-absorbing operations	Banknotes in circulation	Central government deposits with the Euro-system	Other factors, net		
		Main re-financing operations	Longer-term re-financing operations	Marginal lending facility	Other liquidity-providing operations							
	1	2	3	4	5	6	7	8	9	10	11	12
2004												
Dec	298.0	265.7	75.0	0.1	0.0	0.1	0.5	475.4	60.2	-36.0	138.5	614.1
2005												
Jan ¹	290.3	272.9	75.0	0.2	0.2	0.1	0.0	496.0	45.3	-41.9	139.1	635.2
Feb	280.6	276.6	78.0	0.1	0.1	0.1	0.0	487.1	63.8	-55.5	140.0	627.2
Mar	280.2	277.8	82.2	0.1	0.0	0.1	0.1	489.5	68.5	-59.2	141.3	630.9
Apr	282.1	278.2	86.9	0.2	0.0	0.1	0.0	498.6	67.4	-62.1	143.3	642.0
May	287.0	276.5	90.0	0.1	0.0	0.1	0.0	505.5	62.9	-58.9	144.0	649.7
Jun	286.8	273.1	90.0	0.1	0.0	0.2	0.1	512.8	53.5	-62.0	145.5	658.5
Jul	293.3	297.6	90.0	0.1	0.0	0.2	0.3	522.6	67.4	-57.3	147.9	670.6
Aug	305.5	309.5	90.0	0.0	0.0	0.3	0.0	532.6	67.4	-45.0	149.8	682.7
Sep	304.8	303.5	90.0	0.0	0.3	0.1	0.0	531.5	63.1	-46.2	150.2	681.8
Oct	307.9	288.6	90.0	0.1	0.0	0.1	0.2	531.6	47.9	-44.6	151.4	683.1
Nov	315.1	293.4	90.0	0.1	0.0	0.1	0.0	535.6	50.4	-37.9	150.2	686.0
Dec	313.2	301.3	90.0	0.0	0.0	0.1	0.3	539.8	51.0	-39.6	153.0	692.9
2006												
Jan	317.6	316.4	89.6	0.2	0.2	0.1	0.0	559.2	44.2	-33.5	154.1	713.3

¹ Each month refers to the reserve maintenance period ending in the month in question. For example, January 2005 refers to the maintenance period starting on 8 December 2004 and ending on 18 January 2005.
Source: European Central Bank.

Table 6.
Liquidity position of the Finnish banking system, averages of daily positions, EUR m

Maintenance period ending in ¹	Liquidity-providing factors						Liquidity-absorbing factors				Credit institutions' current accounts 1 + 2 + 3 + 4 + 5 - 6 - 7 - 8 - 9 - 10	Base money 6 + 8 + 11
	Bank of Finland's net assets in gold and foreign currency	Monetary policy operations of the Eurosystem					Banknotes in circulation	Central government deposits with the Bank of Finland	Other factors, net			
		Main re-financing operations	Longer-term re-financing operations	Marginal lending facility	Other liquidity-providing operations	Deposit facility				Other liquidity-absorbing operations		
	1	2	3	4	5	6	7	8	9	10	11	12
2004												
Dec	9,265.7	1945.5	488.4	0.0	0.0	5.5	0.0	7,884.6	0.0	1,505.7	2,303.8	10,193.9
2005												
Jan ¹	9,159.0	2098.7	589.7	0.0	0.0	5.0	0.0	8,195.0	0.0	1,418.7	2,228.8	10,428.7
Feb	8,990.2	1831.6	669.4	0.0	0.0	5.3	0.0	8,159.1	0.0	1,149.0	2,177.8	10,342.2
Mar	9,008.2	1948.5	724.7	0.0	0.0	3.4	0.0	8,111.1	0.0	1,349.4	2,217.4	10,331.9
Apr	9,085.2	1341.8	858.1	0.0	0.0	3.4	0.0	8,234.8	0.0	804.9	2,242.1	10,480.3
May	9,179.1	1341.9	943.1	0.0	0.0	5.4	0.0	8,365.9	0.0	838.7	2,254.0	10,625.3
Jun	9,177.9	909.8	838.5	0.0	0.0	9.2	0.0	8,480.6	0.0	147.8	2,288.6	10,778.3
Jul	9,333.3	1013.5	643.7	0.0	0.0	3.7	0.0	8,666.3	0.0	-28.7	2,349.3	11,019.3
Aug	9,515.2	1232.1	492.9	0.0	0.0	6.5	0.0	8,794.3	0.0	136.4	2,302.9	11,103.7
Sep	9,546.8	1158.1	606.9	0.2	0.0	3.3	0.0	8,818.7	0.0	136.5	2,353.5	11,175.5
Oct	9,571.1	1164.6	653.9	0.0	0.0	5.1	1.0	8,816.7	0.0	264.4	2,302.3	11,124.2
Nov	9,564.7	1191.8	690.4	0.0	0.0	3.2	0.0	8,894.2	0.0	236.5	2,313.0	11,210.4
Dec	9,574.5	1,174.0	712.2	3.2	0.0	3.9	0.0	8,990.3	0.0	163.3	2,306.3	11,300.5
2006												
Jan	9,565.9	1340.6	607.3	0.0	0.0	3.1	0.0	9,226.1	0.0	-113.7	2,398.3	11,627.5

¹ Each month refers to the reserve maintenance period ending in the month in question. For example, January 2005 refers to the maintenance period starting on 8 December 2004 and ending on 18 January 2005.
Source: Bank of Finland.

