

# BANK OF FINLAND ANNUAL REPORT 2006



EUROJÄRJESTELMÄ  
EUROSYSTEMET

BANK OF FINLAND  
ANNUAL REPORT  
2006



# Bank of Finland

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The figures in the Annual Report  
are based on data available in  
February 2007.

ISSN 1239-9345 (print)  
ISSN 1456-579X (online)  
Edita Prima Ltd  
Helsinki 2007

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# Bank of Finland

The Bank of Finland is Finland's monetary authority and a member of the Eurosystem. In performing its various functions, the Bank promotes price stability, the stability and efficiency of the payment and financial system as well as integration of European financial markets. All these provide scope for economic growth and employment.

The Bank of Finland has four core functions. The Bank participates in monetary policy preparation and decision-making (monetary policy), oversees the stability of the financial system (macroprudential supervision), implements monetary policy, provides payment services and invests financial assets (banking operations), and issues euro banknotes and coins in Finland (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 Governor is a member of the Governing Council of the European Central Bank. The nine members of the Parliamentary Supervisory Council supervise the activities of the Bank. A total of about 510 staff are 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.



Photo: Douglas Sívén

**Board of the Bank of Finland:**

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



# Foreword

The world economy generally continued to expand at a brisk pace in 2006, although there were signs of growth deceleration in some industrial countries. Economic activity in the United States was dampened by the slackening housing market and in Japan by weakening private consumption. In contrast, the euro area experienced stronger and more broadly based growth than in recent years. Robust economic expansion in the emerging economies and oil-exporting countries boosted world trade. A sharp fall in the world market prices of crude oil in the latter part of the year reduced inflationary pressures worldwide. However, energy prices were still very high by historical standards, even after the oil price drop.

Euro area monetary policy was more active than in previous years. The Governing Council of the ECB raised the policy rate five times during the year, from 2.25% to 3.5%. These measures aimed at anchoring the inflation expectations of the public and the markets at levels consistent with price stability in an environment of a stronger-than-expected recovery in euro area overall demand and economic growth. Despite the increases, the level of the policy rate remained accommodative when the year ended.

Economic activity in Finland emerged exceptionally robust in 2006, with GDP growth reaching 5.5%. Like other forecasting institutions, the Bank of Finland also revised its growth projections upwards during the course of the year in the face of an improving

economic outlook. Stronger overall demand and, in particular, high energy prices led to a slight acceleration in inflation in Finland towards the end of the year. Even so, owing to moderate price developments in the first half of the year, the average inflation rate for 2006 remained at 1.6%.

In discussions at national level, the Bank of Finland has emphasised the importance of more competition and higher labour productivity as a means to increase the economy's growth potential. This is of the essence now that demographic ageing is approaching a phase where the number of those entering the labour market remains below the number of those retiring from active duty. The challenge applies to the euro area as a whole but – owing to Finland's exceptionally large post-war age groups – starts to materialise more rapidly here than elsewhere. We have also highlighted the need to enhance public-sector productivity in order to manage financial pressures in service provision.

Rapid lending growth continued in Finland in 2006. While the average level of indebtedness of households is not exceptional, the rate of growth in indebtedness and its concentration on a small proportion of the population have prompted the Bank of Finland to devote attention to household indebtedness and interest rate risks.

In line with its strategy, the Bank of Finland has been an active and constructive member of the Eurosystem. Accordingly, the Bank has been actively

promoting migration to the Single Euro Payments Area (SEPA). The objective is to establish a common framework for credit transfers and card payments throughout the euro area. Well-functioning and efficient payment systems provide a key foundation for the market economy. The European single market still has major shortcomings in this respect.

Another important project was TARGET2, a scheme aimed at harmonising the procedures of the trans-European gross settlement system for large-value payments, operated by central banks. During the year under review, the ECB made an important initiative for also linking securities settlement transactions to the TARGET system. The initiative seeks to promote the integration of European securities markets and significant reductions in trading costs. Reform of the securities markets infrastructure is of vital importance in improving efficiency in European capital markets and thereby increasing their ability to make a stronger contribution to economic growth and to better absorb shocks on economic activity across countries.

Survey results point to the euro's high regard among Finns. The citizens' confidence in the central bank is also good, whereas knowledge of its activities is limited. Uncertainty surrounds the Bank of Finland's relationship vis-à-vis the European Central Bank, in particular. Therefore, the Bank is developing and deepening its external communications, laying emphasis on its role as national

monetary authority and Eurosystem member.

Management of the Bank's financial assets was revised in accordance with the new strategy by exchanging part of the Bank's foreign reserves into euro. This enabled mitigation of risks related to the Bank's investment activities and achievement of greater stability in the Bank's finances. The aim is to guarantee a smooth distribution of profits to the state in the coming years, without jeopardising the Bank's solvency level and financial resources.

The number of banknotes issued by the Bank of Finland continued to increase at a very brisk pace. The same phenomenon has been discernible in the euro area as a whole in recent years. Banknote volume growth and rising market rates brought the Bank of Finland's net interest income in 2006 to the highest level since the euro cash changeover. Despite incidental exchange losses, which could be offset by using provisions, the Bank's results for the year increased to EUR 293 million.

The Bank's internal operations and working methods were streamlined, making use of information and communication technologies. Net-based facilities were introduced in September in connection with preparations for the ECB Governing Council meeting. Inspired by this example, the new method of working was adopted for many other tasks and work processes, in an attempt to realise productivity gains in the Bank's activities.

An extensive renovation of the Bank's head office reached completion

during the year, just in time to honour the bicentenary of the birth of J.V. Snellman, the great Finnish philosopher and economic policymaker of the 19th century. The Helsinki-based staff as a whole could thus be located in head office premises. The last 'evacuees' were also able to return in the autumn. Snellman's impressive work to stabilise Finland's monetary conditions was widely revered in a number of presentations and lectures in the course of the year.

The Bank's action planning in 2006 was implemented for the first time entirely in compliance with the revised management system. This made it possible for departments to better focus their planning on the Bank's operational priorities and their further development. Meanwhile, efforts were made to reduce the time allocated to the action planning process. Strategy work will continue in 2007. The primary goal will be to assess the focal areas of the Bank's activities over the longer term and the resources they will require. At the same time, we will be more precise in defining our objectives for the work within the Eurosystem.

7 March 2007

A handwritten signature in black ink, appearing to read 'Erkki Liikanen', written in a cursive style.

Erkki Liikanen

# Strategy of the Bank of Finland

## 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 system and foreign exchange reserves.

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.

## Monetary policy

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.

## Financial supervision

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.

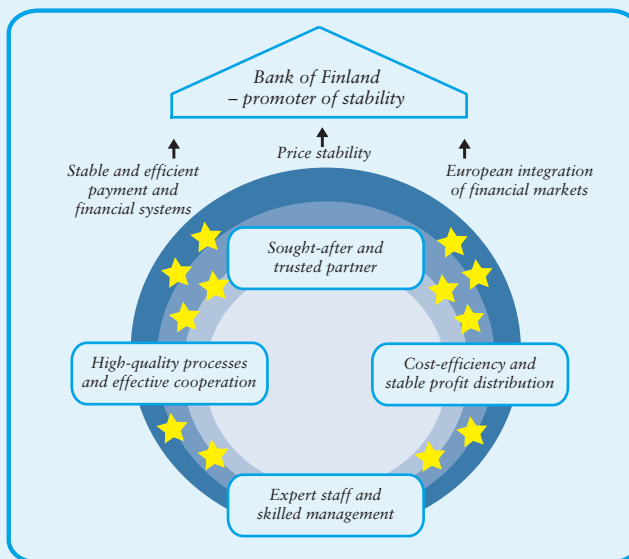
## Banking operations

The Bank of Finland ensures the availability of internationally competitive central bank services to credit institutions and other market participants operating in Finland. 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.

## Maintenance of currency supply

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.



## 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 analyses 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 interests 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.

## **II: Economy of resource use**

*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 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 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 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.

## **III: Efficiency of internal processes**

*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 in terms of the Bank of Finland's service capacity, such as reliability, accuracy and customer satisfaction, are developed in the context of the introduction of an objectives and results framework. These key processes include market operations and investments, projections, statistics and publications.

*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 are revised to promote timely analysis and smooth flow of information and to remove overlaps.

*12. The information and communication technology (ICT) environment is 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 activities 2006





# Monetary policy and economic policy

## The ECB's monetary policy in 2006

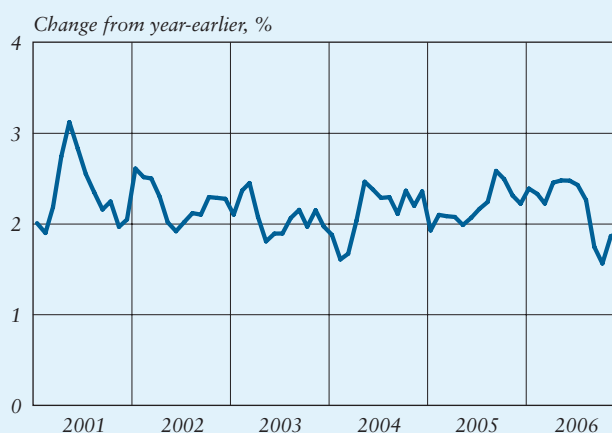
Year 2006 can be characterised as a period of economic recovery for the euro area, facilitated by continued world economic growth. In autumn 2005, the price of oil rose to exceptionally high levels, which was manifested in a heightened risk of inflation. Euro area consumer price inflation hovered primarily around 2.0–2.5% in 2005–2006 (Chart 1). Monetary growth continued to be robust and liquidity was abundant. The euro has been accelerating since the end of 2005, driven by the recovering euro area economy and rising interest rates.

In accordance with its strategy, the ECB's aim was to accommodate its monetary policy to keeping the inflation rate below, but close to, 2% over the medium term. The purpose of the interest rate increases was to reduce the easy stance of monetary policy, given the stronger economic growth and the inflation rate slightly exceeding the level required to maintain price stability.

In December 2005, the ECB's Governing Council had already started to gradually raise monetary policy interest rates from the low of 2%. In 2006, the paced increases of ¼ percentage points were made five times, resulting in the key interest rate (minimum bid rate for main refinancing operations) climbing to 3.5%.

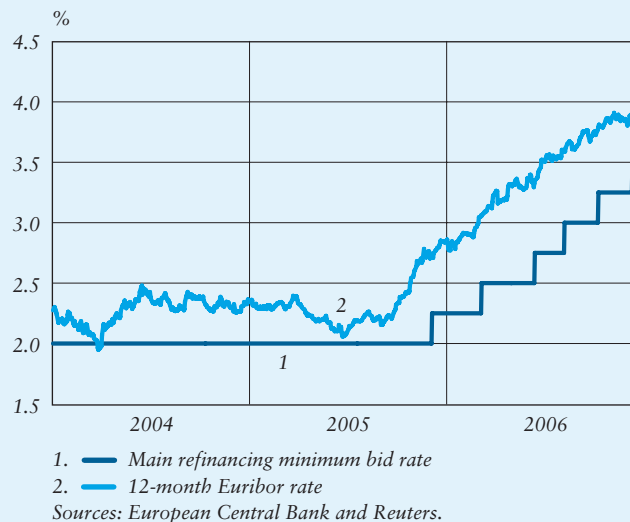
Euro area economic prospects continued to improve during the winter months. In March, growth for 2006–2007 was estimated to be more or less consistent with potential growth, with the inflation rate anticipated to remain above the target in the next few years. As a consequence, the Governing Council raised the key

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



Source: Eurostat.

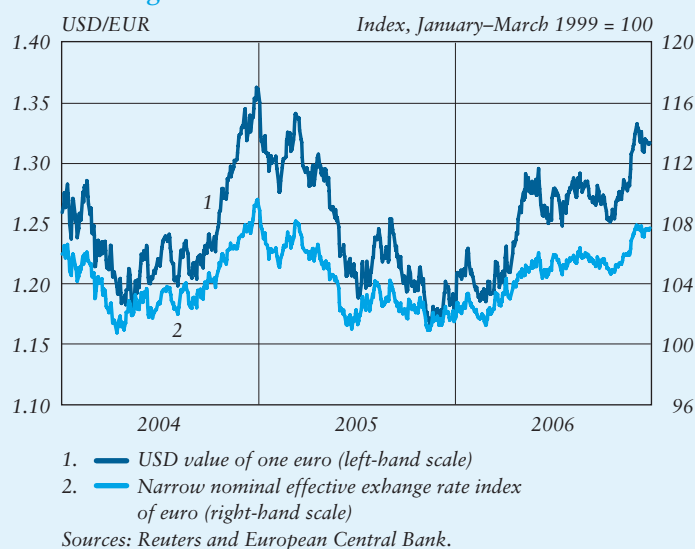
**Chart 2.**  
Eurosystem main refinancing rate and 12-month Euribor rate



Sources: European Central Bank and Reuters.

interest rate to 2.5% (Chart 2) at the beginning of the month. The increase notwithstanding, the ECB concluded that the real interest rate level was still very

**Chart 3.**  
Euro exchange rate against US dollar and  
exchange rate index



low and an accommodative stance in the monetary policy would be maintained. In these circumstances it was emphasised that risks to price stability would continue to be monitored closely. In spring, the euro appreciated particularly against the US dollar (Chart 3).

At the beginning of June, interest rates were raised by 0.25 percentage points. The Governing Council believed that upside risks to inflation would continue. In the June forecast, no radical changes were made to the growth estimate for 2006, but growth for 2007 was anticipated to remain slightly below previous estimates, owing to the higher price of oil.

In its communication after the July Governing Council meeting, the ECB emphasised that strong vigilance

remained of the essence so as to ensure that risks to price stability do not materialise. At the beginning of August, the key interest rate was raised to 3% and kept unchanged at the meeting of the end of the month. According to the ECB staff economic projections published at the end of August, growth prospects had improved slightly and inflation was anticipated to accelerate. Growth in loans granted by monetary financial institutions continued at a steady pace of more than 10%. In its statement the Governing Council put special emphasis on strong vigilance in ensuring price stability.

In October, the key interest rate was raised to 3.25%. In its statement the Governing Council emphasised that interest rates remained at low levels, money and credit growth were strong and liquidity in the euro area was abundant by all plausible measures. Despite the interest rate rise, monetary policy was concluded to remain accommodative. At the November meeting, communication resumed a tighter note when emphasis on strong vigilance was underlined. As a consequence, the key interest rate was raised to 3.5% at the December meeting, and this level was declared to remain accommodative. Towards the end of the year, economic growth was again estimated to exceed expectations slightly.

Through the ECB's communication, the markets had been able to well anticipate the interest rate decisions made in the course of the year. By the end of 2006, Euribor rates were higher

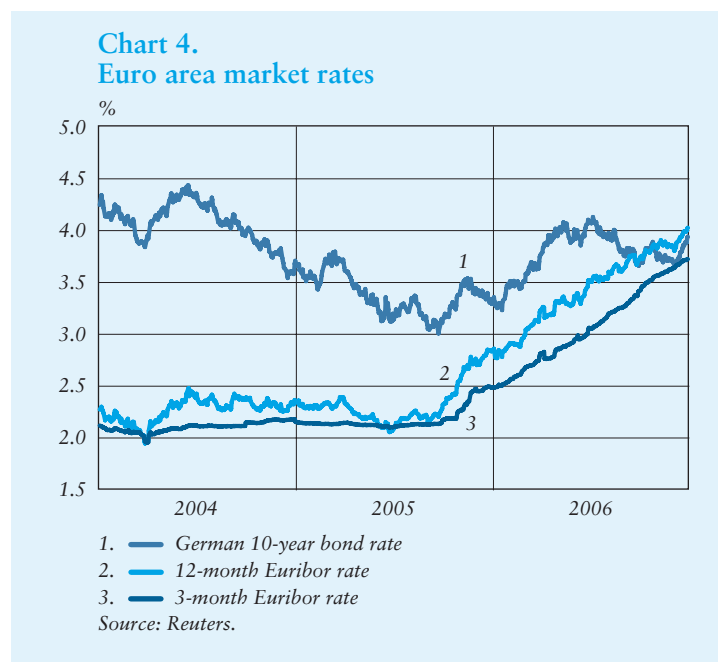
than the key interest rate. For example, the 1-year Euribor was around 4% (Chart 4). Moreover, the markets expected that the slightly tightening monetary policy stance would continue during 2007.

Pressures on the exchange rates of the currencies belonging to the exchange rate mechanism ERM II remained weak, and these currencies oscillated within their fluctuation bands without any major hiccups. In 2006, the currencies belonging to ERM II were those of Cyprus, Denmark, Estonia, Latvia Lithuania, Malta, Slovakia and Slovenia. In June 2006, the heads of state or government and the ministers of finance of the EU member states concluded that Slovenia meets the economic and legal criteria applicable to the adoption of the euro, with the effect that Slovenia was the 13th country to join the euro area, as of 2007. The conversion rate was the ERM central rate of the tolar. Following the adoption of the euro by Slovenia, the country's central bank became a full member of the Eurosystem.

### The Governing Council's statements on other economic policy issues

In the course of the year, the Governing Council repeatedly addressed euro area countries' public finances and stressed the necessity of structural reforms.

In an environment of stronger economic growth in 2006, general government fiscal position improved in different euro area countries, albeit very slowly. The Governing Council emphasised that the commitments made



in the Stability and Growth Pact, revised a year earlier, should be implemented by all euro area countries. It is essential to ensure that during an economic upswing, general government fiscal position be stabilised and a fiscal policy consistent with economic cycles be avoided. Any additional income from stronger-than-expected growth should be earmarked and channelled to the reduction of budgetary deficits or to the increase of surpluses.

In several connections, the Governing Council emphasised the necessity of structural reforms, particularly with a view to ensuring flexible adaptation to changes in the global economy and alleviating the adverse impact by economy of demographical changes. In spring, the Governing Council supported the initiatives put

forward by the European Commission and European Council regarding the revival of the Lisbon process.

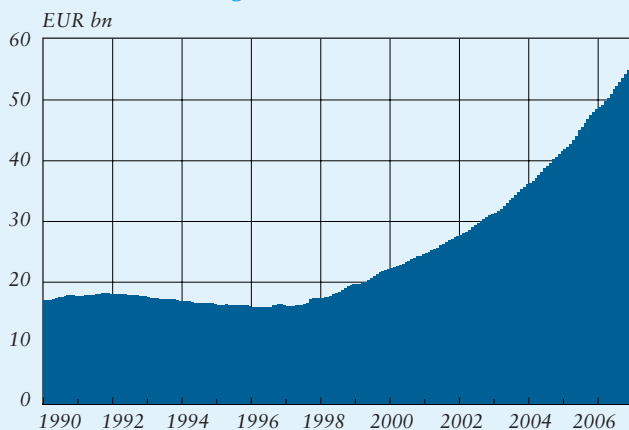
Another area of focus was market development. It is important to boost functionality of the internal market and establish flexible commodity and labour markets. This enables enhancement of euro area economic adaptability as well as its ability to withstand external disturbances. The liberalisation of the commodity market to competition encourages companies to invest and innovate, resulting in higher productivity growth. Job incentives should also be developed. Likewise, opening the service sector to new entities would enhance service market efficiency and flexibility as well as facilitate adaptability to changes. If successful, the reforms would improve euro area growth potential and employment prospects.

### The Bank of Finland and economic policy in Finland

The Bank of Finland acts as expert on the Finnish economy in the Eurosystem and, conversely, as the euro area expert in Finland. It analyses, monitors and makes forecasts on the Finnish economic development as well as evaluates impact of the single monetary policy on the Finnish economy. Twice a year, the Bank draws up a macroeconomic forecast of domestic economic developments over the next few years. The forecast is published in the March and September issues of the quarterly Bank of Finland Bulletin.

In 2006, the Bank of Finland revised upward its prior economic forecast. Owing to improvements in statistical reporting, the view on recent past growth was also revised upward from prior estimates. In March 2006, GDP growth for 2006 was anticipated to reach 3.4%, but in September the estimate was revised to 5.4%. The economic upswing peaked in Finland in 2006. Growth was boosted by domestic demand, exports and investment alike. The growth figure was nearly 1 percentage point higher than in the previous year, owing to the paper industry shut-down in the reference period. Considerable variation was seen in the output of in the electronics industry during 2006. Vigorous growth was seen at the beginning of the year, but output subsided towards the end of the year. In contrast, output and exports in the rest of the metal industry performed extremely well, and increases in world market prices for metals supported export price development for the industry. The paper

**Chart 5.**  
Stock of housing loans in Finland



Source: Bank of Finland.

### Differences between the harmonised and national index of consumer prices

Finland's harmonised index of consumer prices (HICP) and the national consumer price index differ in terms of both the method of calculation and the underlying baskets. The HICP covers slightly less than 90% of the consumption basket of the national consumer price index. Accordingly, deviations can be seen in the inflation rates measured by these two indices, despite the price data used in the calculation of the indices being the same.

Compilation of the HICP has been made as uniform as possible in all EU member states in order to derive an index comparable between all EU countries. In contrast, national consumer price indices may be drawn up in different ways in different countries owing to, for example, differences in national housing markets.

Euro area consumer price inflation is measured by the euro area HICP, which is published by the Eurostat. This measure of inflation is used by the ECB in determining price stability in the euro area. In terms of the monetary policy, consistency and timeliness are of the essence in the calculation of the index.

In Finland, the most significant difference between the national consumer price index and the HICP is that the capital costs of owner-occupied housing are included in the national index, ie the index includes the cost of purchasing a new dwelling, mortgage interest rates,

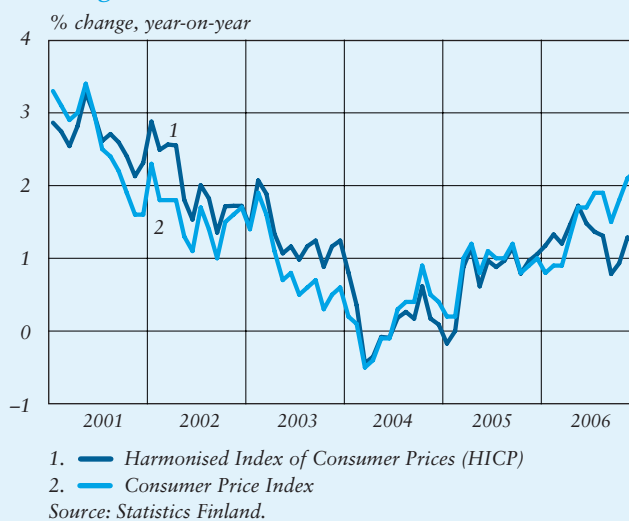
basic repairs of dwellings and all other costs related to owner-occupied housing. Moreover, Finland's national consumer price index also includes interest on consumer credits as well as gaming and certain taxes. The impact of the last two items on the index has nevertheless been minor.

The treatment of costs relating to owner-occupied housing is problematic in the compilation of consumer price indices. On the one hand, the purchase of an owner-occupied dwelling is considered an investment (in the national accounts, for example), but a cost factor is also involved: the dwelling offers its occupiers housing services that are consumed throughout the life cycle of the dwelling.

Another major difference between the Finnish HICP and the national consumer price index is related to the calculation method, although with less significance with a view to the development of the indices. The HICP is what is known as a chain index, where parts of the weight structure are updated annually. In contrast, the national consumer price index has fixed weights, with the structure and weights of its consumption basket being updated at around five year intervals.

Developments in the HICP and the national consumer price index have differed greatly in recent times. While the HICP was 1.2% in December 2006, inflation measured by the national consumer price

**Chart.**  
Rate of increase of consumer prices in Finland, using different indicators



index was 2.2% at the same time, the result being that the difference between these two inflation rates had expanded to as much as 1 percentage point. In contrast, greater convergence can be observed in the average rate of inflation for 2006 as a whole: with the HICP at 1.3%, inflation measured by the national consumer price index was 1.6%.

The principal reason for the expansion of the difference

between the two indices was the increase in the cost of owner-occupied housing. Mortgage interest rates increased significantly in 2006, while house prices have undergone rapid increases over a number of years. Some 0.4 percentage point of the difference is accounted for by higher mortgage interest rates, while 0.25 percentage point is attributed to house price increases. Higher

apartment prices and other costs related to owner-occupied housing explain 0.1 percentage point of the difference, with the remainder being chiefly accounted for by interest rates on consumer credit. If increases in mortgage interest rates and housing prices even out, the difference between the indices will subside accordingly.

industry continued to be handicapped by the persistently poor international competitiveness of the industry.

The long-standing contraction of Finland's current account surplus came to a halt in the latter half of 2006. This was due to good export performance and the fall in oil prices, which served to lower import prices and improve terms of trade. As regards exports, they benefited from the pick up of euro area economic growth as well as from the buoyant economic growth and strong domestic demand in Russia.

Favourable performance characterised the labour market throughout 2006. Growth in the number of employed exceeded expectations and by the end of the year, the unemployment rate had fallen to lower than previously anticipated. The biggest increases in employment were seen in the construction industry and service sectors.

Price development in Finland was more moderate than in the rest of the

euro area countries, even though the inflation rate accelerated somewhat in 2006. The main contributors to the somewhat more rapid inflation were higher oil and service prices. The consumer price index was also increased by higher housing costs, resulting from more expensive house prices and elevated interest rates. However, import prices for many industrial products fell, which in turn contained inflation. Wage development in Finland was modest. Negotiated pay increases were smaller than last year, and not even the lack of employment in some industries led to major increases in wages drift.

On several occasions in 2006, the Bank of Finland drew attention to households' growing indebtedness and warned indebted households about risks associated with higher interest rates. The Bank also continued discussions about productivity development and the importance of boosting growth and employment.

## Research

The Bank of Finland's research activities serve to enhance the Bank's policy preparation, develop its own activities and improve its external influence. The aim is to meet 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 financial market developments both domestically and internationally.

### Monetary research

Economic research carried out by the Research Unit takes place within the framework of two programmes. The first of these focuses on the modelling of monetary policy, while the focus in the other one is on the future of the financial services sector. The latter programme has also branched out towards stability analysis. The work carried out in these research programmes is initially made public in the form of discussion papers, totalling approximately 30 such reports per annum.

In the modelling of monetary policy, research was geared towards the general equilibrium modelling of the term structure of interest rates and on examining factors that determine the difference between the effective tender rate and the minimum bid rate used in the main refinancing operations of central banks. Research was also extended to analysing the macroeconomic impact of labour market search frictions and labour taxes. Another research theme was related to examining the macroeconomic

impact of tighter commodity and labour market competition using a dynamic general equilibrium model of the Finnish economy. Particular focus was on analysing how tighter competition affects the sustainability of public sector balances and whether the increasing burden on the general government, caused by population ageing, can be alleviated through structural reforms that support competition. The Bank also participated in a comprehensive research project, carried out jointly with the central banks of the euro system, which investigates the interdependency of wage formation and firms' pricing policies. With a deadline in 2008, this project follows on from a previous euro system-wide research network project on the persistence of inflation.

Key themes in the research programme geared to analysing the future of the financial sector included competitiveness and asymmetrical information on the credit market, cyclical behaviour of banks' capital buffers, sensitivity to crises of the financial system and contagion of crises. Work on the forecast model for the banking sector continued and progressed to the reporting stage. Another research project, based on international data, studied the effects of legislation on supervision of the financial markets and the impact of practical supervisory measures on the efficiency of the financial system.

### Research on economies in transition

The Bank of Finland Institute for Economies in Transition (BOFIT) concentrates on monitoring and analysing devel-



opments in Russia and China. Accordingly, the Bank of Finland's third research programme concentrates on research on transition economies. The main focus is on matters related to monetary economy and financial markets, but structural reforms carried out in these economies are also included.

In 2006, BOFIT conducted research on direct investment and the impact of the exchange rate on monetary demand and inflation in both Russia and China. Another key area was the impact of privatisation on the profitability of banks and development of the share market in transition economies.

BOFIT continued to publish BOFIT Weekly Review and quarterly reports on Russia and China. The publication of quarterly reports was discontinued, however, with effect from the beginning of 2007. In future, focus will increasingly be shifted towards research, and publications will be made accessible electronically.

In 2007, BOFIT will launch a comprehensive research programme with a particular focus on the global integration of Russia and China. The research project will be carried out by way of several individual net-based research projects with leading European researchers in the field as project partners.

In response to the developments in Russia and China and these 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 Institute's experts continued to be in great demand.

### Scientific meetings

As in previous years, the Bank's research units organised a number of international scientific meetings relevant to their field of research. In June, an international conference was organised in cooperation with Andrew Levin from the Federal Reserve Board of Governors. The conference focused on dynamic general equilibrium models used by central banks in research activities and policy preparation. In November, a conference on credit markets and the macro economy was organised with the Centre for European Policy Research (CERP). In April, BOFIT and the Moscow-based Centre for Economic and Financial Research (CEFIR) organised a joint conference on research focusing on Russia, China and other transition economies. In September, the Bank of Finland organised the fourth ESCB (European System of Central Banks) seminar on transition economies.

# Financial markets and statistics

## Financial market stability and efficiency

Bank of Finland's macro prudential supervision focuses on potential disturbances affecting the financial system that could endanger operations of the system. The focus is on analysing the impact of economic developments on stability. Macro prudential supervision also aims at ensuring reliable and effective functioning of payment and securities systems and to enhance development of these systems.

According to the Bank's strategy, revised in 2005, the Bank of Finland is responsible for ensuring that it can provide internationally competitive central banking services to all parties operating on the financial market. Furthermore, the Bank must develop methods for evaluating the condition of financial institutions and markets as well as crisis management skills. In the strategy, development of financial market infrastructure and ensuring of its efficiency fall under oversight of the financial system, which in turn is part of macro prudential supervision. In 2006, the Bank carried out these tasks in close cooperation with the relevant domestic and international authorities. In all these efforts, the demands imposed by financial market integration have been taken into account.

Twice a year, the Bank of Finland publishes its evaluation of the stability of the financial market. In keeping with this, in December 2006 the Bank published *Financial Stability 2006*, a special issue of the Bank of Finland Bulletin. An updating review on market stability was published in the Bulletin

in June 2006. The primary aim of the stability reports is to inform financial market operators, other authorities and experts as well as the general public of risks and threats to stability affecting the financial system and of appropriate preventative measures. The reports also aim to bring to the fore relevant development needs. As emphasised in the strategy, stress test reporting has been enhanced in order to better evaluate the condition of and threats to the financial market.

In the December 2006 stability report, the Bank of Finland considered the Finnish financial system stable and likely to withstand major disturbances. Forecasts of favourable economic development continue to sustain financial market stability. However, problems related to the world economy and the international financial system, such as the adverse impact of a sudden correction of global imbalances, could – if materialised – affect Finnish financial institutions fairly rapidly. The likelihood of a major crisis endangering operations of the Finnish financial system would nevertheless also require that disturbances specifically affecting Finland would exist. Given an integrated financial market, though, possible problems spread much faster both within the financial sector and from country to country.

The stability report anticipated that banks and insurance companies would continue to post good results and maintain solid risk buffers. Financial institutions' exposure to credit risk is moderate, because the overall financial position of banks' customers is strong.

However, the report voiced concerns over heavily indebted households, which may run into problems if their financial standing weakens materially.

According to the stability report, key payment systems and securities clearing and settlement systems fulfilled the requirements imposed on them. However, changes in the operating environment and operations – eg increases in the number of foreign parties and the fact that telecommunication systems are becoming increasingly complex – may make it more difficult in future to find solutions to problems. Continuous monitoring of systems is therefore of the essence.

Establishment of the Single Euro Payment Area (SEPA) is a major payment systems development project designed to remove technical barriers from cross-border payment transfers between banks. The Bank of Finland has taken an active role in promoting SEPA on different forums.

The latest and currently the most important project affecting securities settlement systems is the initiative put forward by the European Central Bank (ECB) to integrate securities settlement into TARGET2 (see chapter 'Operative banking', page 34). The objective of the TARGET2 Securities project is to improve the efficiency of post-trading activities. In 2006, market participants agreed on a set of rules based on self-regulation, with the purpose of enhancing competition in the securities market. In both projects, the Bank of Finland has worked in close collaboration with members of the

Eurosystem and with Finnish authorities and market participants.

The Bank of Finland and representatives of the Finnish Central Securities Depository met at monthly oversight meetings to discuss functioning of the clearing and settlement systems and related development projects. Functionality of the systems in possible disturbance situations was evaluated with the Bank of Finland's payment and settlement simulator. In their seventh consecutive evaluation the parties concluded that the settlement and clearing system used in the handling of collateral in monetary policy operations continues to fulfil the requirements of the ESCB user standard.

### Cooperation between national authorities

The Bank of Finland arranged seminars for Finnish authorities on current issues concerning the payment and securities systems, in the period under review. A joint working group involving financial market authorities (Bank of Finland, Ministry of Social Affairs and Health, Insurance Supervision Authority, Ministry of Finance and Financial Supervision Authority) conducted two surveys on current risk factors affecting the financial market. The working group also addressed the special theme of deepening financial market integration and the ensuing challenges to government activities and impact on the Finnish financial sector.

The Bank of Finland, the Financial Supervision Authority and the Insurance

Supervision Authority undertook joint stress tests in the Finnish banking and insurance sector. Calculations made to major financial conglomerates evaluated the adequacy of their risk buffers in the event of a drastically poorer economic situation.

In March 2006, the Bank of Finland and the Financial Supervision Authority signed a memorandum of understanding concerning emergency situations affecting the financial system. The aim is to improve both parties' risk management capacity by enhancing cooperation and ensuring exchange of information in the event of an emergency.

The Bank of Finland was also involved in several projects relating to financial market regulation and development of supervision, either through membership in working groups or issue of opinions. One of the key projects was the ongoing preparatory work of a Ministry of Finance working group concerning implementation of the Directive on Markets in Financial Instruments (MiFID).

### International cooperation between authorities

In line with its strategy, the Bank of Finland promoted international cooperation in issues of financial markets and payment systems by taking an active role on a number of international forums. Cooperation seeks to improve monitoring of financial market stability and crisis management and boost functioning of the financial markets and payment systems infrastructure. The

payment system simulator developed at the Bank of Finland was offered free of charge to 60 users around the world.

In January 2006, the Bank of Finland and Sweden's central bank signed a memorandum of understanding and agreed on a cooperation programme. The purpose is to coordinate oversight of the financial market and ensure access to information at the Nordic Central Securities Depository (NCSD), made up by the Finnish and Swedish Central Securities Depositories. Towards the end of the year, the parties began to draw up a crisis management plan with a view to the integration of the central securities depositories.

In order to develop its cooperation and crisis management capacity in line with the strategy, the Bank of Finland participated in joint crisis management exercises, arranged with all EU member states as well as within the Eurosystem. The latest exercise in May 2006 focused on the Eurosystem's ability to manage a financial crisis extending to several countries and threatening to develop into a systemic crisis that would handicap the entire euro area financial system. In addition, the Bank of Finland participated in the EU central banks' and supervisors' development work of crisis management skills and practices.

The Bank of Finland participated in the work of key international committees and institutions relevant to the functioning of the financial markets in matters concerning macro prudential supervision and payment and settlement systems. As a member of ESCB and

Box 2.

### The Bank of Finland involved in promoting the Single Euro Payment Area

Establishment of the Single Euro Payment Area (SEPA) is progressing to the implementation phase. It is a joint project between authorities and banks, designed to make cross-border payments as smooth and simple as payments effected within individual countries. The implementation of SEPA will gradually introduce uniform credit transfers, direct debit and payment cards with effect from 2008. In Finland, individual banks are responsible for transition into SEPA. In March 2006, Finnish banks published a national transition plan, prepared with the support of the Bank of Finland.

The primary responsibility for the implementation of SEPA lies with the European Payments Council (EPC), established by the banking sector. The European Central bank evaluates the work of the EPC and actively promotes establishment of SEPA. Other authorities monitor progress by way of their own questionnaires and inspections. The most important European Commission project in support of SEPA is the Directive on Payment Services in the Internal Market (PSD), the completion of which was postponed from the Finnish presidency of the EU to Germany, despite concerted effort.

The Bank of Finland promotes efficient payment transfers based on modern technology and has actively contributed to all preparatory work regarding SEPA within the Eurosystem, among Finnish banks and via the Federation of Finnish Financial Services. The Bank of Finland has also provided training at various events focusing on SEPA and has promoted it through presentations and articles in the press. SEPA is a key strategic project for the Bank of Finland.

European Commission working groups, the Bank contributed, inter alia, to establishment of the Single Euro Payment Area (SEPA) and TARGET2 and to developing collateral management. In March 2006, the Bank published a statement on the project to integrate the Nordic Central Securities Depository and participated in debate on the development of the securities market domestically, in ESCB cooperation groups and in printed media.

The Bank of Finland collaborated with the Nordic countries and Baltic states in matters concerning financial

market integration and infrastructure. The annual meeting of the Governors of Nordic central banks compared and discussed macro prudential supervision practices among the Nordic countries. The central banks published the joint Nordic Banking Structures report, which investigated differences and similarities between banking sectors. At other gatherings among the Nordic countries and Baltic states, the topics discussed ranged from stress tests and households' risks to the structure of the Nordic financial market and the types of interrelations and connections in the market.

## 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 public duty to compile statistics for ESCB and EU needs. This duty is partly carried out jointly with Statistics Finland.

The Bank of Finland contributes to joint action to improve the comprehensiveness and timeliness of publication of euro area statistics. Indeed, the ECB has taken an active role in enhancing euro area macroeconomic statistics. The year under review saw the publication of the first-ever euro area integrated annual accounts, compiled together with Eurostat. Similar quarterly accounts will be published in spring 2007. In addition, plans are under way to expand statistical reporting on MFIs and the regulatory basis of new statistics on mutual funds. The Bank of Finland's emphasis in statistical cooperation has been on the appropriate evaluation of the costs and benefits of preparing new statistics, in order to avoid any unnecessary burden on existing reporters or the need to increase resources at central banks producing statistical data.

To improve compilation of statistics, the Bank of Finland continued to invest in relevant information technology. After the completion of a system developed for the compilation of statistical data on

MFIs, the focus of development work has shifted towards adapting statistics on securities to ECB guidelines. The guidelines require collection of basic data by security. This method reduces costs for the providers of data, but adds to the workload of compilers of statistics. However, the detailed data collected can be used in the preparation of different types of statistics. Once complete, the system will make use of the ECB's global securities database.

Internet-based technology will gradually be introduced to the compilation of statistical data. The Bank invited service providers specialised in data transmission from enterprises to authorities to present bids for the technical implementation of two surveys. The bidded solution serves to ease up the workload of data providers and improve the feeding of data into own compilation systems. In connection with the revamp of the Bank of Finland's website in early 2007, work is currently under way to enhance the user friendliness of net-based publication of statistical data by the Bank.

# Banking operations

## Implementation of monetary policy in the euro area and Finland

### The Eurosystem's monetary policy operations

The implementation of monetary policy is one of the main tasks of national central banks. Monetary policy operations in the euro area are executed in a decentralised manner, which means that each central bank participating in the Eurosystem carries out the operations of their own country. In 2006 the Bank of Finland, together with other national central banks, executed the increases in the key policy rate decided by the Governing Council of the ECB.