Table 7.
Reserve base of euro area credit institutions subject to reserve requirements, EUR bn

Reserve base as at:	Total	Liabilities to which a 2% reserve coefficient is applied		Liabilities to which a 0% reserve coefficient is applied		
		Deposits (overnight, up to 2 years' agreed maturity and notice period)	Debt securities up to 2 years' agreed maturity	Deposits (over 2 years' agreed maturity and notice period)	Repos	Debt securities over 2 years' agreed maturity
	1	2	3	4	5	6
2004						
Dec	12,415.9	6,593.7	458.1	1,565.2	913.7	2,885.3
2005						
Jan	12,596.6	6,697.7	460.1	1,577.8	943.1	2,918.0
Feb	12,720.4	6,709.0	471.2	1,583.5	999.2	2,957.5
Mar	12,866.9	6,783.2	472.3	1,599.3	1,010.8	3,001.1
Apr	13,081.7	6,888.4	496.7	1,607.3	1,067.3	3,022.1
May	13,224.8	6,988.9	494.8	1,616.4	1,069.5	3,055.3
Jun	13,328.1	7,021.1	488.2	1,676.0	1,027.9	3,114.9
Jul	13,431.5	7,064.6	496.2	1,682.8	1,068.0	3,119.9
Aug	13,388.1	7,003.0	499.9	1,689.2	1,066.0	3,130.1
Sep	13,562.1	7,125.7	498.5	1,697.7	1,085.4	3,154.9
Oct	13,712.6	7,184.5	503.4	1,712.0	1,127.0	3,185.8
Nov	13,972.9	7,250.1	508.2	1,721.2	1,286.6	3,206.8
Dec	14,040.7	7,409.5	499.2	1,753.5	1,174.9	3,203.6

Source: European Central Bank.

Table 8.
Reserve maintenance of euro area credit institutions subject to reserve requirements, EUR bn

Maintenance period ending in	Required reserves	Actual reserves	Excess reserves	Deficiencies	Interest rate on minimum reserves, %
	1	2	3	4	5
2004					
Dec	137.9	138.5	0.6	0.0	2.05
2005					
Jan	138.4	139.1	0.7	0.0	2.07
Feb	139.3	140.0	0.8	0.0	2.06
Mar	140.5	141.3	0.8	0.0	2.05
Apr	142.6	143.3	0.6	0.0	2.05
May	143.1	144.0	0.9	0.0	2.05
Jun	144.6	145.5	0.9	0.0	2.05
Jul	147.2	147.9	0.7	0.0	2.05
Aug	149.2	149.8	0.6	0.0	2.05
Sep	149.7	150.2	0.6	0.0	2.05
Oct	150.7	151.4	0.7	0.0	2.05
Nov	149.5	150.2	0.7	0.0	2.06
Dec	152.0	153.0	1.0	0.0	2.07
2006					
Jan	153.3	154.1	0.8	0.0	2.29

Source: European Central Bank.

Reserve base of Finnish credit institutions subject to reserve requirements, EUR m

Reserve base as at:	Total	Liabilities to which a 2% reserve coefficient is applied		Liabilities to which a 0% reserve coefficient is applied		
		Deposits (overnight, up to 2 years' agreed maturity and notice period)	Debt securities up to 2 years' agreed maturity	Deposits (over 2 years' agreed maturity and notice period)	Repos	Debt securities over 2 years' agreed maturity
	1	2	3	4	5	6
2004						
Dec	132,604	95,589	16,967	5,927	0	14,120
2005						
Jan	132,604	95,589	16,967	5,927	0	14,120
Feb	133,309	95,560	18,202	5,924	0	13,623
Mar	134,071	96,673	17,670	5,826	72	13,830
Apr	137,185	97,928	18,123	5,747	72	15,315
May	140,903	99,896	19,267	5,824	0	15,917
Jun	138,622	99,254	17,576	5,864	34	15,894
Jul	141,346	102,416	16,921	5,957	63	15,990
Aug	138,968	101,387	15,442	5,891	117	16,131
Sep	139,448	101,078	16,272	5,875	18	16,206
Oct	140,167	99,593	17,355	5,946	14	17,260
Nov	145,126	101,967	19,645	5,949	191	17,407
Dec	153,037	108,885	20,120	5,820	183	18,028

Source: Bank of Finland.

Reserve maintenance of Finnish credit institutions subject to reserve requirements, EUR m

Maintenance period ending in	Required reserves	Actual reserves	Excess reserves	Deficiencies	Interest rate on minimum reserves, %
	1	2	3	4	5
2004					
Dec	1,964	1,965	1.4	0.0	2.00
2005					
Jan	2,303	2,304	0.6	0.0	2.05
Feb	2,245	2,246	0.7	0.0	2.07
Mar	2,177	2,178	1.0	0.0	2.06
Apr	2,216	2,217	0.9	0.0	2.05
May	2,241	2,242	1.5	0.0	2.05
Jun	2,252	2,254	1.8	0.0	2.05
Jul	2,286	2,288	1.2	0.0	2.05
Aug	2,349	2,349	0.7	0.0	2.05
Sep	2,302	2,303	0.7	0.0	2.05
Oct	2,352	2,353	0.6	0.0	2.05
Nov	2,302	2,302	0.2	0.0	2.06
Dec	2,313	2,313	0.4	0.0	2.06
2006					
Jan	2,305	2,305	0.3	0.0	2.07

Source: Bank of Finland.

Table 9.

Euro area monetary aggregate M3 and corresponding items of Finnish monetary financial institutions¹

	Euro area monetary aggregate M3			Liabilities of Finnish monetary financial institutions included in M3 ²		
	Stock, EUR bn	12-month change ^{3,4} , %	3-month mov avg of 12-month change ^{3,4} , %	Stock, EUR bn	12-month change ³ , %	3-month mov avg of 12-month change ³ , %
	1	2	3	4	5	6
2001	5,446.7	8.0	7.9	68.8	6.7	7.7
2002	5,807.8	7.0	7.1	73.4	6.6	5.5
2003	6,178.7	7.1	7.0	83.1	11.0	10.2
2004	6,568.2	6.6	6.5	88.2	6.3	6.4
2005	7,106.4	7.3	7.5	95.6	8.0	7.9
2005						
Jan	6,581.7	6.8	6.7	89.2	6.2	6.7
Feb	6,599.9	6.6	6.6	89.0	7.7	7.7
Mar	6,628.0	6.5	6.6	90.3	9.2	9.7
Apr	6,713.4	6.8	6.9	95.1	12.3	10.8
May	6,766.0	7.3	7.2	92.0	10.8	10.4
Jun	6,830.8	7.6	7.6	91.6	8.1	8.5
Jul	6,881.8	7.9	7.9	90.9	6.6	7.1
Aug	6,862.0	8.2	8.2	91.0	6.5	6.9
Sep	6,918.1	8.4	8.2	92.4	7.6	7.1
Oct	6,961.2	7.9	8.0	93.4	7.3	7.5
Nov	6,994.4	7.6	7.6	93.6	7.8	7.7
Dec	7,106.4	7.3	7.5	95.6	8.0	7.9

¹ Excl. negotiable instruments held by central governments and non-euro area residents.² Excl. notes and coins held by the public.³ Calculated from monthly differences in levels adjusted for reclassifications, other revaluations, exchange rate variations and any other changes which do not arise from transactions.⁴ Seasonally and calendar effect adjusted.

Sources: European Central Bank and Bank of Finland.

Table 10.

Key market interest rates

	Eonia rate	Euribor rates (actual/360)						Yields on Finnish government bonds	
		1-month	2-month	3-month	6-month	9-month	12-month	5-year	10-year
	1	2	3	4	5	6	7	8	9
2001	4.39	4.335	4.297	4.267	4.159	4.101	4.086	4.54	5.04
2002	3.29	3.306	3.313	3.320	3.353	3.412	3.493	4.41	4.98
2003	2.32	2.346	2.338	2.330	2.304	2.310	2.334	3.28	4.13
2004	2.05	2.081	2.094	2.107	2.149	2.203	2.274	3.25	4.11
2005	2.09	2.144	2.166	2.186	2.236	2.283	2.335	2.85	3.35
2005									
Jan	2.08	2.111	2.132	2.145	2.192	2.246	2.312	2.87	3.60
Feb	2.06	2.104	2.121	2.138	2.185	2.241	2.310	2.88	3.57
Mar	2.06	2.103	2.119	2.137	2.192	2.256	2.335	2.97	3.72
Apr	2.08	2.105	2.122	2.137	2.172	2.213	2.265	2.76	3.51
May	2.07	2.104	2.115	2.126	2.144	2.163	2.193	2.87	3.33
Jun	2.06	2.104	2.107	2.111	2.107	2.102	2.103	2.69	3.16
Jul	2.07	2.106	2.112	2.119	2.135	2.146	2.168	2.72	3.18
Aug	2.06	2.113	2.122	2.132	2.160	2.188	2.223	2.77	3.21
Sep	2.09	2.115	2.126	2.139	2.167	2.189	2.220	2.64	3.04
Oct	2.07	2.121	2.149	2.197	2.272	2.344	2.414	2.86	3.19
Nov	2.09	2.223	2.318	2.361	2.500	2.602	2.684	3.11	3.40
Dec	2.28	2.412	2.431	2.474	2.602	2.704	2.786	3.08	3.30

Sources: European Central Bank, Reuters and Bloomberg.

Table 11.
Nominal competitiveness indicators for Finland and the effective exchange rate of the euro calculated by the ECB

	Narrow indicator ¹	Narrow plus euro area indicator ¹	Broad indicator ¹	Effective exchange rate of the euro, narrow group of countries ¹
	January–March 1999 = 100			
	1	2	3	4
2001	89.2	94.5	94.0	86.0
2002	91.2	95.6	95.6	89.0
2003	100.1	100.1	101.1	100.0
2004	103.1	101.6	103.1	104.2
2005	103.0	101.6	102.7	103.9
2005				
Jan	105.0	102.5	104.0	106.9
Feb	104.6	102.3	103.7	106.2
Mar	105.2	102.6	104.1	107.1
Apr	104.4	102.3	103.7	106.0
May	103.4	101.8	103.1	104.6
Jun	101.2	100.7	101.9	101.7
Jul	102.2	101.1	102.2	102.4
Aug	102.6	101.4	102.5	103.3
Sep	102.2	101.2	102.2	102.9
Oct	102.1	101.1	102.1	102.4
Nov	101.7	101.0	101.8	101.6
Dec	101.7	101.0	101.8	101.8

¹ An upward movement of the index represents an appreciation of the euro. The narrow indicator comprises 12 countries, 1999, the narrow plus euro area indicator 23 countries, and the broad indicator 37 countries.
Sources: European Central Bank and Bank of Finland.