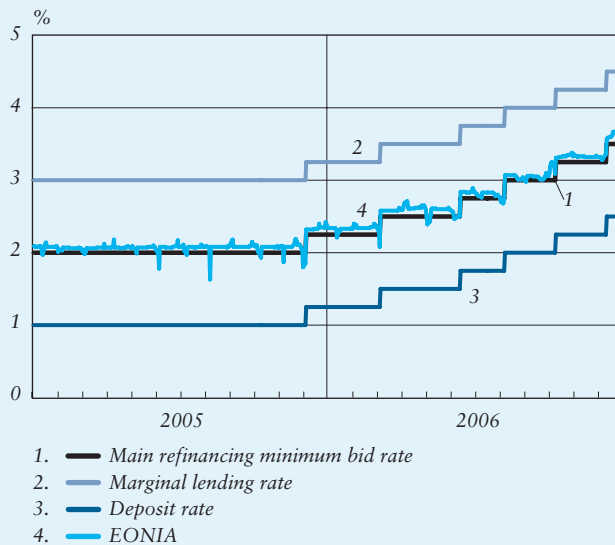
The operational framework for the monetary policy of the Eurosystem consists of market operations, standing

facilities and minimum reserves.<sup>1</sup> The Eurosystem made no changes to the operational framework in 2006. However, the Governing Council of the ECB decided to increase the allotment amount for longer-term refinancing operations from EUR 30 billion to EUR 40 billion, as of 26 January 2006. This decision was taken in anticipation of higher liquidity needs of the euro area on account of continuing strong demand for euro banknotes in 2006. Higher liquidity needs in the Eurosystem were also evident in the amount of liquidity provided through main refinancing operations (MROs), which grew by EUR 881 billion (5.84%) from the previous year.

The Eurosystem was able to perform a sound estimate of the banking system's liquidity needs. The efficiency of monetary policy implementation is reflected in the fact that, with its MROs, the Eurosystem managed to keep the spread between the minimum bid rate and short-term market rates relatively narrow (Chart 6). In order to decrease the usual fluctuation of short-term market rates at the end of maintenance periods the Eurosystem continued the more active practical implementation of the operational framework already commenced in 2005, and conducted six liquidity-absorbing and five liquidity-providing fine-tuning operations in 2006 (see Supplementary tables, Table 4). As in 2005, the ECB concentrated on keeping the overnight rate and the marginal MRO rate close to MROs' minimum bid rate. This meant in practice

<sup>1</sup> 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'. September 2006 ([www.bof.fi](http://www.bof.fi)).

Chart 6.  
Eurosystem interest rates and overnight rate



Source: European Central Bank.

that the ECB allotted liquidity in excess of the benchmark amount in MROs.<sup>2</sup> At first the Eurosystem allotted EUR 1 billion above the benchmark value, except for the last tender of maintenance periods. In April the ECB started to follow the practice of allotting EUR 2 billion above benchmark in all MROs. In September the spread between the short-term market rates and the minimum bid rate had narrowed, and the Eurosystem did not allot above benchmark during one maintenance period. However, starting from the MRO of the first week of November the ECB returned to allot liquidity above the benchmark amount, ahead of growing liquidity needs at the end of the year. In the last three operations of the year the Eurosystem allotted EUR 2, 4 and 5 billion respectively above benchmark, but the spread between the short-term rates and the minimum bid rate remained nevertheless at elevated levels compared with 2005.

### Finnish credit institutions' participation in monetary policy operations

Participation of Finnish credit institutions in the Eurosystem's monetary policy operations in 2006 remained unchanged from the previous year (Chart 7). The credit institutions' share in euro area liquidity allocation in MROs increased to EUR 1.6 billion from EUR 1.3 billion a year earlier. The percentage share of Finnish credit institutions also grew slightly, to 0.53% from 0.46% in 2005. Based on the use of the marginal lending facility and the deposit facility Finnish

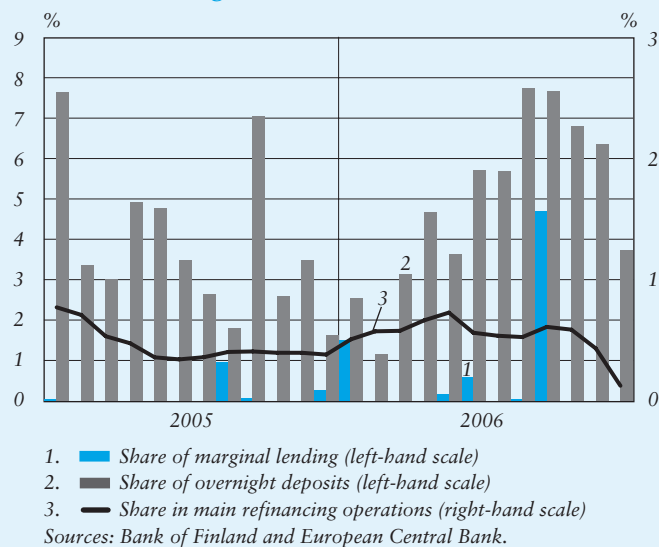
<sup>2</sup> More information in the ECB's Monthly Bulletin article 'The liquidity management of the ECB'. May 2002.

credit institutions continued to maintain abundant liquidity throughout the year. Their recourse to the marginal lending facility was on average 0.58% of euro area marginal lending as a whole, which corresponds to about EUR 0.19 million per day. Finnish credit institutions' share of overnight deposits placed in the euro area as a whole was 4.90% on average, amounting to a daily average of about EUR 6.75 million. Finnish credit institutions' minimum reserve requirements constituted on average 1.54% of the total euro area reserve requirement in 2006.

### Use of collateral by Finnish credit institutions

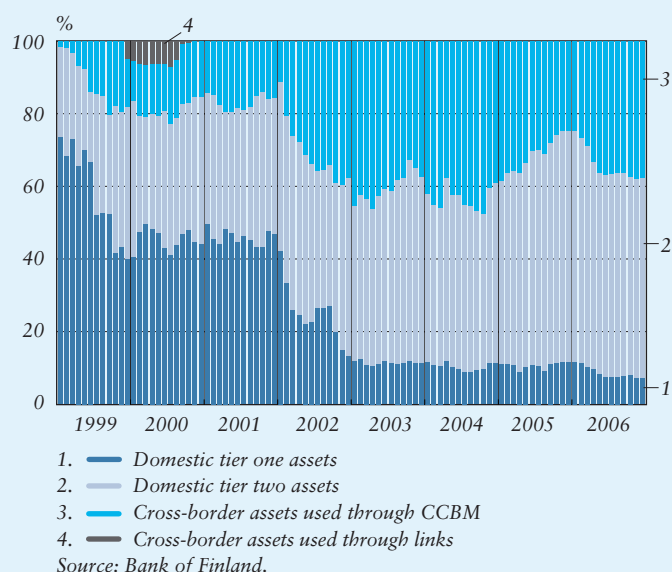
In order to obtain credit from the central bank, credit institutions need to have

**Chart 7.**  
Finnish credit institutions' shares in Eurosystem main refinancing operations and use of standing facilities





**Chart 8.**  
Use of collateral in Finland since EMU start



adequate collateral to cover their borrowing. As collateral, credit institutions can use securities and other assets located in their own country or another country participating in the Eurosystem.

In 2006, the total amount of collateral assets of Bank of Finland counterparties increased again to just below EUR 9 billion, having declined in the previous year. Compared with 2005 the total amount of collateral grew by about EUR 1 billion. Part of the growth was attributable to counterparties' increased liquidity needs, part in turn to the accumulation of additional collateral reserves, which is also reflected in the fact that the difference between the total amount of collateral assets and the amount of collateral actually used for collateral purposes grew to over EUR 1 billion.

In terms of collateral categories, interest in cross-border collateral increased again, which was reflected in growth in the total amount of cross-border collateral assets as well as higher number of counterparties using them. Cross-border collateral constitutes an important part of total collateral assets to two thirds of the 14 Bank of Finland counterparties. In all, cross-border collateral covered over one third of Finnish credit institutions' collateral in 2006 (Chart 8). About 10% of collateral were national tier one assets,<sup>3</sup> ie mainly government bonds, and slightly under 60% were national tier two assets, ie banks' certificates of deposit. The spectrum of security types used for collateral has widened along with the increased use of cross-border collateral.

For transferring cross-border eligible assets, the Bank of Finland counterparties continued to rely exclusively on the correspondent central banking model (CCBM). Links between central securities depositories were not used. Collateral assets posted through CCBM to be held in custody with the Bank of Finland on behalf of foreign counterparties amounted to around EUR 2.5 billion.

#### Towards a single list of collateral

For some years now, the Eurosystem has been preparing and gradually implementing a single list for assets eligible in Eurosystem credit operations to unify the range of these assets. At the beginning of

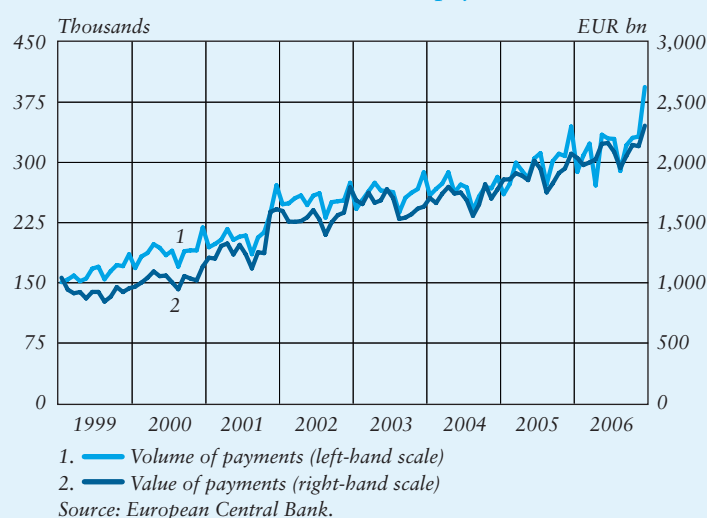
<sup>3</sup> Tier one assets comply with the uniform euro area-wide eligibility criteria, while tier two assets are so far partly subject to national eligibility criteria.

the Monetary Union part of assets was accepted as collateral for credit operations on the basis of national eligibility criteria. Now, at the time of a 'Single List', all collateral assets are chosen on the basis of uniform eligibility criteria. The Single List came into effect on 1 January 2007, but there will still be some fine-tuning in the framework until the beginning of 2012.

The most substantial change affecting the list of collateral and collateral management relates to the acceptance of loans granted by banks to non-financial corporations and the general government sector as eligible assets as from January 2007. Over the year the Bank of Finland made the necessary arrangements to enable the pledging, registering and processing of credit claims delivered to be used as collateral. Counterparty banks were informed of assessment systems for credit claims accepted by the Eurosystem. Of these systems, the banks' internal ratings-based approach in particular is likely to be used. The single collateral framework will be in place in 2012, when all central banks of the Eurosystem start applying the common minimum size threshold of EUR 500,000 for credit claims used as collateral. This minimum threshold is applicable to outstanding loans pledged to the Bank of Finland as from 1 January 2007.

Credit rating providers and the ratings used in the assessment of assets' eligibility were published on the ECB's website at the end of 2006 as part of preparations for the implementation of the single list of collateral. Furthermore, the eligibility criteria of asset-backed securities (ABS) were specified.

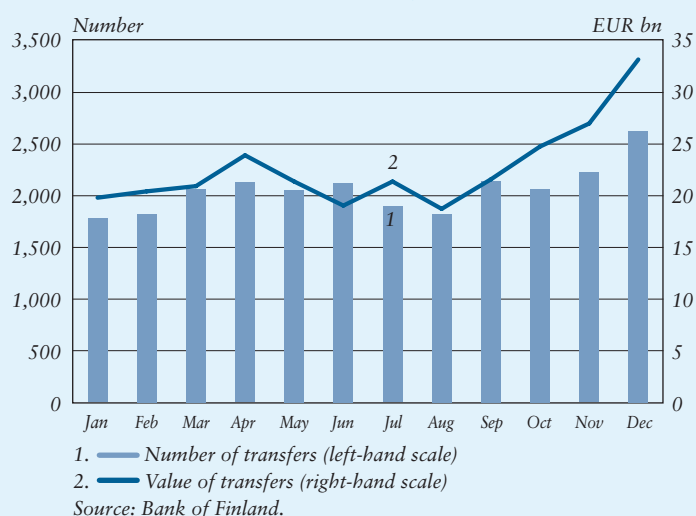
**Chart 9.**  
Daily average volume and value of intra-Member State and inter-Member State TARGET payments within EU 15



## Payments

The TARGET gross settlement system operated by EU central banks had a daily average turnover of EUR 2,092 billion in 2006. Compared with the previous year, turnover grew by 10% and the volume of payments processed through the system similarly by 10%. Growth has been steady from the beginning of the Monetary Union. From 1999 to 2005 the volume of payments processed in TARGET increased annually on average by 10.5%. Correspondingly, the total value of TARGET payments increased annually by almost 13% (Chart 9). TARGET has clearly established its position as the main system used for processing large-value payments in euro. It is one of the world's three largest payment settlement systems in terms of

**Chart 10.**  
Daily average number and value of interbank funds transfers (BoF-RTGS), monthly 2006



turnover; the other two are Fedwire in the United States and CLS for settling foreign exchange transactions.<sup>4</sup>

TARGET is mainly used for transmitting large-value interbank payments, but also for processing customer payments since there is no minimum limit set for payment sizes. In particular, a considerable part of transactions transmitted by Deutsche Bundesbank and Banca d'Italia are commercial payments. In contrast, banks operating in Finland, for example, mainly use TARGET for the transmission of large-value interbank payments and transmit most of euro-denominated cross-border customer payments via the EBA's EURO 1 system.

The Bank of Finland's Real-Time Gross Settlement System (BoF-RTGS) is

<sup>4</sup> Continuous Linked Settlement.

a component of the large TARGET structure as a whole. As with TARGET, the turnover and the volume of transactions processed in BoF-RTGS also increased in 2006 (Chart 10). This was markedly affected by TARGET payments of five new Swedish customers<sup>5</sup> which were transmitted via the Bank of Finland, from November 2006. Sveriges Riksbank had already decided in early 2006 to leave the TARGET system at the end of the year.

The present TARGET is a decentralised system consisting of interlinked RTGS systems of EU central banks. Even though TARGET has been a reliable system its complex technical infrastructure and heterogeneous practices among countries would begin to impede the smooth functioning of payment traffic in the growing and integrating EU area already in the near future. The planning of a new centralised TARGET based on a common technical platform started in 2003. This system, named TARGET2, will be launched as a phased migration during 2007 and 2008. The Bank of Finland's account holders will migrate to TARGET2 in February 2008. The technical platform will be developed by the Deutsche Bundesbank, Banca d'Italia and Banque de France. At the same time, the ECB's Payment and Settlement Systems Committee (PSSC) and its sub-groups have been preparing a business framework, pricing schemes and contractual issues relating to TARGET2.

<sup>5</sup> Svenska Handelsbanken, Swedbank and Skandia-Banken as well as the clearing houses Bankgirocentralen (BGC) and Värdepapperscentralen (VPC).

The ECB's report 'Third Progress Report on TARGET2'<sup>6</sup> published in November 2006 deals in particular with new decisions on pricing and legal issues, contingency procedures as well as testing and migration activities. The national central banks responsible for the successful implementation of the new system have cooperated more closely with the monetary financial institutions of their respective countries to enable a smooth migration to TARGET2.

In building TARGET2 the Eurosystem is aiming to provide a harmonised level of services on the basis of a common technical platform. At the same time it aims to achieve a high level of cost recovery and have a single price structure applicable to both intra-national and cross-border payments. An ongoing dialogue with the European banking community helps to meet the demands of users in the best possible way. In terms of functions, TARGET2 will offer users many harmonious services. These include the optimisation of liquidity with the prioritisation of payments and limits set to other users, active queue management of payments and real-time account information. Ancillary systems<sup>7</sup> can also connect to the new shared platform. As members of TARGET2 they are provided with cash settlement services in central bank money by using a standardised interface.

<sup>6</sup> The report is available on the ECB's website (<http://www.ecb.int>).

<sup>7</sup> Retail payment systems, large-value payment systems, foreign exchange transaction settlement systems, money market systems, clearing houses and securities settlement systems.

**Table 1.**  
**Distribution of Bank of Finland's financial assets by currency, 31 Dec 2006**

	%
<i>US dollar</i>	21
<i>Pound sterling</i>	19
<i>Japanese yen</i>	3
<i>Swiss franc</i>	4
<i>Euro</i>	47
<i>Gold</i>	6

*Source: Bank of Finland.*

## Bank of Finland's investment activities

### Bank of Finland's financial assets

The Bank of Finland's financial assets comprise foreign reserves (incl. gold and items in Special Drawing Rights, SDRs) and claims denominated in euro. At the end of 2006 the Bank's financial assets totalled approximately EUR 12,006 million.

In accordance with the Bank of Finland's strategy, revised in 2005, the size of the Bank's foreign reserve assets (appr. EUR 6,471 million at the end of 2006) is based on requirements set for a central bank by international agreements and its obligations in crisis situations. Consequently, the Bank of Finland adjusted the distribution of financial assets in spring 2006 by exchanging its investments denominated in Swedish krona and Danish krone (appr. EUR 3 billion) into euro (Table 1).

The Bank of Finland did not want the sale of these investment items to increase the liquidity deficit of the euro

**Table 2a.**  
Return on the Bank of Finland's financial assets in 2006

	%
<i>Return on financial assets (excl. gold and items in SDRs)</i>	-0.84
<i>Interest rate return</i>	2.37
<i>Exchange rate change</i>	-3.21

Source: Bank of Finland.

**Table 2b.**  
Interest rate return by currency

	%
<i>US dollar</i>	4.32
<i>Pound sterling</i>	2.58
<i>Japanese yen</i>	0.24
<i>Swiss franc</i>	0.41
<i>Danish krone*)</i>	-0.41
<i>Swedish krona*)</i>	0.48
<i>Euro</i>	2.05
<i>Gold</i>	0.66

\*) 1 January–31 March 2006

Source: Bank of Finland.

area banking system. Therefore, the Bank commenced investment activities in the euro with the funds received from the sale. The amount of euro-denominated financial assets was increased by approximately EUR 2.4 billion later in 2006.

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. On the basis of the Central Bank Gold Agreement renewed in spring 2004 for five years, the Bank of Finland is permitted to invest a maximum of 25 tons of its gold reserves. This corresponds to the level of

its gold deposits in September 1999, when the Bank of Finland, together with other 14 European central banks, agreed to restrict their gold sales and deposits.

### Objectives for investment activities

The objectives set for the Bank of Finland's investment activities are security, liquidity and return. The Bank of Finland invests in secure and liquid assets to ensure that the assets can be converted into cash quickly whenever needed and that they are available to be used as buffers in various crisis situations (incl. possible further calls on reserves for the ECB). At the same time, however, the Bank bears the responsibility of maintaining the value of its assets, which also requires that the assets generate reasonable return (Tables 2a and 2b).

The Bank of Finland determines a strategic benchmark for its investments, aiming at an optimal return/risk ratio. In addition to strategic investments the Bank also conducts active management with the aim of generating – considering the given risk limits – return on investment in excess of the strategic benchmark return.

### Investments

The bulk of the Bank of Finland's financial assets is invested in debt securities issued by well-rated governments in their respective currencies (Chart 11). Approximately half of the financial assets can be invested in debt securities issued by entities operating in developed industrial countries and certain supranational organisations (credit portfolio). The aim of the credit portfolio

is to generate additional return and a better return/risk ratio by broadening the range of investment types to investments exposed to credit risk. In managing credit risk, it is essential to determine the minimum credit rating required from issuers, and to reach effective diversification. The average credit rating of issuers in the credit portfolio is AA (Chart 12).

In investing its gold reserves, the Bank of Finland has made use of deposits and long-term interest rate swaps.

### Active management

The Bank of Finland's portfolio managers are responsible for the practical implementation of the Bank's investment activities. The strategic benchmark refers to the allocation of investments aiming at the best possible long-term return/risk ratio with the Bank's conservative risk preferences and limits. Short-term views on market developments do not have an effect on the composition of the benchmark. Portfolio managers are permitted, based on their personal judgement, to deviate from the benchmark within certain deviation bands to generate return higher than the benchmark.

The Bank of Finland's investment activities are organised in such a way as to ensure that no insider information concerning the implementation of monetary policy may be used when making investment decisions. A set of rules and procedures, known as the Chinese wall, separates the Bank of Finland business unit involved in investment activities from monetary policy-related insider information.

## Risk management

### Investment risks

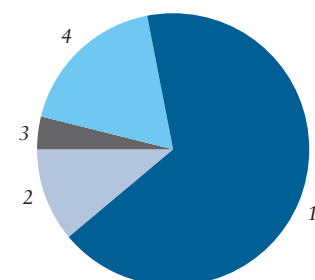
As with all institutions engaged in investing, the Bank of Finland's investment activities are subject to various risks. The main risks are market risk, credit risk, liquidity risk and operational risk. Market risk refers to the risk that the market value of the Bank's assets fluctuate with changes in exchange rates, the price of gold or interest rates. Credit risk refers to the risk of loss arising from the inability of a counterparty to a financial transaction to meet its obligations towards the Bank of Finland, or a security issuer's insolvency. Liquidity risk refers to a situation in which an investor cannot meet his obligations in time because of an inability to liquidate assets fast and on favourable terms. Operative risk is the risk of loss resulting from inadequate or failed internal processes, human error, systems or external events.

### Implementation of risk management

The Bank of Finland's risk management is based on predefined methods used to identify, measure and limit risk. In practice, risk management is conducted with the help of a well-defined investment policy and a detailed limit system, whose compliance is subject to continuous monitoring.

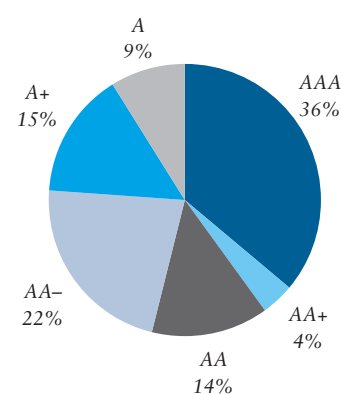
The Bank of Finland's Board decides the risk management principles as well as the main currency distribution of the Bank's foreign reserves and the level of interest rate risk. The Board member

**Chart 11.**  
Distribution of the Bank of Finland's financial assets by investment area, as of 31 Dec 2006



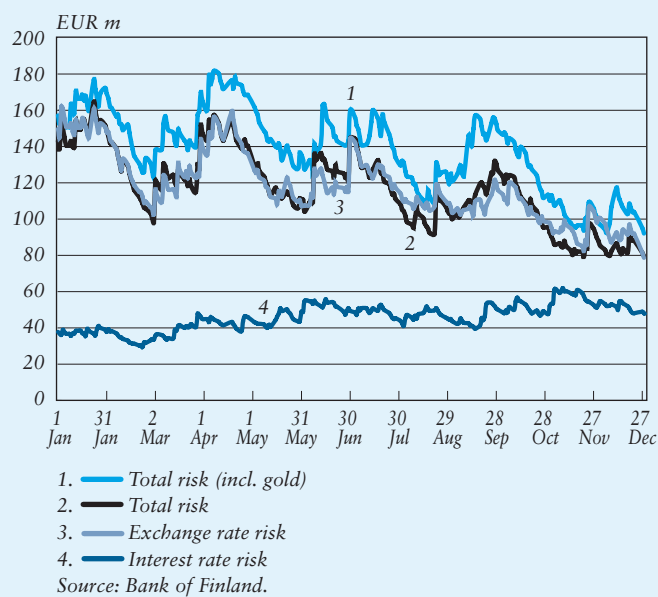
1. Governments' domestic debt instruments 67%
  2. Governments' non-domestic debt instruments and supranational organisations' debt instrument 11%
  3. Deposits and repos 4%
  4. Corporate and financial debt instruments 18%
- Source: Bank of Finland.

**Chart 12.**  
Distribution of the Bank of Finland's credit portfolio by credit rating, as of 31 Dec 2006



Source: Bank of Finland.

**Chart 13.**  
VaR figures for financial assets in 2006  
(incl. gold and SDR items)



responsible for investment activities concretises the Board's decisions by determining the duration of benchmark portfolios, the amount of credit risk and accepted investment objects. The head of the Banking Operations Department is responsible for the detailed limits of the practical investment activity. A risk management unit, separate from the portfolio management function, is responsible for the risk management of investment activities, the setting of benchmark portfolios and monitoring compliance with risk 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. In addition, a risk committee convenes under the leadership of this Board member, with the purpose of independently assessing and controlling the risks inherent in investment activities and the risk management function.

### Risk management measures

The Bank of Finland manages exchange rate risk by spreading its holdings of foreign reserves among different currencies, whereas the scope of foreign reserves is based on requirements set for a central bank by international agreements and crisis management obligations. The interest rate risk on the benchmark portfolio is managed in terms of duration. Duration describes changes in the value of investments resulting from changes in market interest rates. The target duration of 2.5 years, which is applied to all the currencies included in the Bank of Finland's financial assets, remained unchanged in 2006. Interest rate risk is also controlled by spreading investments among debt instruments with different maturities. The method used in the analysis of total market risk to financial assets and the comparison of different risks is the Value at Risk (VaR) method (Chart 13). In addition to these, risks to financial assets are evaluated with stress and scenario analyses. These are used with the aim of assessing the Bank of Finland's capital adequacy, among others. VaR limits have been set for deviations from the benchmark portfolio in terms of exchange rate and interest rate risks, as well as duration-



based limits in terms of interest rate risks.

Credit risk arising from securities issuers is limited by a specific credit risk VaR method. The method includes the construction of a distribution of historically estimated credit ratings for the assets in the credit portfolio. Sound creditworthiness is also required of issuers and counterparties, and individual risk concentrations are restricted by a credit limit system that diversifies credit risk efficiently.

In order to limit liquidity risk, the financial assets are divided in different parts on the basis of the liquidity of the investment instruments it contains. Part of the financial assets is only invested in instruments that are the easiest to liquidate, so that the costs of a possible liquidation would remain small. The majority of the financial assets is invested in longer-term instruments. The Bank attempts to ensure that the costs of liquidating these instruments are reasonable by choosing instruments for which several counterparties quote a secondary market price under normal circumstances.

Operative risk is managed by reliable and well-documented work flows, sufficient and expert staff and reliable information systems and well tested backup systems.

### **Share of ECB's foreign reserves managed by the Bank of Finland**

Management of the foreign reserves of the ECB has been distributed among the various Eurosystem national central banks. The foreign reserves managed on behalf of the ECB comprise assets denominated in US dollars and Japanese yen as well as gold. At the beginning of 2006 a new operational framework was implemented for the ECB's foreign reserve management. Each national central bank may now as a rule manage only one portfolio. The Bank of Finland manages part of the ECB's investments denominated in Japanese yen. 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 currency distribution of invested reserves is kept fixed. The ECB has set benchmark portfolios for the currencies in the reserves. The ECB monitors continuously the risks and returns on the foreign reserves. At the end of 2006, the foreign reserves of the ECB amounted to approximately EUR 42.3 billion. The ECB's Annual Report provides information on the management of the reserves. The share managed by the Bank of Finland on behalf of the ECB amounted to about EUR 717 million.



# Maintenance of currency supply

The Bank of Finland issues new euro banknotes and coins needed for cash payments in Finland. The authenticity and fitness of banknotes in circulation are ensured by the central bank's regional branch offices, where the sorting of banknotes takes place. In addition to issuing new coins, the Bank of Finland also recycles 'ordinary' coins in larger quantities in order to meet the requirements for trade and change.

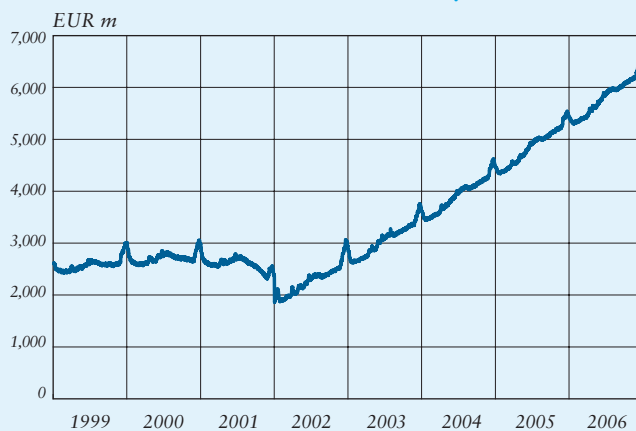
In the euro cash era, in accordance with its strategy, the Bank of Finland has been increasingly focusing on its official tasks in the area of currency supply and on wholesale operations, seeking to ensure effective logistics for private parties involved in the currency supply process. Finland's currency supply system is among the most effective regimes in

the euro area as a whole. More than half of banknotes returned from retailers, for example, are already returned back to circulation via private cash depots. Also reflecting the efficiency of currency supply is the fact that four banknotes out of five are distributed to the public through automated teller machines (ATMs).

The update of the Bank's currency supply priorities for the next three years was initiated in 2006. Formal decisions were, however, left to be taken in 2007. Discussions with professional cash handlers included topics such as storage facilities for banknotes and coins and the activities of the Bank of Finland regional branch offices. The aim of the update is to improve the economic efficiency of the currency supply process as a whole, while simultaneously ensuring the preservation of an adequate level of service and security. The Bank also made preparations for a regular survey of consumer satisfaction with the currency supply system and euro cash.

Following the trend since the launch of the euro, the amount of euro cash issued by the Bank of Finland increased by almost one fifth over the previous year, ie clearly more rapidly than the use of cash in Finland as a means of payment (Chart 14). Although there are no accurate statistics available on the use of cash as a means of payment, analyses undertaken suggest that, on net terms, important amounts of cash have also migrated to other euro area countries and outside the euro area. During the period since the introduction of the euro,

**Chart 14.**  
Markka/euro banknotes issued by Finland



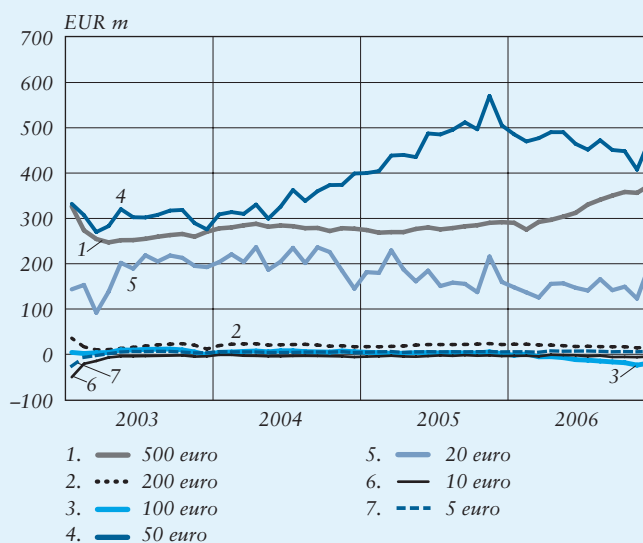
Source: Bank of Finland.

the highest issuance numbers in Finland have been recorded for the EUR 50 and EUR 20 banknotes used in ATMs, followed by EUR 500 notes (Chart 15).

Euro cash has proved more popular than expected within the Eurosystem, although the single currency area was known to broaden the possibilities for using cash. E-payments and particularly card payments are expected to crowd out cash when making retail payments because of wider acceptance of card payments, without lower payment restrictions, and more frequent use of online card validation. Until now, there has been little sign of this sort of development within the euro area as a whole, not even in the case of ATM banknotes (Chart 16). There are, however, clear differences in the banknote issuance between various euro area countries due, for example, to tourism, capital investment and other reasons related to banknote migration.

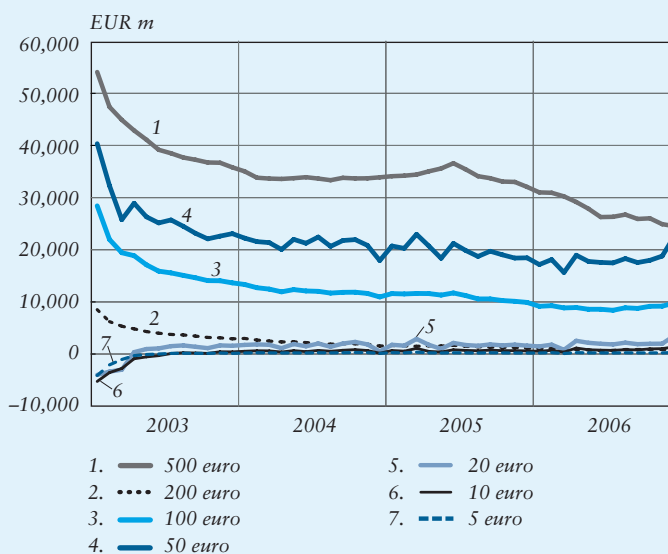
Cross-border migration of euro coins is not as widespread as that of euro banknotes. Even so, coin issuance has been slightly boosted by collectors' coin demand due to the attraction offered by the national sides of euro coins. From the start of 2007, euro coins will be struck so as to additionally include each issuing euro area country's code consisting of two letters. In contrast, owing to joint procurement, for instance, there are no national features on euro banknotes, as the individual code letter attached as a prefix to the serial number on the banknotes no longer indicates the original issuer.

**Chart 15.**  
Net annual issue of euro banknotes in Finland



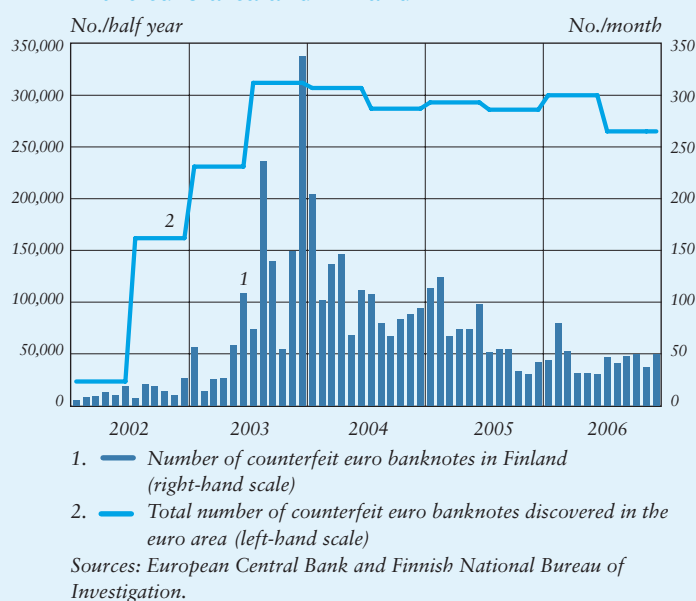
Source: Bank of Finland.

**Chart 16.**  
Net annual issue of euro banknotes in the euro area



Source: European Central Bank.

**Chart 17.**  
Counterfeit euro banknotes discovered in the euro area and Finland



### Counterfeit banknotes

The security of euro cash has so far remained very good, with the number of counterfeits staying at low levels. Even if the technically best counterfeit euro banknotes are already deceptively good on the basis of their visual design, they can still be recognised as counterfeits without separate devices. During the year under review, the number of counterfeit euro banknotes found in circulation in the euro area remained below 600,000 for the third consecutive year. This evolution, however, reflects some alarming features. As the focus of attention has largely been on the authenticity of the largest euro denominations, counterfeiters have increasingly changed

over to EUR 20 notes. In 2006, for the first time, the euro area witnessed more counterfeit EUR 20 notes than counterfeit EUR 50 notes.

The number of counterfeit banknotes discovered in circulation in Finland in 2006 was again the smallest among euro area countries both in absolute terms and relative to the population. A total of only 571 counterfeit euro banknotes were found in circulation in Finland, 279 counterfeits less than in 2005 (Chart 17).

Explanatory factors underlying this pattern are the country's isolated location and the paucity of professional and habitual criminality related to counterfeiting of means of payment. The majority of counterfeit banknotes discovered in Finland has stemmed from counterfeit series produced elsewhere. Widespread electrification of Finnish payment systems, relatively limited use of cash and retailers' vigilance have held euro counterfeiting criminality in check. In 2006, as in previous years, the Bank of Finland organised training for banks and authorities in banknote recognition.

### Framework for the sorting and recycling of euro banknotes

The framework setting out a common policy for recycling euro banknotes came into force at the end of 2006. The framework concerns detection of counterfeits and fitness sorting of euro banknotes and is intended for professional cash handlers. The framework lays down requirements for banknote sorting, recycling and cash-in machines covering

the authenticity and fitness checks of euro banknotes to be returned back to circulation. Euro banknotes checked using sorting or recycling machines that meet the framework requirements are fit for redistribution via ATMs without central bank inspection.

In Finland, the transitional period for implementing the framework lasts one year. The primary aim is to ensure the authenticity and fitness of banknotes dispensed via ATMs to the public. In practice, the entry into force and introduction of the framework is expected to go fully unnoticed by the public, with ATMs continuing to distribute only fit and genuine euro banknotes. A sample-based quality testing of euro banknotes conducted by the ECB in 2006 suggested that EUR 20 notes in circulation in Finland were the least soiled in the euro area, with EUR 50 notes also showing up in better than average condition.

# Other activities

## Communications

The Bank of Finland's communications involve dissemination of information on the Bank's activities and tasks. Under the Bank's strategy, the aim is to promote awareness of the Bank of Finland's activities through open, varied and well-targeted communications, which serve to strengthen public confidence in the Bank. An important element of the communication activities are the Governor's press conferences organised in connection with the publication of the Bank's quarterly bulletin *Euro & talous* and other public appearances by the Bank's management and experts.

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. In spring 2006, the Bank of Finland commissioned for the first time a survey of central bank activities among the general public. The survey results pointed to a good confidence score for the Bank, whereas there were gaps in what was known about the Bank's activities. The relationship with respect to the European Central Bank, in particular, was perceived as being unclear. In order to increase knowledge in this area, the Bank of Finland – in concert with the association of financial journalists and the European Central Bank – organised a seminar to Finnish journalists enabling them to gain insights into the operations of the Eurosystem, in particular.

The website was revamped in respect of its content, structure, layout, technical aspects and maintenance, and new net-based communication services were made available from the beginning of 2007.

Simultaneously, statistical reporting improved crucially in terms of usability, and a link was established from online services to the Bank's pending public issues in the official documents database (*Journal*).

The production of publications increasingly moved over to online publication and distribution. All printed publications were also posted on the website, while part of publications became electronic altogether. Discussion papers, scientific monographs (series E) and expository studies (series A), for example, are currently online publications in PDF format.

Both the Finnish-language publication *Euro & talous* and the English-language version, the *Bank of Finland Bulletin*, appeared four times. A special issue of both publications on the stability of the financial system was released in the latter part of the year. Finnish, Swedish and English versions of the Bank's annual report appeared in the spring. Also, the Parliamentary Supervisory Council published its annual report in Finnish and Swedish.

The Bank of Finland continued the translation into Finnish of the ECB's key publications. In 2006, the ECB's Annual Report and the quarterly issues of the *Monthly Bulletin* were translated into Finnish.

The Bank of Finland Museum received about 10,000 visitors. The 'Studia Monetaria' lectures on macroeconomics and economic history for the general public gained particular popularity. There were 135 guided group visits at the Museum. The theme of the seasonal exhibition was 'Snellman and the Finnish markka' in honour of the bicentenary of the birth of J.V. Snellman.

## International activities

### The Bank of Finland in the European System of Central Banks

The supreme decision-making body of the European Central Bank (ECB) and the Eurosystem is the Governing Council of the ECB, comprising all the members of the Executive Board of the ECB and the governors of the national central banks of the member states that have adopted the euro. 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 2006, the Governing Council of the ECB held 22 meetings, including two meetings outside Frankfurt: one on 8 June 2006 in Madrid and one on 5 October 2006 in Paris.

The Governor of the Bank of Finland is also a member of the General Council of the ECB, which includes the governors of the national central banks of all EU member states as well as the President and Vice-President of the ECB. The General Council convened quarterly and also held two teleconferences.

Board members and experts from the Bank of Finland participated in the work of the European System of Central Banks (ESCB) during all preparatory stages. All ESCB committees (13) and most of the committee 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 were engaged in the work of the ESCB committees and working groups in 2006. The committees and working groups convened according to their respective needs, within their mandates, several times a year. In addition to committee and working group members, a large number of the Bank's experts took part in preparations for the meetings of the Councils, committees and working groups.