Table 12.
Harmonised Index of Consumer Prices for euro area and Finland, annual change, %

	Euro area	Finland
	1	2
2001	2.3	2.7
2002	2.3	2.0
2003	2.1	1.3
2004	2.1	0.1
2005	2.2	0.8
2005		
Jan	1.9	-0.1
Feb	2.1	0.0
Mar	2.1	0.9
Apr	2.1	1.1
May	2.0	0.6
Jun	2.1	1.0
Jul	2.2	0.9
Aug	2.2	1.0
Sep	2.6	1.1
Oct	2.5	0.8
Nov	2.3	0.9
Dec	2.2	1.0

Sources: Eurostat and Statistics Finland.

Table 13.
General government fiscal position and debt, % of GDP

Country	Gen gov surplus (+)/ deficit (-)		Gen gov debt, year-end	
	2004	2005	2004	2005
	1	2	3	4
Belgium	0.0	0.0	96.2	94.9
Germany	-3.7	-3.9	66.4	68.6
Greece	-6.6	-3.7	109.3	107.9
Spain	-0.1	0.2	47.0	44.2
France	-3.7	-3.3	65.1	66.5
Ireland	1.5	-0.4	29.8	29.0
Italy	-3.2	-4.3	106.5	108.6
Luxembourg	-1.2	-2.3	6.6	6.8
Netherlands	-2.1	-1.8	53.1	54.0
Austria	-1.0	-1.9	64.4	64.3
Portugal	-3.0	-6.0	59.4	65.9
Finland	2.1	2.6	45.1	41.1
Euro area	-2.7	-2.9	70.8	71.7

Sources: Statistics Finland and European Commission.

Table 14.
Irrevocable euro conversion rates as from 1 Jan 1999

Country	Currency	Units of currency per euro	Markka per unit of currency
Austria	schilling	13.7603	0.432093
Belgium	franc	40.3399	0.147391
Germany	mark	1.95583	3.04000
Spain	peseta	166.386	0.0357346
Finland	markka	5.94573	
France	franc	6.55957	0.906421
Ireland	pound	0.787564	7.54952
Italy	lira	1936.27	0.00307071
Luxembourg	franc	40.3399	0.147391
Netherlands	guilder	2.20371	2.69805
Portugal	escudo	200.482	0.0296572
Greece	drachma	340.750	0.0174490

Source: European Union.

Table 15.
Exchange rate mechanism ERM II

<i>As of 1 January 1999</i>				<i>As of 27 June 2004</i>			
			<i>1 euro =</i>				<i>1 euro =</i>
<i>Danish krone (DKK)</i>	+		7.62824*	<i>Estonian kroon (EEK)</i>	+	15%	17.9936*
	=	2.25%	7.46038**		=	15%	15.6466**
	-	2.25%	7.29252***		-		13.2996***
<hr/>				<hr/>			
			<i>1 euro =</i>				<i>1 euro =</i>
				<i>Lithuanian litas (LTL)</i>	+	15%	3.97072*
					=	15%	3.4528**
					-		2.93488***
<hr/>				<hr/>			
			<i>1 euro =</i>				<i>1 euro =</i>
				<i>Slovenian tolar (SIT)</i>	+	15%	275.586*
					=	15%	239.64**
					-		203.694***
<hr/>				<hr/>			
<i>As of 2 May 2005</i>				<i>As of 28 November 2005</i>			
			<i>1 euro =</i>				<i>1 euro =</i>
<i>Latvian lats (LVL)</i>	+		0.808225*	<i>Slovak koruna (SKK)</i>	+	15%	44.2233*
	=	15%	0.702804**		=	15%	38.455**
	-	15%	0.597383***		-	15%	32.6868***
<hr/>				<hr/>			
			<i>1 euro =</i>				<i>1 euro =</i>
<i>Cyprus pound (CYP)</i>	+		0.673065*				
	=	15%	0.585274**				
	-	15%	0.497483***				
<hr/>				<hr/>			
			<i>1 euro =</i>				<i>1 euro =</i>
<i>Maltese lira (MTL)</i>	+		0.493695*				
	=	15%	0.4293**				
	-	15%	0.364905***				
<hr/>				<hr/>			

* Upper intervention point.
 ** Central rate.
 *** Lower intervention point.
 Source: European Central Bank.