Bank of Finland board members have attended high-level interim committees in their respective fields of competence dealing, for instance, with banknote, crisis management and payment system issues.

### Informal ECOFIN Council

Finland held the EU presidency in the latter half of 2006. Helsinki was the venue of the Informal ECOFIN Council meeting organised in concert with the Bank of Finland and the Ministry of Finance from 8 to 9 September, bringing together EU ministers of finance and central bank governors. Items on the agenda included the economic and financial aspects of energy policy, financial market issues and globalisation. The debate on globalisation focused on the role of the financial markets in promoting research and development, innovation and productivity. Ministers and central bankers highlighted the need for more integrated and efficient financial markets. Progress in European innovation decisively depends on the functioning of the internal market and the ability of the labour market to allocate labour to more productive sectors.

### **Bank of Finland and international economic policy**

The Bank of Finland participates in international cooperation through various organisations. 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 takes part in the activities of the Bank for International Settlements (BIS) and the Organisation for Economic Co-operation and Development (OECD). The Bank of Finland is also represented in five committees of the European Union.

### **International Monetary Fund**

Finland's representative in the highest decision-making 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 Singapore in September. The Fund's advisory committee, International Monetary and Financial Committee (IMFC), met twice during the year, chaired by Gordon Brown, Chancellor of the Exchequer of the United Kingdom. The Nordic-Baltic constituency was represented in the Committee by Finland's Minister of Finance Eero Heinäluoma, who was also the EU's representative at the Committee's September meeting during Finland's EU presidency.

Responsibility for the Fund's operations lies with the 24-member Executive Board and the Managing

Director, who also acts as the Board's Chairman. Rodrigo de Rato from Spain continued to discharge the duties of the Managing Director. The IMF's new strategic priorities moved to the implementation phase during the year under review. Particular progress was made in enhancing the effectiveness of Fund surveillance and in addressing the issue of fair quotas and voice. An important step forward was the adoption by the Board of Governors in September of a resolution committing the Fund to reform quotas and voice in two year's time at the latest. The aim of the reform is to ensure that member countries' quotas would better reflect their relative weight in the world economy and that poor countries would have better opportunities to participate in the Fund's decision-making.

Within the International Monetary Fund, Finland belongs to the Nordic-Baltic constituency, which has one common representative in the Executive Board of the Fund. In January 2006, Tuomas Saarenheimo from Finland took over as member and constituency representative in the Executive Board. The Bank of Finland coordinates constituency positions presented in the Board during the two-year term of office of the Finnish Board member. Coordination helps to form joint constituency views of issues dealt with in the Board. The Bank of Finland and the Ministry of Finance cooperate in formulating constituency positions.<sup>1</sup>

<sup>1</sup> More information on the views presented by the Nordic-Baltic constituency in the Board of the IMF is available in the biannual report 'Recent Policy Developments in the International Monetary Fund', The Nordic-Baltic Office, IMF (<http://www.bof.fi>).

During Finland's EU presidency, the Finnish member of the Executive Board of the IMF was responsible for reconciling EU countries' views and presenting any joint positions during Board discussions on EU countries and key IMF principles and procedures. During Finland's EU presidency, the Finnish member of the Fund's Executive Board also represented the euro area in the Board in respect of consultations concerning the euro area.

The Nordic-Baltic Monetary and Financial Committee (NBMFC) convened twice in 2006 under Finland's leadership to prepare constituency policies. The Bank of 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 Lehmussaari, Adviser to the Bank of Finland's Board. This committee also convened twice in 2006.

During the year under review, there were no visits to Finland by IMF experts for an assessment under Article IV consultations. In January 2006, the Fund's Executive Board discussed the assessment issued by the Fund's expert group on Finland's economic developments and policies in 2005. An IMF expert group will visit Finland for the next time in 2007.

## EU committees

### *Economic and Financial Committee*

The European Union's Economic and Financial Committee (EFC) prepares issues related to economic and monetary union

for discussion by the EU Council convening in the composition of the ministers of economy and finance (ECOFIN). The members of the Economic and Financial Committee comprise representatives of the ministries of finance of EU member states and national central banks, as well as of the ECB and the European Commission. The Bank of Finland was represented in the Committee by Pentti Hakkarainen, Member of the Board of the Bank of Finland, as ordinary member and by Hannu Mäkeläinen, Adviser, as alternate member.

Representatives of national central banks participate in those meetings of the Committee that take place in its extended composition to discuss issues related to the economic situation, financial markets, production of statistics and the International Monetary Fund. These meetings were held six times in 2006.

In addition, the Economic and Financial Committee organised, both in March and September, a special meeting on the regulatory and supervisory framework of EU financial markets. These Financial Stability Table forum discussions were attended, besides the Committee's ordinary members, by representatives from the EU's supervisory committees and the Financial Services Committee.

As regards IMF issues, the Economic and Financial Committee also prepared common EU directions, providing analyses of questions relating to the Fund's future. Under the Committee operates a sub-committee handling IMF matters, in which the Bank of Finland was represented by Olli-Pekka Lehmussaari, Adviser to the Bank of Finland's Board.



### ***Economic Policy Committee***

The EU's Economic Policy Committee (EPC) prepares issues for the Council of Ministers in relation to the broad economic policy guidelines and structural policy issues falling within the Lisbon agenda. This Committee is composed of representatives from the member states' ministries of finance and central banks as well as from the European Commission and the ECB. Tapio Peura, Adviser, from the Bank of Finland was alternate member of the Finnish delegation until 15 September 2006, succeeded by Helvi Kinnunen, Economist, as the Bank's representative on the Committee.

### ***Committee of European Banking Supervisors***

The Committee of European Banking Supervisors (CEBS) deals with 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 enhance closer statistical cooperation between the ECB and the Eurostat and to issue statements on its area of expertise. In the review period, the key issues addressed were improvements to the compilation of public-sector statistics in

Europe and the ongoing update of international recommendations for economic statistics. The Bank of Finland's representative in this Committee 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 Bank for International Settlements (BIS) holds six regular meetings annually, which the Governor of the Bank of Finland attends. In 2006, matters discussed at these meetings included the overall economic situation and international financial market issues. As a shareholder, the Bank of Finland was also represented at the annual general meeting of the BIS. Since 2006, the Bank of Finland has formally taken part in the work of the Irving Fisher Committee dealing with statistical questions. Responsibility for the practical organisation of the Committee's work lies with the BIS.

### ***OECD***

Representatives of the Bank of Finland participated, as usual, in the activities of the Organisation for Economic Co-operation and Development (OECD) through two committees. The OECD's

Economic Policy Committee meetings were attended by Antti Suvanto, Head of Department, Veli-Matti Mattila, Adviser, and Lauri Kajanoja and Mika Pösö, Heads of Division. The Committee on Financial Markets included Heikki Koskenkylä, Head of Department, and Jyrki Haajanen, Economist.

#### **Other International Cooperation**

The Governor of the Bank of Finland, Erkki Liikanen, participated in a number of international seminars and conferences in 2006. These included acting as a speaker at the seminar of the Eurosystem and Latin American central banks in Madrid, and presiding over various meetings, such as a high-level central bank meeting organised by the Federal Reserve Bank of Kansas City in Jackson Hole, an ECB seminar on statistics in Frankfurt, a Banco de España anniversary seminar in Madrid, a Eurosystem – Bank of Russia seminar in Dresden and the ECB's seminar on the Single Euro Payments Area (SEPA) in Frankfurt.

Nordic cooperation continued at both Governor and expert level. The traditional annual get-together of the Governors of Nordic central banks was arranged in Denmark. Attended, besides Governors, by other central bank experts, the meeting focused on themes such as financial market stability and structures and comparison between ECB and US central bank monetary policies. The Governors also met on other occasions 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 2006, Mari Kiviniemi (from 8 March 2006) (chairman), Jouni Backman (vice chairman), Jyri Häkämies (from 14 March 2006), Arja Alho, Janina Andersson, Eero Lankia (from 28 April 2006), Jyrki Katainen, Martti Korhonen and Markku Koski (from 17 May 2006). The Council's economic policy adviser was Dr Jaakko Kiander and its secretary Anton Mäkelä. Olavi Ala-Nissilä was appointed member of the European Court of Auditors and resigned as member of the Council. He was succeeded as chairman by Mari Kiviniemi on 24 March 2006. The Parliamentary Supervisory Council also supervises the appropriateness and efficiency of the operations of the Finnish Financial Supervision Authority.

## Board

The Board of the Bank of Finland is responsible for the handling of the matters assigned to the Bank. The members of the Bank of Finland Board are Governor Erkki Liikanen, chairman, Matti Louekoski, vice-chairman, Sinikka Salo and Pentti Hakkarainen. The President of the Republic appointed Pentti Hakkarainen member of the Board for another five-year-period starting 1 February 2007.

## Organisational development

Adjustment of the Bank's internal processes to meet the organisational structure approved last year continued in 2006. The synergy effects gained through more efficient operating procedures and reorganisation will contribute to a controlled staff reduction in line with the Bank of Finland's strategic goals.

The single major revision of the organisational structure was the termination of the internal payments unit of the Banking Operations Department. Following the change, all the divisions of the Banking Operations Department report directly to the head of department.

# Organisation of the Bank of Finland

31 December 2006

**Mari Kiviniemi**, Chairman, **Jouni Backman**, Vice Chairman,  
**Jyri Häkämies**, **Arja Alho**, **Janina Andersson**, **Jyrki Katainen**,  
**Martti Korhonen**, **Markku Koski** and **Eero Lankia**

Anton Mäkelä, Secretary to the Parliamentary Supervisory Council

**Erkki Liikanen**  
Governor

**Matti Louekoski**  
Deputy Governor

**Sinikka Salo**  
Member of the Board

**Pentti Hakkarainen**  
Member of the Board

Arno Lindgren, Secretary to the Board

<p><b>Overall responsibility for ESCB affairs</b></p>	<p><b>Financial Markets and Statistics</b> <i>Heikki Koskenkylä</i></p> <ul style="list-style-type: none"> <li>Financial Stability</li> <li>Oversight of Market Infrastructure</li> </ul> <p><b>Statistics</b></p> <ul style="list-style-type: none"> <li>Balance of Payments</li> <li>Financial Statistics                             <ul style="list-style-type: none"> <li>Information Management</li> </ul> </li> </ul>	<p><b>Monetary Policy and Research</b> <i>Antti Suvanto</i></p> <ul style="list-style-type: none"> <li>Forecasting</li> <li>Library and Information Services</li> <li>Monitoring</li> </ul> <p><b>Institute for Economies in Transition (BOFIT)</b></p> <p><b>Research</b></p>	<p><b>Banking Operations</b> <i>Pentti Pikkarainen</i></p> <ul style="list-style-type: none"> <li>Back Office</li> <li>Investments</li> <li>Market Operations</li> <li>Risk Management</li> <li>TARGET Division</li> </ul>
<p><b>General Secretariat</b> <i>Kjell Peter Söderlund</i></p> <p><b>Communications</b></p> <p><b>European and International Affairs</b></p> <p><b>Legal Affairs</b></p> <p><b>Senior Secretarial Staff</b></p> <p>Strategy and Organisation</p>	<p><b>Currency Department</b> <i>Mauri Lehtinen</i></p> <ul style="list-style-type: none"> <li>Regional Offices Kuopio, Oulu, Tampere, Turku, Vantaa</li> </ul>	<p><b>Administration</b> <i>Esa Ojanen</i></p> <ul style="list-style-type: none"> <li>Accounting</li> <li>Administrative Services</li> <li>Language Services                             <ul style="list-style-type: none"> <li>Real Estate Management</li> </ul> </li> </ul> <p><b>Information Technology</b></p> <p><b>Personnel</b></p> <p><b>Security</b></p>	

The Financial Supervision Authority which operates in association with the Bank of Finland, was headed by Kaarlo Jännäri until 31 January 2007 and succeeded by Anneli Tuominen from 1 February 2007 onwards.

### **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 Unit and the Institute for Economies in Transition (BOFIT). Research is mainly focused on monetary policy and the functioning of financial markets and payment systems. BOFIT concentrates on monitoring and analysing the developments in the Russian and Chinese economies, 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 statistics. 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 levels.

### **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 deposits, 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. The Currency Department also takes part in communication about euro banknotes and coins and arranges relevant training.

### **Administration**

The Administration Department 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 department's functions include accounting, preparation of financial statements, monitoring of capital adequacy, internal accounting and budgeting, provision of IT services and development 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 communication 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 the Bank's 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 conjunction 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. Costs arising to the Bank 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.

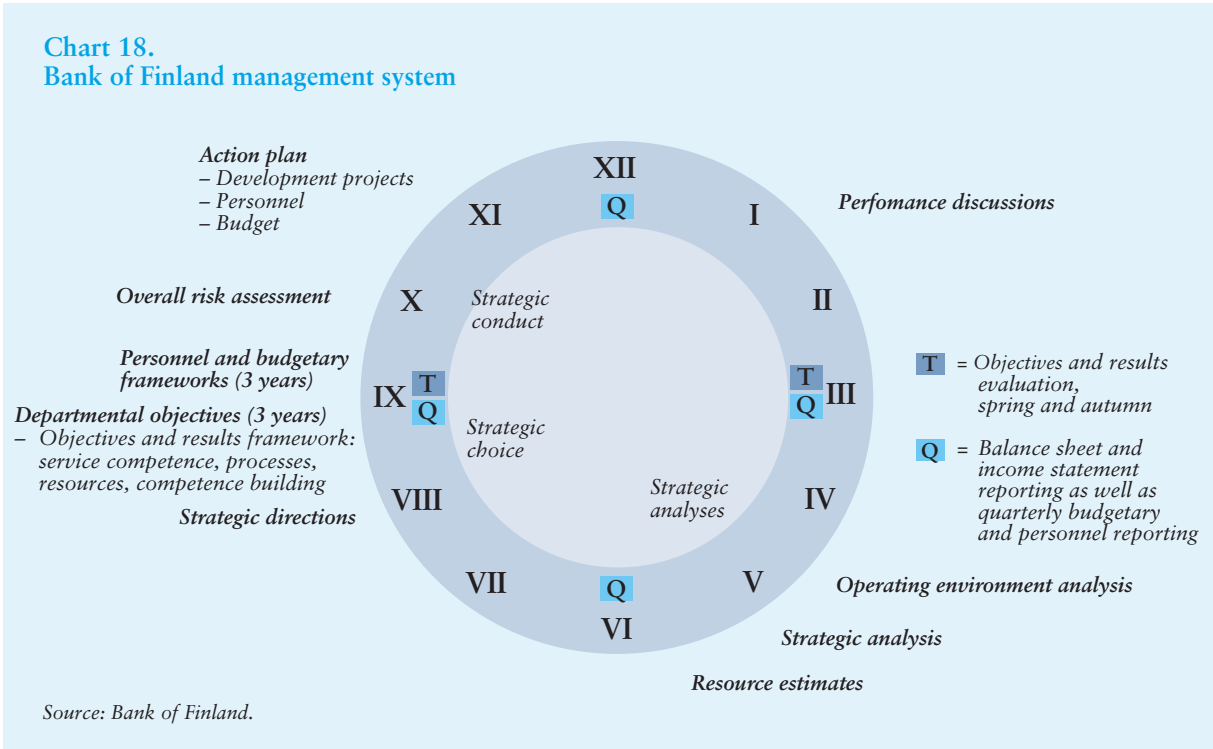
# Management system

The key elements of the Bank of Finland's management system (Figure 18) are strategy, the objectives and results framework, with built-in staffing ceilings and budgetary framework action planning, overall risk evaluation and goals achievement. Performance discussions with the employees are another important part of the Bank's management system.

The objectives and results framework sets out the operational goals of the departments for the following three years as regards service competence and exercise of influence, efficiency of internal processes, economy of resource use in addition to competence building and working capacity.

In 2006, monitoring and reporting systems were developed for the objectives and results framework. Action planning for the next three years was, for the first time, conducted in its entirety in accordance with the new management system introduced the previous year. Similarly, implementation of the strategy was monitored for the first time using the new objectives and results framework (see box 3).

**Chart 18.**  
**Bank of Finland management system**



Box 3.

### Bank of Finland's objectives and results framework

	Indicator	Target value	Outturn 12/2006
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: <i>Governor's assessment by meeting.</i>	Good [= 4]	3.76 [1-5]
	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: <i>Media survey results.</i>	Increasing positive coverage for stability and forecast reports	Forecast report: 3.4 [1-5] Stability report: 3.0 [1-5]
	3. The Bank provides services to the financial market participants operating in Finland, ensuring access to central bank services of international standard: <i>Customer satisfaction with central bank services.</i>	Good [= 4]	Target1 customer survey: 4.3 [1-5] Target2 migration support, customer survey: 4.4 [1-5]
	3. 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: <i>Result of crisis rehearsal.</i>	Positive assessment	Crisis rehearsal undertaken successfully
	3. The Bank promotes cooperation between financial market participants and their international influence, with a view to strengthening financial market and payment system infrastructures: <i>Self-assessment and feedback from participants.</i>	Good	Self-assessment: good Feedback from participants: good
	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: <i>Consumer and industry assessment of the service level of the currency supply.</i>	Good [= 4]	Customer survey to professional participants: 3.5 [1-5]  Customer survey to consumers: Banknote quality: 3.4 [1-5] and ATM coverage
	5. Public confidence in the Bank and awareness of the Bank's activities is promoted through effective and well-targeted communications: <i>Image survey results.</i>	Upper quartile of benchmark	VIP decision-maker survey: Bank's ranking 5/24 Omnibus general public survey: Bank's ranking 3/12

	Indicator	Target value	Outturn 12/2006
Economy of resource use	6. The foreign currency breakdown of the Bank's financial assets and the Bank's investment policy is to be revised. The foreign reserve assets will be gauged in order to meet crisis management requirements and international obligations: <i>Return on financial assets, considering the limitations.</i>	No less than market return on equivalent asset items	107 basis points higher than weighted central bank rate
	7. The balance sheet policy to be revised: <i>Profit distribution (euro), own funds / foreign exchange position and own funds/financial assets.</i>	Stable profit distribution At 2005 levels	Profit distribution for 2006: 186 m euro (profit distribution for 2005: 134 m euro)  Own funds /foreign exchange position: 72% (2005: 48%) Own funds/financial assets: 39% (2005: 48%)
	8. Controlled staff reduction in line with identified priorities to be undertaken: <i>Bank's headcount.</i>	2008: < 490 persons 2009: < 467 persons	514.5 (2005: 543.5)
	9. The real value of operating expenses to be reduced from current levels: <i>Departments' operating expenses.</i>	2006: < 54.1 m euro 2008: < 51.8 m euro	50.0 m euro (2005: 50.7 m euro)
Efficiency of internal processes	10. The speed and quality of the key processes of banking operations, economist functions and support services are to undergo systematic evaluation and improvement: <i>Achievement of the speed and quality objectives of the framework by department.</i>		Internal processes: 12/15 on target 3/15 below target
	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: <i>Reduced overlaps and shorter delivery times.</i>	No overlaps  2007: delivery time 4 weeks	Speed up program designed and launched  5 weeks
	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: <i>Usability of web service solutions.</i>	Good [= 4] Not below benchmark	Internal survey 3.2–3.8 [1–5] (web tool properties) No external comparison undertaken
Competence building and a working capacity	13. Staff educational level to be raised through recruitment policy and through provision of broader training opportunities: <i>Number of doctoral level employees and educational level index.</i>	> 26 persons > 5.3	29 5.4
	14. Research into the Bank's core areas of influence is stepped up and quality of research is raised: <i>Number of published articles in refereed journals and evaluation of research effectiveness.</i>	Amount increasing (> 8) Good	13 Evaluation of Bank of Finland Bulletin 2007
	15. Leadership and management enhanced: <i>Results of social climate survey and sickness absence rate (%).</i>	> 3.4 < 3.5	3.4 [1–5] 3.2

# Personnel

In keeping with the Bank of Finland's strategy, the Bank's staff will be reduced in step with declining staff requirements, in response to the concentration on core functions and more efficient operating practices. Other priorities include review of staff structure and competence development. Special attention is focused on wellness at work. In the year under review, the Bank's human resource planning was guided by the staffing ceilings adopted and a tight recruitment policy. The introduction of new IT applications for key functional processes, revision of the management system and job reorganisation in connection with retirements ensured achievement of the framework objectives outlined in the strategy. In the autumn, preparations started for the review of the human resource guidelines for 2007–2009.

At the end of 2006, the Bank of Finland employed 515 staff, 462 at the head office and 53 in currency maintenance. The number of staff in attendance declined by 5% in the year under review. At the end of 2006, the Financial Supervision Authority (FIN-FSA) employed 137 staff of which 82% had expert positions. The FIN-FSA's employees are under a contract of employment with the Bank of Finland and the Bank is responsible for providing the FIN-FSA with personnel administration services.

## Operating principles

Time management, insider register and management reports were built into the electronic human resource system. The

system, which operates on the self-service principle, is designed to reduce overlapping work and the number of registers and forms. In the year under review, a review was started on the utilisation of information technology for competence management purposes.

The digital workspace introduced in early autumn was swiftly adopted as a forum for common processes and knowledge building. The virtual workspace was first introduced for the preparations for ECB Governing Council meetings to which experts from the Bank's all departments contribute according to need.

A review of the possibility of introducing more flexible working time concepts for the research and economist functions was undertaken. An experiment with more flexible working hours for the experts in the Monetary and Research Department was launched at the turn of 2006–2007. The results of the experiment will be evaluated in the course of spring 2007.

Cooperation across the personnel functions of the central banks within the European System of Central Banks was stepped up. In the year under review, a common HR-website was implemented, the principles of secondment within the Eurosystem were specified and new training programmes were introduced.

The pay accounting functions of the Bank of Finland and the FIN-FSA were outsourced to Personec, and the transfer of pension provision services to the State Treasury Office that had been in progress for the previous two years was completed

in December. Pension financing will remain the responsibility of the Bank of Finland's own pension fund.

### Labour market activities

Collective bargaining negotiations were conducted at the Bank at the turn of 2005–2006. They resulted in a two-year agreement, effective from 15 February 2006 to 15 February 2008, with a general pay rise of 2.00% payable from 1 April 2006 and 1.95% payable from 1 February 2007.

In spring, the labour market parties launched negotiations on the development of the Bank's holiday practices and introduction of more flexible working time practices. The proposals will be further processed during the term of the collective bargaining agreement by working groups including representatives of the labour market parties.

### Wellness at work and competence building

Improvement of staff motivation and wellness at work is part of the management objectives outlined in the strategy. The findings of the social climate survey conducted in November 2005 reported that the working climate of the Bank was mainly found to be good and that the Bank of Finland is held in high regard as an employer. In 2006, measures were especially designed to promote the understanding of the contents of the revised strategy and appreciating the effects of the strategy on the day-to-day activities at functional

and individual levels. Several discussion meetings for the employees were arranged on the subjects of the Bank's strategy, the new management system and the results and objectives framework. Change management and internal cooperation were key subjects of in-house training. Furthermore, a decision was taken to broaden the management training opportunities with an individual coaching programme. The first coaching programme will take place in spring 2007.

In keeping with its strategy, the Bank has developed into an increasingly expert driven organisation, with 49.5% of staff holding expert and 10% supervisor positions. The number of staff trained as researchers has increased to 10.1%.

EUR 0.78 million was used for training at the Bank of Finland and EUR 0.18 million at the FIN-FSA. This accounted for 2.8%, and 2.2%, of payroll, respectively. More extensive opportunities for secondment between the central banks of the Eurosystem were offered and common training opportunities were broadened. The Bank of Finland employees took an active part in the training offered by the Eurosystem.

**Table 3.**  
**Highlights of human resource management<sup>1</sup>**

	2005	2006
<b>Staff size</b>		
Headcount, Bank of Finland	543.5	514.5
Headcount, Financial Supervision Authority	138	137
Man years	565.4	542.1
Turnover rate for those leaving the Bank's service	8%	10%
Turnover rate for those entering the Bank's service	5%	5%
Internal mobility	8%	7.5%
Number of newly retired employees	25	29
Average age of newly retired employees	57 years	58 years
Number of pensions currently paid <sup>2</sup>	917	983
<b>Staff costs<sup>3</sup>/man year</b>	EUR 39.7 million/ 565.4 man years	EUR 37.7 million/ 542.1 man years
	EUR 70,260/man year	EUR 69,719/man year
<b>Staff structure</b>		
Average staff age	45.8 years	45.7 years
Proportion of experts and superiors	56%	59.5%
Proportion of women	50%	49%
Educational level index <sup>4</sup>	5.4	5.4
<b>Salaries and bonuses</b>		
Salaries in relation to market salaries	102.0%	101.1%
Fixed increases in salaries	3.75%	2.15%
General increase	2.55%	2.00%
Sectoral allowance	0.40%	–
Personal pay increases	0.80%	0.15%
Bonuses as a proportion of payroll	0.23%	0.60%
Average pay for women/average pay for men	98.8%	98.4%
<b>Pensions</b>		
Pensions paid	EUR 16.6 million	EUR 17.5 million
<b>Competence</b>		
Training costs/payroll	3.2%	2.8%
Training days/man year	4.4	3.6
<b>Wellness at work</b>		
Absence from work due to sick leave	3.5%	3.18%
Job satisfaction index (employee attitude survey 2005)	3.35	n/a

<sup>1</sup> The highlights refer to the Bank of Finland, unless otherwise mentioned. The highlights for the Financial Supervision Authority are published in its own annual report.

<sup>2</sup> Includes pensions paid to the retired employees of the FIN-FSA.

<sup>3</sup> 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.

<sup>4</sup> Educational level index is calculated from the basic level of education of employees included in total staff strength. The educational level index ranges between 1 and 8.

<sup>5</sup> 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 all organisations of the HAY market salary survey.

<sup>6</sup> Includes pensions paid to the retired employees of the FIN-FSA.

Source: Bank of Finland.

# Budget and operating costs

In 2006 the Bank of Finland revised its internal accounting by implementing an internal accounting application of the SAP R/3 system. In connection with this reform the Bank also adjusted its budget reporting. The Bank of Finland's pension fund will be shown as an entity in its own right, for the first time in the figures for 2006. In previous annual reports the pension fund's income and expenses have been included in the Bank of Finland's figures. The budget for the Financial Supervision Authority will also be shown for the first time in the Bank's annual report for 2006.

In autumn 2006, for the second consecutive time, a rolling budget was prepared to cover the three forthcoming years.

## The Bank of Finland budget

The Bank of Finland's operating expenses for 2006 totalled EUR 79.9 million. The staff expenses were higher than usual on account of a contribution of EUR 10 million made to the pension fund. The Bank's share of the contribution was EUR 8.6 million. Operating income totalled about EUR 16.4 million. The exceptionally high share of other income results from the sale of the real estate in Unioninkatu 33 to the University of Helsinki. The net operating expenses and income totalled EUR 63.5 million.

Operating expenses budgeted for 2007 amount to EUR 75.1 million. Staff expenses will decrease by 1.8% compared with 2006, once the effect from the pension fund contribution has been eliminated. Staff-related expenses

are estimated to increase. Higher electricity prices will be reflected in the other expenses item which will increase by EUR 1 million. In addition, items previously classified as investments have been budgeted in the other expenses item for 2007–2009.

The completion of important long-term projects and the start of the related depreciation write-downs will increase depreciations by EUR 1 million in 2007.

Over the medium term, operating expenses are expected to remain fairly stable and are expected to grow by 2.9% during the reference period (2006–2009). With falling staff numbers, staff expenses are estimated to decrease by 5.5% by 2009.

Investment expenditure in 2006 amounted to EUR 14.1 million. Investment in building renovations totalled EUR 10.2 million. Other long-term purchases totalled EUR 3.9 million.

Investments for 2007 are estimated at approximately EUR 2.0 million less than in 2006. Real estate projects are estimated at EUR 5.5 million. EUR 6.6 million has been budgeted for other long-term purchases.

## The pension fund budget

The first budget for the Bank of Finland's pension fund was approved in the 2006 budget planning rounds. The pension fund's operating expenses for 2006 totalled EUR 20.6 million. Pensions paid, amounting to EUR 17.5 million, was clearly the largest cost item. The pension fund's operating income totalled EUR 21.8 million.



The pension fund's expenses are estimated to increase by 12.7% in the three forthcoming years, which is largely due to growth in pensions paid. At the same time, income is expected to decrease slightly owing to decreasing employment pension contributions.

#### **The budget for the Financial Supervision Authority**

The Financial Supervision Authority's operating expenses for 2006 totalled EUR 17.2 million. Profit amounted to EUR 17.2 million.

Operating expenses for 2007 are estimated at EUR 18.1 million. Income is estimated at EUR 18.9 million.

Box 4.

### Renovation of the Bank of Finland's Head Office premises

The renovation of the Bank of Finland's Head Office premises lasted over one year and was completed in spring 2006. The renovation work was part of a plan to intensify space utilisation which made it possible for the Bank to give up the real estate in Unioninkatu 33, as well as its rented offices and relocate the more than 100 workstations from these premises to the two buildings remaining in the Bank's use. The first floor of the Head Office, comprising the so-called Old Banking Rooms, were reconstructed from the original customer service facilities to create the Bank's conference, representation and entertainment facilities. Other floors of the Head Office were changed into effective open-plan offices. The costs of the renovation work totalled approximately EUR 11 million. In addition to enhancing the usage of the Bank's premises it has been possible to achieve more than half a million euro savings annually, in external rental and maintenance expenditure.



Photo: Pekka Karhunen

**Table 4.**  
**Budget for the Bank of Finland, EUR m**

	<i>Outturn 2006</i>	<i>Budget 2007</i>	<i>Budget 2008</i>	<i>Budget 2009</i>
<b>1. Operating expenses and income</b>				
<b>Expenses</b>				
<i>Staff expenses*)</i>	45.1	36.0	35.2	34.7
<i>Staff-related expenses</i>	2.8	3.8	3.9	3.8
<i>Other</i>	20.1	23.0	22.4	22.3
	68.0	62.8	61.5	60.8
<b>Depreciation</b>				
<i>IT equipment</i>	4.2	4.4	4.6	3.1
<i>Money handling machines</i>	0.8	0.9	1.0	1.1
<i>Buildings</i>	0.9	1.3	1.4	1.4
<i>Other fixed assets</i>	0.6	1.0	1.2	1.2
	6.6	7.6	8.1	6.9
<b>Total</b>	<b>74.6</b>	<b>70.4</b>	<b>69.6</b>	<b>67.6</b>
<i>Banknote procurement</i>	4.6	3.9	5.0	5.0
<i>Cash depot system</i>	0.8	0.8	1.0	1.0
<b>Total operating expenses</b>	<b>79.9</b>	<b>75.1</b>	<b>75.6</b>	<b>73.6</b>
<b>Income</b>				
<i>Services to the Financial Supervision Authority</i>	-2.1	-2.1	-2.0	-1.8
<i>Real estate</i>	-6.1	-7.0	-7.0	-7.0
<i>Other</i>	-8.2	-1.7	-1.3	-1.3
<b>Total income</b>	<b>-16.4</b>	<b>-10.8</b>	<b>-10.3</b>	<b>-10.1</b>
<b>Net</b>	<b>63.5</b>	<b>64.3</b>	<b>65.3</b>	<b>63.5</b>
<b>2. Purchases</b>				
<i>IT equipment and software</i>	1.6	3.7	2.7	1.4
<i>Money handling machines</i>	0.4	0.6	0.7	0.3
<i>Security equipment</i>	1.2	2.0	1.5	1.0
<i>Other equipment and machinery</i>	0.7	0.3	0.2	0.2
<b>Total purchases</b>	<b>3.9</b>	<b>6.6</b>	<b>5.1</b>	<b>2.9</b>
<b>3. Real estate projects</b>				
<i>Head office premises</i>	7.3	1.0	0.3	0.2
<i>Vantaa premises</i>	2.8	3.4	1.5	1.5
<i>Other premises</i>	0.1	1.1	0.3	0.3
<b>Total real estate projects</b>	<b>10.2</b>	<b>5.5</b>	<b>2.1</b>	<b>2.0</b>

\*) Staff expenses for 2006 include a contribution of EUR 8.6 million paid to the Bank of Finland pension fund.

Source: Bank of Finland.

**Table 5.**  
**Budget for the Bank of Finland's pension fund, EUR m**

	<i>Outturn 2006</i>	<i>Budget 2007</i>	<i>Budget 2008</i>	<i>Budget 2009</i>
<b>1. Operating expenses and income</b>				
<b>Expenses</b>				
<i>Staff expenses</i>	0.2	0.2	0.2	0.2
<i>Pension fund activities expenses</i>	1.3	0.8	0.8	0.8
<i>Pension fund real estates expenses</i>	0.6	0.7	0.7	0.7
	2.1	1.6	1.6	1.6
<b>Depreciation</b>				
<i>Buildings</i>	1.0	1.0	1.0	1.1
	1.0	1.0	1.0	1.1
<b>Pensions paid</b>	17.5	18.9	19.7	20.4
<b>Total expenses</b>	20.6	21.6	22.3	23.1
<b>Income</b>				
<i>Employment pension contributions</i>	-8.9	-8.7	-8.6	-8.5
<i>Pension fund contributions</i>	-10.0			
<i>Rents</i>	-1.0	-1.0	-1.1	-1.1
<i>Internal rents</i>	-1.9	-1.9	-1.9	-1.9
<b>Total income</b>	-21.8	-11.6	-11.6	-11.5
<b>Net</b>	-1.2	9.9	10.8	11.6
<b>2. Real estate projects</b>				
<i>Real estates of the pension fund</i>	0.6	0.5	0.3	0.3
<b>Total real estate projects</b>	0.6	0.5	0.3	0.3

Source: Bank of Finland.

**Table 6.**  
**Budget for the Financial Supervision Authority, EUR m**

	<i>Outturn 2006</i>	<i>Budget 2007</i>	<i>Budget 2008</i>	<i>Budget 2009</i>
<b>1. Operating expenses and income</b>				
<b>Expenses</b>				
<i>Staff expenses</i>	12.4	11.5	11.5	11.7
<i>Staff-related expenses</i>	0.7	0.9	0.9	0.9
<i>Other</i>	2.0	3.2	3.0	3.1
	15.0	15.6	15.4	15.7
<b>Depreciation</b>	0.0	0.1	0.1	0.1
	0.0	0.1	0.1	0.1
<b>Services from the Bank of Finland</b>	2.1	2.3	2.3	2.2
<b>Total operating expenses</b>	17.2	18.1	17.8	18.0
<b>Income</b>				
<i>Supervision fees</i>	-16.6	-18.1	-18.1	-18.1
<i>Specific fees</i>	-0.6	-0.8	-0.8	-0.8
<b>Total income</b>	-17.2	-18.9	-18.9	-18.9
<b>Net</b>	0.0	-0.8	-1.1	-0.9
<b>2. Purchases</b>				
<i>Other equipment and machinery</i>	0.1	0.2	0.0	0.0
<b>Total purchases</b>	0.1	0.2	0.0	0.0

*Source: Bank of Finland.*

## Financial statements

## Balance sheet, EUR million

	31 Dec 2006	31 Dec 2005
<b>ASSETS</b>		
<i>Gold and gold receivables (1)</i>	761	686
<i>Claims on non-euro area residents denominated in foreign currency (2)</i>	4,750	8,719
<i>Receivables from the IMF</i>	279	384
<i>Balances with banks and security investments, external loans and other external assets</i>	4,470	8,336
<i>Claims on euro area residents denominated in foreign currency (3)</i>	1,061	854
<i>Claims on non-euro area residents denominated in euro (4)</i>	368	0
<i>Lending to euro area credit institutions related to monetary policy operations denominated in euro (5)</i>	1,025	1,692
<i>Main refinancing operations</i>	500	1,200
<i>Longer-term refinancing operations</i>	525	492
<i>Other claims on euro area credit institutions denominated in euro (6)</i>	60	0
<i>Securities of euro area residents denominated in euro (7)</i>	4,998	0
<i>Intra-Eurosystem claims (8)</i>	5,886	6,407
<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>	1,157	1,686
<i>Net claim related to the allocation of euro banknotes within the Eurosystem</i>	3,938	3,930
<i>Other assets (9)</i>	933	840
<i>Euro area coins</i>	25	31
<i>Tangible and intangible fixed assets</i>	204	209
<i>Other current assets</i>	488	471
<i>Other</i>	216	129
<b>Total assets</b>	<b>19,843</b>	<b>19,198</b>

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

	31 Dec 2006	31 Dec 2005
<b>LIABILITIES</b>		
<i>Banknotes in circulation (1)</i>	10,419	9,374
<i>Liabilities to euro area credit institutions related to monetary policy operations denominated in euro (2)</i>	3,766	3,536
<i>Current accounts (covering the minimum reserve system)</i>	3,765	3,535
<i>Deposit facility</i>	1	1
<i>Liabilities to other euro area residents denominated in euro (3)</i>	0	1
<i>Liabilities to non-euro area residents denominated in euro (4)</i>	4	1
<i>Liabilities to euro area residents denominated in foreign currency (5)</i>	0	0
<i>Liabilities to non-euro area residents denominated in foreign currency (6)</i>	–	509
<i>Counterpart of special drawing rights allocated by the IMF (7)</i>	163	173
<i>Intra-Eurosystem liabilities (8)</i>	–	11
<i>Other liabilities (9)</i>	162	153
<i>Revaluation account (10)</i>	762	974
<i>Provisions (11)</i>	2,676	2,735
<i>Capital and reserves (12)</i>	1,596	1,530
<i>Primary capital</i>	841	841
<i>Reserve fund</i>	756	689
<i>Profit for the financial year (13)</i>	293	200
<b>Total liabilities</b>	<b>19,843</b>	<b>19,198</b>



## Profit and loss account, EUR million

	1 Jan – 31 Dec 2006	1 Jan – 31 Dec 2005
<b>INTEREST INCOME (1)</b>	528	403
<b>INTEREST EXPENSE (2)</b>	-100	-73
<b>NET INTEREST INCOME (3)</b>	428	331
<i>Realised gains/losses related to foreign exchange rate movements (4)</i>	-56	67
<i>Realised securities price differences (5)</i>	-100	1
<i>Change in foreign exchange rate and price difference provision (6)</i>	156	-68
<b>NET RESULTS OF FINANCIAL OPERATIONS, WRITE DOWNS AND RISK PROVISIONS</b>	428	331
<i>Net share of monetary income (7)</i>	5	3
<i>Share in ECB profit (8)</i>	-	-
<i>Other central banking income (9)</i>	3	3
<b>CENTRAL BANKING PROFIT</b>	437	336
<i>Other income (10)</i>	31	23
<i>Operating expenses</i>		
<i>Staff costs (11)</i>	-57	-49
<i>Administrative expenses (12)</i>	-25	-17
<i>Depreciation of fixed assets (13)</i>	-7	-6
<i>Banknote procurement costs (14)</i>	-5	-3
<i>Other expenses (15)</i>	-1	-8
<b>OPERATING PROFIT</b>	373	277
<i>Pension fund</i>		
<i>Income of the pension fund (16)</i>	39	55
<i>Expenses of the pension fund (17)</i>	-21	-19
<b>CHANGES IN PROVISIONS (18)</b>	-98	-113
<b>PROFIT FOR THE FINANCIAL YEAR (19)</b>	293	200

## Appendices to the financial statements, EUR million

	31 Dec 2006	31 Dec 2005
<i>Foreign currency futures contracts</i>		
<i>Purchase contracts</i>	3.0	931.9
<i>Sales contracts</i>	703.9	931.9
<i>Shares and other interests, nominal value</i>		
<i>Bank for International Settlements<sup>1</sup></i>	22.4 (1.96%)	22.4 (1.96%)
<i>Shares in housing companies</i>	6.2	6.2
<i>Other shares and interests</i>	0.1	0.1
<i>Total</i>	28.6	28.6
<i>Bank of Finland's liability share in the APK fund</i>	0.3	0.3
<i>Liability arising from pension commitments</i>		
<i>The Bank of Finland's pension liability</i>	478.0	470.3
<i>– of which covered by reserves</i>	459.2	442.1
<i>Customer service office</i>		
<i>Deposits</i>	18.6	20.0
<i>Loans</i>	4.6	4.6

<sup>1</sup> 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 m<sup>3</sup> (approx.)</i>
<i>Helsinki</i>	<i>Rauhankatu 16</i>	<i>1883/1961/2006</i>	<i>49,500</i>
	<i>Unioninkatu 33<sup>1</sup></i>	<i>1848</i>	<i>11,710</i>
	<i>Rauhankatu 19</i>	<i>1954</i>	<i>38,790</i>
	<i>Snellmaninkatu 6<sup>2</sup></i>	<i>1857/1892/2001</i>	<i>26,930</i>
	<i>Snellmaninkatu 2<sup>2</sup></i>	<i>1901/2003</i>	<i>3,200</i>
	<i>Ramsinniementie 34</i>	<i>1920/1983/1998</i>	<i>4,600</i>
<i>Kuopio</i>	<i>Puutarbakatu 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>Koskikatu 9 C<sup>2</sup></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>Turvalaaksontie 1</i>	<i>1979</i>	<i>311,500</i>
<i>Inari</i>	<i>Saariselkä</i>	<i>1968/1976/1998</i>	<i>6,100</i>

<sup>1</sup> Unioninkatu 33 (11,710 m<sup>3</sup>) has been altered to become a separate real estate unit and sold to the University of Helsinki. Ownership was transferred, 1 September 2006.