Table 16.
Key euro exchange rates, currency-value of one euro

	<i>US dollar</i>			<i>Japanese yen</i>		
	<i>Low</i>	<i>Average</i>	<i>High</i>	<i>Low</i>	<i>Average</i>	<i>High</i>
	1	2	3	4	5	6
2001	0.8384	0.8956	0.9545	100.62	108.68	115.90
2002	0.8578	0.9456	1.0487	112.40	118.06	125.18
2003	1.0377	1.1312	1.2630	124.40	130.97	140.31
2004	1.1802	1.2439	1.3633	126.34	134.44	141.03
2005	1.1667	1.2441	1.3507	130.88	136.85	143.47
2005						
<i>Jan</i>	1.2936	1.3119	1.3507	133.22	135.63	138.84
<i>Feb</i>	1.2762	1.3014	1.3260	133.98	136.55	139.07
<i>Mar</i>	1.2926	1.3201	1.3416	137.43	138.83	140.12
<i>Apr</i>	1.2810	1.2938	1.3077	136.24	138.84	140.27
<i>May</i>	1.2331	1.2694	1.2954	133.47	135.37	135.98
<i>Jun</i>	1.2054	1.2165	1.2324	130.88	132.22	133.95
<i>Jul</i>	1.1883	1.2037	1.2187	132.67	134.75	136.35
<i>Aug</i>	1.2181	1.2292	1.2457	133.93	135.98	138.64
<i>Sep</i>	1.2005	1.2256	1.2541	134.89	136.06	137.66
<i>Oct</i>	1.1933	1.2015	1.2144	136.06	138.05	140.03
<i>Nov</i>	1.1667	1.1786	1.2041	137.68	139.59	140.80
<i>Dec</i>	1.1697	1.1856	1.2020	138.34	140.58	143.47
	<i>Pound sterling</i>			<i>Swedish krona</i>		
	<i>Low</i>	<i>Average</i>	<i>High</i>	<i>Low</i>	<i>Average</i>	<i>High</i>
	1	2	3	4	5	6
2001	0.59730	0.62187	0.6408	8.8395	9.2551	9.9631
2002	0.60920	0.62883	0.6505	9.0015	9.1611	9.5451
2003	0.64950	0.69199	0.7235	8.8848	9.1242	9.3148
2004	0.65560	0.67866	0.7088	8.8992	9.1243	9.2810
2005	0.66240	0.68380	0.7073	8.9758	9.2822	9.6325
2005						
<i>Jan</i>	0.69120	0.69867	0.70725	8.9758	9.0476	9.1057
<i>Feb</i>	0.68580	0.68968	0.69395	9.0576	9.0852	9.1200
<i>Mar</i>	0.68590	0.69233	0.69865	9.0365	9.0884	9.1430
<i>Apr</i>	0.67730	0.68293	0.68740	9.1403	9.1670	9.2005
<i>May</i>	0.67625	0.68399	0.68835	9.1608	9.1931	9.2260
<i>Jun</i>	0.66240	0.66895	0.67570	9.1304	9.2628	9.4333
<i>Jul</i>	0.67645	0.68756	0.69600	9.3693	9.4276	9.4866
<i>Aug</i>	0.67755	0.68527	0.69560	9.3016	9.3398	9.3930
<i>Sep</i>	0.67280	0.67760	0.68335	9.2834	9.3342	9.3887
<i>Oct</i>	0.67590	0.68137	0.68825	9.3014	9.4223	9.5360
<i>Nov</i>	0.67285	0.67933	0.68675	9.4585	9.5614	9.6325
<i>Dec</i>	0.67320	0.67922	0.68830	9.3862	9.4316	9.5163

Source: European Central Bank.