<sup>2</sup> 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 107,157,380.47 of the profit of EUR 293,157,380.47 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 186,000,000 be made available for the needs of the state.

Helsinki, 21 February 2007

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, items denominated in foreign currency and items of euro-denominated portfolio

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. Euro-denominated securities and securities denominated in foreign currency 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, as a rule, from the 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.

<i>Key for subscription of the ECB's capital 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>	14.8712
<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
<b>Subtotal Eurosystem</b>	<b>71.4908</b>
<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</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
<b>Subtotal non-euro area NCBs</b>	<b>28.5092</b>
<b>Total</b>	<b>100.0000</b>

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.

## 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.<sup>1,2</sup> 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.<sup>3</sup> 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,<sup>4</sup> 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

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

<sup>2</sup> Slovenia joined the Eurosystem on 1 January 2007. Consequently, as from 1 January 2007, the Eurosystem comprises 13 countries.

<sup>3</sup> 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.

<sup>4</sup> 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).

banknotes are to be adjusted in order to 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 ECB's capital key is adjusted whenever new member states join the Eurosystem.

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.<sup>5</sup> This income was not distributed for 2004, because the ECB's net profit for the year was less than its income on euro banknotes in circulation. For 2005 and 2006, 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.

<sup>5</sup> ECB decision (ECB/2005/11).

### 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 amortised over the maturity of the security.

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

Supervision Authority are entered in the Bank's profit and loss. The investment portfolio of the pension fund is valued monthly at the market price of the last day of the month. The assets of the pension fund are recorded in the Bank of Finland's balance sheet item 'Other assets'.

#### 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 1,576,450 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 NCBs participating in the Eurosystem – transferred about 20% of its gold holdings to the ECB.

	31 Dec 2006	31 Dec 2005
<i>Gold</i>		
<i>Holdings of gold (troy ounces)</i>	1,576,450	1,576,835
<i>Price: euro per troy ounce</i>	482.69	434.86
<i>Market price value, EUR</i>	760,936,472	685,696,274
<i>Change in the market value, EUR</i>	75,240,198	178,513,450

*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 2006		31 Dec 2005	
	EUR	SDR	EUR	SDR
<i>Reserve tranche in the IMF</i>	126.3	110.6	227.7	198.3
<i>SDRs</i>	146.6	128.4	130.1	113.3
<i>Other receivables from the IMF</i>	6.6	5.8	6.7	5.8
<b>Total</b>	<b>279.5</b>	<b>244.8</b>	<b>364.5</b>	<b>317.4</b>

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 146.6 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 279.5 million. On 31 December 2006, the exchange rate between SDR and EUR was: SDR 1 = EUR 1.14. In 2006 the market rate of SDR was below the average cost price, and valuation losses were therefore recognised in accordance with accounting rules.

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

	31 Dec 2006	31 Dec 2005
	EUR	EUR
<i>Balances with banks</i>	164,853,102	1,194,286,785
<i>Coupon bonds</i>	3,868,587,138	6,182,556,146
<i>Discount papers</i>	338,181,988	648,290,076
<i>Other</i>	98,861,638	310,513,660
<b>Total</b>	<b>4,470,483,866</b>	<b>8,335,646,667</b>

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, security investments and other claims on euro area residents denominated in foreign currency.

	31 Dec 2006	31 Dec 2005
	EUR	EUR
<i>Balances with banks</i>	98,369,197	58,452,564
<i>Coupon bonds</i>	787,126,870	671,092,360
<i>Discount papers</i>	156,371,443	55,633,557
<i>Other</i>	19,532,680	69,228,997
<b>Total</b>	<b>1,061,400,191</b>	<b>854,407,478</b>

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

This item includes balances with banks outside the euro area, denominated in euro, coupon bonds and discount papers issued by non-euro area residents as well as euro-denominated receivables from the Bank for International Settlements (BIS).

	31 Dec 2006	31 Dec 2005
	EUR	EUR
<i>Balances with banks</i>	145,500,000	0
<i>Coupon bonds</i>	64,954,396	0
<i>Discount papers</i>	156,810,600	0
<i>Other</i>	484,068	131,263
<b>Total</b>	<b>367,749,064</b>	<b>131,263</b>



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

This item consists of claims relating to monetary policy instruments.

Main refinancing operations are liquidity-providing operations which are conducted weekly in the form of reverse transactions and executed through standard tenders. They 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 500 million at the end of 2006.

Longer-term refinancing operations are liquidity-providing transactions that are executed once a month in the form of reverse transactions and carried out through standard tenders. Claims on the longer-term refinancing operations totalled EUR 525 million. Fine-tuning operations were also conducted as quick tenders during 2006. The operations were conducted as reverse transactions or by collecting fixed-term deposits but there were no outstanding balances on them at the end of the year. Fine-tuning operations are executed on an ad hoc basis in order to smooth the effects on interest rate changes caused by unexpected liquidity fluctuations in the money market. In addition, Finnish credit institutions took recourse in the marginal lending facility in 2006 to maintain their liquidity, but there were no outstanding balances on them at the end of the year.

	31 Dec 2006	31 Dec 2005
	EURm	EURm
Main refinancing operations	500	1,200
Longer-term refinancing operations	525.2	491.7
Total	1,025.2	1,691.7

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

This item consists of euro-denominated deposits and balances with euro area credit institutions.

**7. Securities of euro area residents denominated in euro**

This item includes coupon bonds and discount papers issued in the euro area. The Bank of Finland adjusted the distribution of its financial assets in February–March 2006 by exchanging its investments denominated in Swedish krona and Danish krone into euro-denominated investments. Prior to 2006 the Bank had no euro-denominated investments.

	31 Dec 2006
	EUR
Coupon bonds	4,759,730.358
Discount papers	238,410,658
Total	4,998,141,016

**8. 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 Bank of

Finland's percentage share in the ECB's capital has been 1.2887% since 1 May 2004. 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 net balances of TARGET accounts. This item also includes net claim related to the allocation of the value of euro banknotes in the Eurosystem.

#### 9. 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). 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, in accordance with the banknote allocation key and adjusted for the share allocated to the ECB, of the total amount of euro banknotes in circulation, EUR 10.419 million.

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

This item includes credit institutions' RTGS account balances. Credit institu-

tions 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 2006. The counteritem has remained at SDR 142.7 million for several years, since it is not used for trading purposes.

#### **8. Intra-Eurosystem liabilities**

This item includes the net balances of TARGET accounts if the Bank of Finland has a net liability against the Eurosystem.

#### **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 2,217 million. The net change in the provisions is attributable to the profit and loss account items 'Change in

foreign exchange rate and price difference provision', which was reduced by EUR 156 million, and 'Change in the provision for safeguarding the real value of capital', which was increased by EUR 80 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 478 million: 96% of this amount is covered by the pension provision, ie EUR 459 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 2006 totalled EUR 293 million.

## Notes to the profit and loss account

### 1. Interest income

Net interest income amounted to EUR 528 million. Of this, EUR 267 million consisted of interest income on foreign reserve assets and EUR 110 million of interest income on the euro-denominated portfolio.

The remaining consisted of interest income on euro-denominated claims. Of this, EUR 63 million was interest income on monetary policy operations and EUR 17 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 65 million, is entered on a net basis.

### 2. Interest expense

Interest expense amounted to EUR 100 million. Interest totalling EUR 72 million was paid on minimum reserve deposits. Interest expense also includes interest paid on and received from TARGET balances with central banks participating in the Eurosystem, EUR 12 million, net.

### 3. Net interest income

Net interest income, calculated as the difference between interest income and expense, amounted to EUR 428 million.

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

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

positions. In 2006, realised losses related to foreign exchange rate movements amounted to EUR 56 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 2006, the realised losses related to securities price movements amounted to EUR 100 million.

### 6. Change in foreign exchange rate and price difference provision

In 2006, the provision was decreased by EUR 156 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 as generating 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 actual net share of monetary income totalled EUR 5.3 million.

#### **8. Share in ECB profit**

The ECB did not distribute any profit for the financial year 2005.

#### **9. Other central banking income**

This item includes dividend income, EUR 3 million.

#### **10. Other income**

This item consists of the Financial Supervision Authority's supervision fees, EUR 17 million. It also includes miscellaneous other income, such as rental income, gains from the sale of fixed assets, commissions and fees.

#### **11. Staff costs**

Salaries amounted to EUR 37 million. Social security costs and employer's

pension insurance contributions amounted to EUR 11 million. In 2006 staff costs included a contribution paid to the pension fund, EUR 10 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 17 million. Of this, EUR 9 million was covered by the revaluation reserve. Consequently, net depreciations totalled EUR 8 million. The Bank's pension fund accounts for EUR 1 million of net depreciations. The pension fund's incomes and expenses are presented as separate items in the profit and loss account.

#### **14. Banknote procurement costs**

Banknote procurement costs amounted to EUR 5 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 20 million. In addition, the item includes the Bank of Finland's and the Financial Supervision Authority's employer contributions as well as employee's share of premium income,

EUR 9 million. This item also includes a contribution of EUR 10 million paid by the Bank of Finland to the pension fund.

#### **17. Expenses of the pension fund**

The item includes expenses of the Bank of Finland pension fund's investment activities, EUR 1 million, pensions paid, EUR 18 million, management costs and depreciations of the fixed assets managed by the pension fund.

#### **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 80 million. The addition to the pension provision in the profit and loss account amounted to EUR 18 million.

#### **19. Profit for the financial year**

The profit for the financial year 2006 totalled EUR 293 million. The board proposes to the Parliamentary Supervision Council that EUR 186 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 2006 in accordance with generally accepted auditing standards.

During the financial year the Bank's Internal Audit 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 representations 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 2007.

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, 29 March 2007

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 2006. 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 2007

Ernst & Young Oy  
Authorised Public Accounting Firm

Jarmo Lohi  
Authorised Public Accountant  
Chartered Public Finance Auditor





# Appendices



## Monetary policy measures of the Eurosystem in 2006

<b>January</b>	In accordance with the decision of the Governing Council of the ECB on 16 December 2005, the allotment amounts for the longer-term refinancing operations to be conducted in the year 2006 were increased from EUR 30 billion to EUR 40 billion, starting from the operation conducted on 26 January 2006.
<b>March</b>	In accordance with the decision of the Governing Council of the ECB on 2 March 2006, the minimum bid rate on the main financing operations was increased by 0.25 percentage points to 2.50%, starting from the operation settled on 8 March 2006. The interest rates on the margin lending facility were also increased by 0.25 percentage points, to 3.50% and 1.50%, respectively.
<b>June</b>	In accordance with the decision of the Governing Council of the ECB on 8 June 2006, the minimum bid rate on the main financing operations was increased by 0.25 percentage points to 2.75%, starting from the operation settled on 15 June 2006. The interest rates on the margin lending facility were also increased by 0.25 percentage points, to 3.75% and 1.75%, respectively.
<b>August</b>	In accordance with the decision of the Governing Council of the ECB on 8 August 2006, the minimum bid rate on the main financing operations was increased by 0.25 percentage points to 3.00%, starting from the operation settled on 9 August 2006. The interest rates on the margin lending facility were also increased by 0.25 percentage points, to 4.00% and 2.00%, respectively.
<b>October</b>	In accordance with the decision of the Governing Council of the ECB on 5 October 2006, the minimum bid rate on the main financing operations was increased by 0.25 percentage points to 3.25%, starting from the operation settled on 11 October 2006. The interest rates on the margin lending facility were also increased by 0.25 percentage points, to 4.25% and 2.25%, respectively.
<b>December</b>	In accordance with the decision of the Governing Council of the ECB on 7 December 2006, the minimum bid rate on the main financing operations was increased by 0.25 percentage points to 3.50%, starting from the operation settled on 13 December 2006. The interest rates on the margin lending facility were also increased by 0.25 percentage points, to 4.50% and 2.50%, respectively.

## Key measures affecting the financial markets in 2006

Measures by the European System of Central Banks	
<b>February</b>	<p>In its fourth progress report on the Single Euro Payments Area (SEPA), the Governing Council of the ECB defined the final SEPA goals. The report calls for future-oriented, safe and cost-efficient payment solutions to meet the needs of various groups of customers.</p> <p>The Board of the Bank of Finland approved the Bank's updated oversight policy. In accordance with the new framework, the Bank contributes actively to the design of Eurosystem oversight policies for integrating payment and settlement systems. In line with its strategy, the Bank of Finland promotes development of efficient payment and settlement systems based on modern technologies.</p>
<b>April</b>	<p>The ECB adopted an opinion, as requested by the Council of the European Union, on the proposed directive on payment services in the internal market. In its opinion the ECB proposed amendments to the draft directive concerning eg the regulation of payment institutions.</p>
<b>May</b>	<p>The European Commission and the ECB issued a joint statement on the Single Euro Payments Area (SEPA) and the process leading to its realisation. The statement sees Europe as an integrated market for payment services which is subject to effective competition and where there is no distinction between cross-border and national payments within the euro area. The statement also notes that, from the viewpoint of market efficiency, a critical mass of national credit transfers, direct debits and card payments should have migrated to SEPA payment instruments by the end of 2010.</p> <p>The Governing Council of the ECB approved the Business Continuity Oversight Expectations for Systemically Important Payment Systems (SIPS). The framework consists of a well-defined business continuity strategy, a variety of plausible scenarios, recovery and resumption objectives, procedures and formal plans for crisis management, and regular reviewing and testing.</p> <p>The Eurosystem organised a crisis simulation exercise in order to test its ability to manage a cross-border financial crisis that threatened to swell into a 'systemic crisis' covering the euro area financial system as a whole. Particular emphasis was laid on links and connections between the various components of the financial system. The exercise comprised all key central bank operations, with Eurosystem central banks as participants.</p>
<b>June</b>	<p>The ECB published its Financial Stability Review (FSR). The report stated that the ability of euro area financial institutions to absorb adverse shocks had improved. It was, however, reminded that ongoing vigilance is of the essence as the risks and vulnerabilities have not disappeared.</p>
<b>July</b>	<p>The Governing Council of the ECB decided to continue work on the new settlement system, TARGET2 Securities, together with central securities depositories and other market participants.</p>

<b>August</b>	The ECB adopted an opinion on the draft law amending the law on Narodowy Bank Polski, the Polish central bank. The draft law aims at making changes in the composition of the Banking Supervision Commission, an autonomous banking supervision authority. In its opinion the ECB emphasised the importance of independence for banking supervision authorities and their close cooperation with central banks.
<b>September</b>	The Governing Council of the ECB accepted the Short-Term European Paper (STEP) market as a market for collateral purposes in Eurosystem credit operations. Notes issued under STEP-compliant programmes and meeting the requirements related to the marketplace and other eligibility criteria will be accepted as collateral as soon as the publication of price statistics commences.
<b>October</b>	<p>The Governing Council of the ECB updated its assessment of securities settlement systems eligible for the settlement of collateral for Eurosystem credit operations. According to the Bank of Finland's assessment, the securities clearing and settlement system for debt instruments (RM system) of the Finnish Central Securities Depository (APK) continued to be capable of meeting the requirements of the 'Standards for the use of EU securities settlement systems in ESCB credit operations'.</p> <p>The ECB published an annual report on structural developments in the EU banking sector (EU Banking Structures 2005) prepared by the ESCB Banking Supervision Committee. The report notes that the process of integration, internationalisation and consolidation in the EU banking scene is moving on rapidly. In 2005 and in the early part of 2006, particularly cross-border mergers and acquisitions between EU banks increased. The favourable operating environment boosted business expansion in banking. Especially the largest banking groups in the EU countries recorded robust growth.</p>
<b>November</b>	<p>In its progress report the ECB published its view on the use of payment cards in the Single Euro Payments Area (SEPA). The ECB urged card schemes and banking communities to determine their strategic positioning and elaborate their business plans in order to be able to join the SEPA. The aim is to accomplish a more integrated market while at the same preserving the efficiency and low cost levels of national card schemes.</p> <p>The Governing Council of the ECB updated its assessment of links between securities settlement systems eligible for the settlement of collateral for Eurosystem credit operations.</p> <p>The ECB published a report on EU banking sector stability prepared by the ESCB Banking Supervision Committee. The report reckoned the banks' profitability and solvency levels as being good and predicted ongoing favourable development in this respect. As a consequence, the banks' resilience to shocks remains strong. The report saw a risk in the continued strong credit growth amid signs of an erosion of credit standards. Problems were also seen to arise from credit risk transfers with opaqueness of the party who finally bears the risk.</p>

<b>December</b>	The ECB published its second Financial Stability Review (FSR) for the year. Despite the resilience of the financial markets to adverse disturbances (eg settlement in September 2006 of the financial distress encountered by the hedge fund Amaranth Advisors), the report pointed to a number of potential risks. These included the low level of long-term interest rates due, among other things, to low risk premia, leading to higher asset valuations. A source of risk was also seen in large global financial imbalances which, when abruptly rebalancing, could cause serious disturbances in financial markets.
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### EU regulatory projects and their implementation in Finland

<b>May</b>	A working group set up by the Ministry of Finance to prepare the national implementation in Finland of the Markets in Financial Instruments Directive (MiFID) completed its report. The key objective of the directive is to promote the functioning of the EU internal market. Another aim is to create competitive alternatives for exchange trading. On the basis of comments received on the report and the Commission's regulation, published in October, on the implementation of the directive, the working group also prepared a Government bill for submission to Parliament in 2007.
<b>August</b>	The Council Regulation on the Statute for a European Cooperative Society (SCE) entered into force. The regulation created a company form for cross-border activities between cooperatives.
<b>October</b>	A Government bill on amending the Securities Markets Act following implementation of the 'Transparency Directive' was submitted to Parliament. The directive seeks to harmonise requirements in relation to information about issuers of securities within the EU. The requirements concern regular reporting, obligation to disclose major holdings, and dissemination and storage of regulated information. The coming into force of the Act was postponed until 2007, instead of the envisaged turn of the year.
<b>December</b>	<p>Parliament continued to discuss a bill on credit institution activities. The Act, which includes Basel II capital adequacy requirements, came into force on 15 February 2007. It thus exceeded the original deadline, which should have been at the turn of the year.</p> <p>The mandate of a working group considering the implementation of the directive on cross-border mergers of limited liability companies (in Finland the concept also includes cooperatives and a certain type of mutual insurance company) expired at the end of the year. The purpose of the directive is to facilitate mergers between limited liability companies located in various EU member states and to promote competition. The directive is due to be implemented into national law by 15 December 2007 at the latest.</p> <p>A proposed directive on payment services in the internal market (Payment Services Directive) was actively prepared during the Austrian and Finnish EU presidencies. The directive aims at establishing a common framework for the provision of payment services in the internal market. The ECOFIN Council and the European Parliament did not, however, approve the directive in 2006. Further consideration of the directive thus moved to 2007.</p>