Table 17.
Other euro exchange rates, currency-value of one euro, average

	<i>Cyprus pound</i>	<i>Czech koruna</i>	<i>Danish krone</i>	<i>Estonian kroon</i>	<i>Hungarian forint</i>	<i>Lithuanian litas</i>	<i>Latvian lats</i>	<i>Maltese lira</i>
	1	2	3	4	5	6	7	8
2001	0.57589	34.068	7.4521	15.6466	256.59	3.5823	0.5601	0.4030
2002	0.57530	30.804	7.4305	15.6466	242.96	3.4594	0.5810	0.4089
2003	0.58409	31.846	7.4307	15.6466	253.62	3.4527	0.6407	0.4261
2004	0.58185	31.891	7.4399	15.6466	251.66	3.4529	0.6652	0.4280
2005	0.57683	29.782	7.4518	15.6466	248.05	3.4528	0.6962	0.4299
2005								
<i>Jan</i>	0.58170	30.304	7.4405	15.6466	246.48	3.4528	0.6963	0.4322
<i>Feb</i>	0.58315	29.957	7.4427	15.6466	243.69	3.4528	0.6961	0.4309
<i>Mar</i>	0.58319	29.771	7.4466	15.6466	244.81	3.4528	0.6961	0.4317
<i>Apr</i>	0.58282	30.134	7.4499	15.6466	248.19	3.4528	0.6961	0.4299
<i>May</i>	0.57806	30.220	7.4443	15.6466	251.95	3.4528	0.6960	0.4293
<i>Jun</i>	0.57405	30.034	7.4448	15.6466	249.04	3.4528	0.6960	0.4293
<i>Jul</i>	0.57367	30.180	7.4584	15.6466	246.47	3.4528	0.6961	0.4293
<i>Aug</i>	0.57321	29.594	7.4596	15.6466	244.49	3.4528	0.6960	0.4293
<i>Sep</i>	0.57296	29.317	7.4584	15.6466	245.83	3.4528	0.6961	0.4293
<i>Oct</i>	0.57319	29.675	7.4620	15.6466	251.85	3.4528	0.6965	0.4293
<i>Nov</i>	0.57351	29.266	7.4596	15.6466	251.04	3.4528	0.6963	0.4293
<i>Dec</i>	0.57346	28.972	7.4541	15.6466	252.68	3.4528	0.6967	0.4293
	<i>Romanian leu</i>	<i>Russian rouble</i>	<i>Turkish lira</i>	<i>Australian dollar</i>	<i>Canadian dollar</i>	<i>Chinese yuan renminbi</i>	<i>Hong Kong dollar</i>	<i>Indonesian rupiah</i>
	17	18	19	20	21	22	23	24
2001	26004	26.1341	1102425	1.7319	1.3864	7.4124	6.9855	9143.90
2002	31270	29.7263	1439680	1.7376	1.4838	7.8309	7.3750	8774.80
2003	37551	34.6581	1694851	1.7379	1.5817	9.3601	8.8079	9677.75
2004	40510	35.8105	1777052	1.6905	1.6167	10.2965	9.6881	11117.42
2005	36622	35.1860	1.6771	1.6320	1.5087	10.1953	9.6768	12070.84
2005								
<i>Jan</i>	38168	36.6603	1.7784	1.7147	1.6060	10.8582	10.2269	12065.02
<i>Feb</i>	36733	36.3805	1.7104	1.6670	1.6128	10.7712	10.1507	12031.56
<i>Mar</i>	36292	36.4697	1.7333	1.6806	1.6064	10.9255	10.2960	12368.72
<i>Apr</i>	36277	35.9794	1.7645	1.6738	1.5991	10.7080	10.0899	12362.94
<i>May</i>	36175	35.4730	1.7396	1.6571	1.5942	10.5062	9.8900	12033.61
<i>Jun</i>	36136	34.6951	1.6560	1.5875	1.5111	10.0683	9.4597	11716.31
<i>Jul</i>	3.5647	34.5513	1.6133	1.6002	1.4730	9.8954	9.3590	11803.89
<i>Aug</i>	3.5034	35.0119	1.6534	1.6144	1.4819	9.9589	9.5529	12283.08
<i>Sep</i>	3.5097	34.7750	1.6430	1.6009	1.4452	9.9177	9.5138	12542.23
<i>Oct</i>	3.5997	34.3262	1.6331	1.5937	1.4149	9.7189	9.3191	12118.09
<i>Nov</i>	3.6543	33.9184	1.6033	1.6030	1.3944	9.5273	9.1390	11834.55
<i>Dec</i>	3.6589	34.1538	1.6038	1.5979	1.3778	9.5746	9.1927	11675.40

Sources: European Central Bank and Bank of Finland.

	<i>Polish zloty</i>	<i>Slovenian tolar</i>	<i>Slovak koruna</i>	<i>Swiss franc</i>	<i>Icelandic krona</i>	<i>Norwegian krone</i>	<i>Bulgarian lev</i>	<i>Croatian kuna</i>
	9	10	11	12	13	14	15	16
2001	3.6721	217.9797	43.300	1.5105	87.42	8.0484	1.9482	..
2002	3.8574	225.9772	42.694	1.4670	86.18	7.5086	1.9492	..
2003	4.3996	233.8493	41.489	1.5212	86.65	8.0033	1.9490	..
2004	4.5268	239.0874	40.022	1.5438	87.14	8.3697	1.9533	..
2005	4.0230	239.5681	38.599	1.5483	78.23	8.0092	1.9558	..
2005								
<i>Jan</i>	4.0794	239.7719	38.573	1.5469	82.12	8.2125	1.9559	..
<i>Feb</i>	3.9867	239.7355	38.044	1.5501	80.74	8.3199	1.9559	..
<i>Mar</i>	4.0123	239.7010	38.253	1.5494	79.15	8.1880	1.9559	..
<i>Apr</i>	4.1559	239.6538	39.232	1.5475	80.71	8.1763	1.9553	7.3908
<i>May</i>	4.1749	239.5123	39.004	1.5449	82.36	8.0814	1.9561	7.3272
<i>Jun</i>	4.0606	239.4659	38.535	1.5391	79.30	7.8932	1.9558	7.3169
<i>Jul</i>	4.0986	239.4810	38.886	1.5578	78.40	7.9200	1.9558	7.3090
<i>Aug</i>	4.0436	239.5096	38.681	1.5528	78.37	7.9165	1.9557	7.3684
<i>Sep</i>	3.9160	239.4745	38.459	1.5496	76.15	7.8087	1.9558	7.4384
<i>Oct</i>	3.9229	239.5252	38.923	1.5490	73.29	7.8347	1.9559	7.3822
<i>Nov</i>	3.9701	239.5082	38.678	1.5449	72.98	7.8295	1.9557	7.3791
<i>Dec</i>	3.8501	239.5062	37.872	1.5479	75.36	7.9737	1.9558	7.3882
	<i>South Korean won</i>	<i>Malaysian ringgit</i>	<i>New Zealand dollar</i>	<i>Philippine peso</i>	<i>Singapore dollar</i>	<i>Thai baht</i>	<i>South African rand</i>	<i>IMF SDRs</i>
	25	26	27	28	29	30	31	32
2001	1154.83	3.4027	2.1300	..	1.6039	39.804	7.6873	0.703237
2002	1175.50	3.5949	2.0366	..	1.6912	40.644	9.9072	0.729237
2003	1346.90	4.2966	1.9438	..	1.9703	46.894	8.5317	0.807084
2004	1422.62	4.7265	1.8731	..	2.1016	50.050	8.0092	0.839260
2005	1273.61	4.7116	1.7660	..	2.0702	50.063	7.9183	0.841434
2005								
<i>Jan</i>	1362.01	4.9847	1.8620	..	2.1501	50.818	7.8386	0.860709
<i>Feb</i>	1330.26	4.9448	1.8192	..	2.1327	50.064	7.8337	0.857559
<i>Mar</i>	1329.44	5.0156	1.8081	..	2.1522	50.890	7.9635	0.864446
<i>Apr</i>	1306.82	4.9163	1.7967	70.435	2.1375	51.165	7.9649	0.856559
<i>May</i>	1272.34	4.8237	1.7665	68.966	2.0962	50.562	8.0500	0.847734
<i>Jun</i>	1231.12	4.6234	1.7175	67.214	2.0342	49.793	8.2194	0.829013
<i>Jul</i>	1248.53	4.5590	1.7732	67.394	2.0257	50.199	8.0790	0.824211
<i>Aug</i>	1255.33	4.6216	1.7675	68.768	2.0439	50.604	7.9508	0.837973
<i>Sep</i>	1261.46	4.6190	1.7515	68.782	2.0603	50.305	7.7936	0.835975
<i>Oct</i>	1256.66	4.5330	1.7212	66.777	2.0326	49.153	7.9139	0.831217
<i>Nov</i>	1226.38	4.4534	1.7088	64.258	2.0017	48.469	7.8502	0.825800
<i>Dec</i>	1212.30	4.4796	1.7072	63.454	1.9855	48.731	7.5439	0.828407

Table 18.
Banknotes and coins put into circulation by the Bank of Finland, EUR m

	2005				2005
	I	II	III	IV	
Banknotes put into circulation by the Bank of Finland					
500 euro	262.1	309.3	301.8	327.7	1,200.9
200 "	76.2	84.4	81.3	91.3	333.2
100 "	137.8	171.0	159.0	188.9	656.7
50 "	993.2	1,194.4	1249.0	1,361.3	4,797.9
20 "	1,226.6	1,379.4	1,343.8	1,379.0	5,328.8
10 "	86.6	105.9	101.9	111.6	406.0
5 "	53.9	61.5	64.4	68.1	247.9
<i>Total number, millions</i>	102.9	118.5	117.8	124.0	463.2
<i>Withdrawn banknotes, number in millions</i>	17.19	17.80	18.50	17.40	70.9
Coins put into circulation by the Bank of Finland					
<i>Ordinary coins</i>					
2 euro	11.3	15.6	14.3	20.8	62.0
1 "	4.6	6.5	6.0	6.7	23.8
0.50 "	2.4	2.6	3.1	3.5	11.6
0.20 "	1.7	2.7	2.5	2.5	9.4
0.10 "	0.6	1.0	1.0	1.1	3.7
0.05 "	0.0	0.5	0.5	0.5	1.5
0.02 "	0.0	0.0	0.1	0.0	0.1
0.01 "	0.0	0.0	0.1	0.0	0.1
<i>Commemorative coins</i>					
100 euro	0.1				0.1
50 "					0.0
20 "		0.4	0.1	0.0	0.5
10 "	0.5	0.0	0.0	0.4	0.8
5 "			0.9		0.9
<i>Total</i>	21.2	29.3	28.5	35.5	114.5
<i>Withdrawn coins, number in millions</i>					
Ordinary coins	–	–	–	–	–
Commemorative coins	–	–	–	–	–

Source: Bank of Finland.

Table 19.
Banknotes sorted at the Bank of Finland, number in millions

<i>Euro banknotes</i>	2002	2003	2004	2005	<i>Markka banknotes</i>	2001
500 euro	1.2	1.8	2.1	1.6	1,000 markka	7.3
200 "	1.7	1.8	1.7	1.3	500 "	14.9
100 "	5.2	6.7	5.7	5.4	100 "	548.4
50 "	73.3	84.4	74.6	76.5	50 "	51.3
20 "	311.0	290.5	222.4	179.3	20 "	80.7
10 "	30.8	30.3	37.4	32.2	10 "	–
5 "	32.6	31.0	45.2	39.6		
<i>Total</i>	455.8	446.5	389.2	335.9	<i>Total</i>	702.6

Source: Bank of Finland.

Table 20.
Bank of Finland interbank funds transfer system (BoF-RTGS)

	Account holders, number	Domestic payments, number in thousands	Value, EUR bn	Outgoing TARGET-payments, number in thousands	Value, EUR bn	Transactions					
						Incoming TARGET-payments, number in thousands	Value, EUR bn	TARGET-payments, total number in thousands	TARGET-payments, total value, EUR bn	Transactions, total number in thousands	Transactions, total value, EUR bn
	1	2	3	4	5	6	7	8	9	10	11
2001	15	186.6	1,289.2	104.4	1,270.3	109.1	1,269.6	213.5	2,540.0	400.1	3,829.2
2002	17	138.8	1,239.4	116.9	1,250.5	134.9	1,250.5	251.8	2,501.0	390.6	3,740.4
2003	18	152.2	1,461.5	132.0	1,503.2	141.9	1,502.5	273.9	3,005.7	426.2	4,467.2
2004	19	147.5	1,541.1	141.0	1,601.7	167.4	1,604.0	308.4	3,205.7	455.8	4,746.9
2005	17	144.2	1,479.3	147.8	1,756.5	180.7	1,758.7	328.5	3,515.3	472.7	4,994.6
2005											
Jan	19	11.3	129.5	10.8	140.3	14.1	138.5	24.9	278.8	36.2	408.3
Feb	19	10.9	120.4	10.7	147.3	13.5	147.8	24.1	295.2	35.0	415.5
Mar	19	12.0	122.9	13.2	166.0	15.5	167.2	28.6	333.2	40.7	456.1
Apr	17	12.2	129.0	12.3	159.7	15.0	159.3	27.3	319.1	39.6	448.0
May	17	12.5	133.0	11.8	127.3	14.6	130.3	26.4	257.6	38.9	390.5
Jun	17	12.4	127.3	13.7	159.2	16.1	158.5	29.8	317.7	42.2	445.0
Jul	17	11.4	105.1	10.9	140.0	14.0	138.5	24.9	278.5	36.2	383.6
Aug	17	12.3	117.6	11.6	131.6	14.7	132.2	26.3	263.7	38.6	381.3
Sep	17	12.3	120.4	13.8	157.7	15.9	157.5	29.7	315.2	42.1	435.6
Oct	17	12.1	128.9	12.0	133.3	15.3	134.1	27.3	267.4	39.4	396.3
Nov	17	12.6	121.3	12.8	132.1	16.2	131.1	28.9	263.2	41.5	384.5
Dec	17	12.2	123.9	14.3	162.0	15.9	163.7	30.2	325.8	42.4	449.6

Source: Bank of Finland.

Table 21.
Banks' intraday credit limits

<i>Period average</i>	<i>Total limits, EUR m</i>	<i>Maximum usage rate of limits, %¹</i>	<i>End-of-day balances, EUR m</i>
	<i>1</i>	<i>2</i>	<i>3</i>
2001	4,169	50	1,811
2002	3,669	50	2,011
2003	4,476	63	1,951
2004	4,624	63	2,179
2005	4,385	65	2,269
2005			
<i>Jan</i>	4,301	72	2,206
<i>Feb</i>	4,730	68	2,268
<i>Mar</i>	4,583	65	2,163
<i>Apr</i>	4,392	66	2,205
<i>May</i>	4,291	72	2,314
<i>Jun</i>	4,363	61	2,332
<i>Jul</i>	4,677	59	2,165
<i>Aug</i>	4,264	60	2,433
<i>Sep</i>	4,205	70	2,259
<i>Oct</i>	4,226	64	2,286
<i>Nov</i>	4,261	59	2,211
<i>Dec</i>	4,324	61	2,385

¹ The maximum usage rate is the ratio of the maximum value of the combined sum of banks' debit balances on settlement accounts with the Bank of Finland to total limits during the relevant period.
Source: Bank of Finland.

Table 22.
Entries in the domestic interbank retail payment system (PMJ)

	<i>Debit entries</i>		<i>Credit entries</i>		<i>Total entries</i>	
	<i>Number, millions</i>	<i>Value, EUR bn</i>	<i>Number, millions</i>	<i>Value, EUR bn</i>	<i>Number, millions</i>	<i>Value, EUR bn</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
2001	210.6	9.6	188.9	159.9	399.4	169.5
2002	249.2	10.4	194.4	169.7	443.6	180.1
2003	272.7	11.1	201.3	162.6	474.0	173.7
2004	309.6	12.4	214.8	175.2	524.4	187.6
2005	320.5	12.4	214.9	185.4	535.4	197.7
2005						
<i>Jan</i>	24.6	1.0	16.8	14.1	41.4	15.1
<i>Feb</i>	24.1	0.9	17.5	14.0	41.6	14.9
<i>Mar</i>	26.2	1.0	19.3	15.4	45.6	16.4
<i>Apr</i>	24.7	0.9	17.3	14.8	42.0	15.7
<i>May</i>	28.1	1.1	18.6	15.7	46.7	16.8
<i>Jun</i>	27.2	1.0	18.6	16.6	45.8	17.7
<i>Jul</i>	27.4	1.1	16.2	14.5	43.6	15.6
<i>Aug</i>	28.8	1.1	17.0	14.7	45.8	15.8
<i>Sep</i>	25.7	0.9	18.3	16.1	44.0	17.0
<i>Oct</i>	26.7	1.0	17.4	15.7	44.1	16.7
<i>Nov</i>	26.8	1.0	18.9	16.2	45.7	17.2
<i>Dec</i>	30.2	1.2	19.1	17.5	49.3	18.8

Source: Bank of Finland.

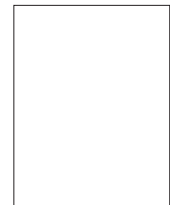
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