## Other key regulatory projects and measures

<b>January</b>	<p>Wealth tax was abolished in Finland from the beginning of 2006.</p> <p>In January 2006 the Bank of Finland and Riksbanken signed a Memorandum of Understanding (MoU) on cooperation in the oversight of Nordic securities markets. The aim is to increase information exchange and ensure coordination of oversight.</p>
<b>February</b>	<p>Finnish banks published their national SEPA migration plans. They were prepared in projects by the Finnish Bankers' Association, with the assistance of the Bank of Finland.</p>
<b>March</b>	<p>The Bank of Finland and the Financial Supervision Authority signed a Memorandum of Understanding for financial crisis situations. The MoU seeks to improve the parties' crisis management capabilities through enhanced cooperation and information exchange between the parties for effectively handling potential crisis situations.</p>
<b>April</b>	<p>The EU's Economic and Financial Committee (EFC) led arrangements for the organisation of an EU-wide crisis simulation exercise for financial markets to test the functioning of a Memorandum of Understanding signed in the previous year. All EU financial-sector supervisors, central banks and ministries of finance were represented in this crisis simulation exercise.</p>
<b>August</b>	<p>A Government bill on amending the Savings Bank Act was submitted to Parliament. The aim is to ensure that original fund shares of savings banks receive equal treatment in legislation to capital instruments of other types of banks.</p> <p>A Government bill on amending the Real Estate Funds Act and the Mutual Funds Act and certain related acts was submitted to Parliament. The bill proposes eg that the Mutual Funds Act be supplemented with provisions on special mutual funds that mainly invest in real estate and real estate securities.</p>
<b>September</b>	<p>The revised Companies Act came into force. Companies were granted more leeway, as various restrictions and formal requirements were reduced and new procedures were allowed. Improvements were made, for example, to the legal protection of creditors and minority shareholders.</p>
<b>November</b>	<p>European Commission competition authorities and key financial supervision authorities started consideration of the agreement published by Danske Bank A/S (Danske) and Sampo plc on the acquisition of Sampo Bank plc by Danske. Official decisions required for the coming into force of the deal were made in January 2007.</p>



## Main opinions issued by the Bank of Finland 2006

### Opinions concerning legislation on and development of the financial markets

#### Opinion

#### To the Financial Supervision Authority concerning

- a draft interpretation on permissible transactions in derivatives and underlying assets for other than investment purposes, 12 January
- a proposal for its fees in connection with the approval process of eligible external credit rating assessment institutions, 5 September
- concerning the following draft standards:
  - RA1.2 Acquisition of controlling interest in undertakings authorised in non-EEA countries
    - 1.3 Internal governance
    - 1.4 Fitness and propriety criteria for managers
    - 2.1 Code of conduct for the provision of financial services
    - 4.10 Reporting of exposures to connected parties
  - RA4.1 Reporting of large exposures
    - 4.2 The internal capital adequacy assessment process (ICAAP) of supervised entities
      - 4.3c Capital requirements for credit risk using the standardised approach
      - 4.3d Capital requirements for credit risk using the internal ratings-based approach
      - 4.3e and 4.3f Application of credit risk mitigation techniques in the calculation of capital requirements
      - 4.3g Calculation of capital requirements against market risk
      - 4.3h Capital requirements for securitisation
      - 4.3i Capital requirements against operational risk
      - 4.3j Requirements on external credit assessment institutions eligible in the capital adequacy calculation
      - 4.3k Capital requirements against counterparty risk
    - 4.5 Provision of public information on capital adequacy
  - RA4.8 Reporting of own funds as well as own funds to cover credit risk, market risk and operational risk
    - 5.2a Securities offerings and listings
    - 5.2b The obligations of issuers and shareholders to provide information and
    - 5.2c Public bids and mandatory bids

<p><b>To the Ministry of Finance concerning</b></p>	<ul style="list-style-type: none"> <li>– a proposal by the European Commission for a Payment Services Directive, 25 January</li> <li>– legislation on transfer pricing in the context of income taxation, 20 March</li> <li>– confirmation of amendments to the rules of the Finnish Central Securities Depository (APK), 26 April</li> <li>– amendment of the Real Estate Funds Act and the Mutual Funds Act, 4 May</li> <li>– a working group report on taxation, financial accounts and company law, 5 May</li> <li>– amendment of the Securities Market Act, 9 May</li> <li>– confirmation of amendments to the rules of the Finnish Central Securities Depository (APK), 12 July</li> <li>– a memorandum submitted by the working group preparing the implementation of the directive on markets in financial instruments (MiFID), 30 August</li> <li>– the total amount of contributions to be accrued in the Investor Compensation Fund in 2006, 24 August</li> <li>– a Decree on the requirements for the admission of securities to stock exchange listing, 4 September</li> <li>– confirmation of rules for exchange trading and other public trading, 8 September</li> <li>– confirmation of rules for securities trading on the Helsinki Stock Exchange</li> <li>– Decrees on the amendment of the Real Estate Funds Act and the Mutual Funds Act, 5 October</li> <li>– a Decree on the calculation of capital requirements and mitigation of large exposures by credit institutions and investment firms and by financial and insurance conglomerates, 30 October</li> </ul>
<p><b>To the Ministry of Justice concerning</b></p>	<ul style="list-style-type: none"> <li>– a report submitted by a working group that had prepared the European Cooperatives Act, 6 February</li> <li>– amendment of the Emergency Powers Act, 15 February</li> <li>– revision of the European Commission’s action plan for the modernisation of company law, 29 March</li> </ul>
<p><b>Other opinions</b></p>	<ul style="list-style-type: none"> <li>– To the Ministry of Social Affairs and Health concerning an act on insurance guarantees under emergency conditions, 16 February</li> <li>– To the Finnish Central Securities Depository (APK) concerning amendment of the APK rules, 24 January</li> <li>– To the European Commission on assessment as referred to in the Financial Services Action Plan (FSAP), 31 January</li> <li>– To the Security and Defence Committee on revision of the decision in principle by the Council of State’s to safeguard vital operations for the society as a whole.</li> </ul>

## Bank of Finland publications in 2006

<b>Euro &amp; talous</b>	Finnish-language quarterly and special annual issue on the stability of the financial markets.
<b>Bank of Finland Bulletin</b>	English-language quarterly and special annual issue on the stability of the financial markets.
<b>Bank of Finland Annual Report</b>	Published separately in Finnish, Swedish and English.
<b>Expository studies (Series A)</b>	<p>A:109 Pentti Pikkarainen ja Antti Suvanto (eds.), Suomen Pankki, EMU and financial markets.</p> <p>A:110 Päivi Heikkinen ja Kari Korhonen (eds.) Technology-driven efficiencies in financial markets.</p>
<b>Scientific monographs (Series E)</b>	<p>E:34 Aaron Mehrotra, Essays on Empirical Macroeconomics. Doctotal thesis.</p> <p>E:35 Katja Taipalus, Bubbles in the Finnish and US equities markets.</p> <p>E:36 Laura Solanko, Essays on Russia's Economic Transition. Doctotal thesis.</p> <p>E:37 Mika Arola, Foreign capital and Finland – Central government's first period of reliance on international financial markets, 1862–1938. Doctotal thesis.</p> <p>E:38 Heli Snellman, Automated Teller Machine network market structure and cash usage.</p>
<b>Discussion Papers</b>	33 research reports by various departments of the Bank of Finland appeared in the Bank of Finland Discussion Papers series.
<b>Statistical publications</b>	<p>Financial markets; published monthly (trilingual edition in Finnish, Swedish and English).</p> <p>Finland's balance of payments – Statistical online bulletin; published monthly (trilingual edition in Finnish, Swedish and English).</p> <p>Finland's balance of payments – Annual online statistics (trilingual edition in Finnish, Swedish and English).</p> <p>Equity investment in Finland's balance of payments; published annually online (trilingual edition in Finnish, Swedish ad English)</p> <p>Direct investment in Finland's balance of payments; published annually online (trilingual edition in Finnish, Swedish and English).</p> <p>Finnish Bond Issues; published annually online (trilingual edition in Finnish, Swedish and English).</p>

**Publications of the Institute for Economies in Transition**

19 studies (in English) appeared in the series BOFIT Discussion Papers.  
6 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).

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## Bank of Finland representation in ECB and EU bodies, 2006

### Bank of Finland and the ECB Governing Council

Erkki Liikanen, Member  
Matti Louekoski, Alternate and Accompanying Person

### Bank of Finland and the ESCB Committees

#### International Relations Committee

Sinikka Salo  
Olli-Pekka Lehmussaari

#### Budget Committee

Antti Vuorinen

#### Accounting and Monetary Income Committee

Esa Ojanen  
Tuula Colliander

#### Legal Committee

Maritta Nieminen  
Eija Brusila

#### Payment and Settlement Systems Committee

Harry Leinonen  
Mauri Lehtinen  
(until 21 March 2006)  
Anna-Maija Tikkanen  
(as of 22 March 2006)

#### Market Operations Committee

Pentti Pikkarainen  
Tuomas Välimäki

#### Banking Supervision Committee

Heikki Koskenkylä

#### Monetary Policy Committee

Antti Suvanto  
Jarmo Kontulainen  
(until 21 August 2006)  
Veli-Matti Mattila  
(as of 22 August 2006)

#### Banknote Committee

Urpo Levo  
(until 19 March 2006)  
Mauri Lehtinen  
(as of 20 March 2006)  
Kari Takala

#### Internal Auditors Committee

Erkki Kurikka  
Pertti Ukkonen

#### Information Technology Committee

Armi Westin  
Raimo Parviainen

#### Statistics Committee

Helka Jokinen  
Harri Kuussaari

#### External Communications Committee

Antti Juusela  
(until 26 November 2006)  
Jouko Marttila  
(as of 27 November 2006)  
Heli-Kirsti Airisniemi

### Bank of Finland and the EU Committees

#### Economic and Financial Committee

Pentti Hakkarainen  
Hannu Mäkeläinen, Alternate

#### Economic Policy Committee

Tapio Peura, Alternate  
(until 14 September 2006)  
Helvi Kinnunen, Alternate  
(as of 15 September 2006)

#### 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>
<b>1</b> <i>Gold and gold receivables</i>	686	686	761
<b>2</b> <i>Claims on non-euro area residents denominated in foreign currency</i>	8,512	8,055	4,803
2.1 <i>Receivables from the IMF</i>	291	275	270
2.2 <i>Balances with banks and security investments, external loans and other external assets</i>	8,221	7,780	4,532
<b>3</b> <i>Claims on euro area residents denominated in foreign currency</i>	972	972	1,036
<b>4</b> <i>Claims on non-euro area residents denominated in euro</i>	0	0	121
4.1 <i>Balances with banks, security investments and loans</i>	0	0	121
4.2 <i>Claims arising from the credit facility under the ERM II</i>	–	–	–
<b>5</b> <i>Lending to euro area credit institutions related to monetary policy operations denominated in euro</i>	2,143	2,605	2,162
5.1 <i>Main refinancing operations</i>	1,600	2,031	1,668
5.2 <i>Longer-term refinancing operations</i>	543	574	493
5.3 <i>Fine-tuning reverse operations</i>	–	–	–
5.4 <i>Structural reverse operations</i>	–	–	–
5.5 <i>Marginal lending facility</i>	–	–	–
5.6 <i>Credits related to margin calls</i>	–	–	–
<b>6</b> <i>Other claims on euro area credit institutions denominated in euro</i>	0	6	80
<b>7</b> <i>Securities of euro area residents denominated in euro</i>	–	–	2,810
<b>8</b> <i>General government debt denominated in euro</i>	–	–	–
<b>9</b> <i>Intra-Eurosystem claims</i>	4,721	5,314	7,321
9.1 <i>Share in ECB capital</i>	74	74	74
9.2 <i>Claims equivalent to the transfer of foreign reserve assets</i>	717	717	717
9.3 <i>Claims related to the issuance of ECB debt certificates</i>	–	–	–
9.4 <i>Claims related to TARGET and correspondent accounts (net)</i>	–	763	2,745
9.5 <i>Claims related to other operational requirements within the Eurosystem</i>	3,930	3,760	3,786
<b>10</b> <i>Other assets</i>	833	833	917
<b>Total assets</b>	<b>17,866</b>	<b>18,471</b>	<b>20,010</b>

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>
761	761	745	745	745	745	749	749	761
4,815	4,720	4,682	4,658	4,674	4,687	4,814	4,810	4,750
270	270	325	324	355	355	317	310	279
4,545	4,450	4,357	4,334	4,319	4,332	4,496	4,500	4,470
1,028	1,096	1,093	1,114	1,138	1,164	1,155	1,100	1,061
443	182	461	316	223	252	258	244	368
443	182	461	316	223	252	258	244	368
-	-	-	-	-	-	-	-	-
1,874	2,330	2,723	2,890	2,417	2,707	1,927	2,125	1,025
1,495	1,950	1,939	2,084	1,612	2,150	1,414	1,611	500
380	380	784	806	806	557	513	513	525
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
92	35	20	73	50	61	47	91	60
2,795	3,105	3,416	3,541	3,951	4,212	4,558	4,829	4,998
-	-	-	-	-	-	-	-	-
5,317	5,459	4,989	4,551	4,608	6,030	4,491	4,521	5,886
74	74	74	74	74	74	74	74	74
717	717	717	717	717	717	717	717	717
-	-	-	-	-	-	-	-	-
716	858	438	-	-	1,539	-	-	1,157
3,810	3,810	3,760	3,760	3,817	3,700	3,700	3,730	3,938
900	936	995	947	971	986	947	976	933
18,025	18,624	19,123	18,836	18,777	20,844	18,947	19,445	19,843



**Table 1.**  
(cont.)

<i>Liabilities</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>
<b>1 Banknotes in circulation</b>	9,250	9,128	9,240
<b>2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</b>	2,145	3,501	4,957
2.1 Current accounts (covering the minimum reserve system)	2,144	3,500	4,957
2.2 Deposit facility	0	1	0
2.3 Fixed-term deposits	–	–	–
2.4 Fine-tuning reverse operations	–	–	–
2.5 Deposits related to margin calls	–	–	–
<b>3 Other liabilities to euro area credit institutions denominated in euro</b>	–	–	–
<b>4 Liabilities to other euro area residents denominated in euro</b>	1	1	1
4.1 General government	–	–	–
4.2 Other liabilities	1	1	1
<b>5 Liabilities to non-euro area residents denominated in euro</b>	1	1	1
<b>6 Liabilities to euro area residents denominated in foreign currency</b>	0	0	0
<b>7 Liabilities to non-euro area residents denominated in foreign currency</b>	499	44	40
7.1 Deposits, balances and other liabilities	499	44	40
7.2 Liabilities arising from the credit facility under the ERM II	–	–	–
<b>8 Counterpart of special drawing rights allocated by the IMF</b>	173	173	170
<b>9 Intra-Eurosystem liabilities</b>	190	–	–
9.1 Liabilities related to promissory notes backing the issuance of ECB debt certificates	–	–	–
9.2 Liabilities related to TARGET and correspondent accounts (net)	190	–	–
9.3 Liabilities related to other operational requirements within the Eurosystem (net)	–	–	–
<b>10 Other liabilities</b>	548	563	350
<b>11 Revaluation account</b>	974	974	919
<b>12 Capital and reserves</b>	4,085	4,085	4,332
12.1 Primary capital	841	841	841
12.2 Reserve fund	689	689	756
12.3 Pension provisions	406	406	442
12.4 Other provisions	2,149	2,149	2,293
<b>Total liabilities</b>	<b>17,866</b>	<b>18,471</b>	<b>20,010</b>

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>
9,434	9,517	9,621	9,730	9,773	9,772	9,835	9,923	10,419
2,898	3,419	3,911	2,744	2,997	5,401	2,302	2,118	3,766
2,894	3,418	3,910	2,743	2,996	5,401	2,301	2,116	3,765
4	1	1	1	1	1	1	2	1
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
0	0	0	14	4	4	0	3	0
-	-	-	-	-	-	-	-	-
0	0	0	14	4	4	0	3	0
1	1	1	1	1	1	1	4	4
0	0	0	0	0	0	0	0	0
42	1	8	0	0	14	67	1	-
42	1	8	0	0	14	67	1	-
-	-	-	-	-	-	-	-	-
170	170	166	166	166	166	166	166	163
-	-	-	754	391	-	975	1,598	-
-	-	-	-	-	-	-	-	-
-	-	-	754	391	-	975	1,598	-
-	-	-	-	-	-	-	-	-
229	265	303	315	334	374	418	450	162
919	919	780	780	780	780	850	850	762
4,332	4,332	4,332	4,332	4,332	4,332	4,332	4,332	4,566
841	841	841	841	841	841	841	841	841
756	756	756	756	756	756	756	756	756
442	442	442	442	442	442	442	442	459
2,293	2,293	2,293	2,293	2,293	2,293	2,293	2,293	2,510
18,025	18,624	19,123	18,836	18,777	20,844	18,947	19,445	19,843

**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
<b>2006</b>								
4 Jan	359,312	316,000	1,665	353	2.25	2.30	2.31	7
11	378,353	309,000	1,549	368	2.25	2.30	2.31	7
18	400,188	324,000	1,600	409	2.25	2.30	2.31	7
25	392,854	316,000	1,600	408	2.25	2.30	2.31	7
1 Feb	387,275	290,000	1,600	389	2.25	2.30	2.31	7
8	421,394	293,500	1,355	384	2.25	2.31	2.31	7
15	414,904	295,000	1,928	394	2.25	2.31	2.31	7
22	402,410	308,000	2,031	393	2.25	2.31	2.32	6
28	370,255	301,500	1,645	346	2.25	2.32	2.34	8
8 Mar	379,105	298,000	1,698	393	2.50	2.56	2.57	7
15	366,649	290,500	1,775	411	2.50	2.56	2.57	7
22	395,001	298,000	1,615	419	2.50	2.56	2.57	7
29	362,447	284,000	1,668	391	2.50	2.57	2.58	7
5 Apr	380,014	280,000	2,100	397	2.50	2.57	2.58	7
12	404,763	288,500	2,100	408	2.50	2.57	2.58	7
19	395,069	298,000	1,992	414	2.50	2.58	2.58	8
27	372,454	291,000	1,495	394	2.50	2.59	2.60	7
4 May	372,849	286,000	2,275	380	2.50	2.59	2.60	6
10	372,864	284,000	2,003	381	2.50	2.58	2.59	7
17	376,580	283,000	2,450	392	2.50	2.58	2.59	7
24	372,247	291,500	1,950	401	2.50	2.58	2.59	7
31	371,542	290,500	1,700	381	2.50	2.58	2.59	7
7 Jun	339,282	286,000	1,500	357	2.50	2.55	2.57	8
15	350,472	292,000	2,000	374	2.75	2.82	2.83	6
21	391,122	316,000	1,452	395	2.75	2.82	2.83	7
28	371,979	328,500	1,939	394	2.75	2.83	2.84	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
5 Jul	376,624	326,000	1,300	381	2.75	2.78	2.81	7
12	367,223	321,500	1,955	377	2.75	2.81	2.82	7
19	388,712	335,000	1,742	399	2.75	2.81	2.82	6
25	359,208	338,000	2,084	335	2.75	2.81	2.82	8
2 Aug	357,627	324,000	1,900	364	2.75	2.76	2.79	7
9	359,131	318,000	1,688	353	3.00	3.05	3.06	6
15	367,386	311,000	1,604	349	3.00	3.05	3.06	8
23	376,014	317,500	1,612	388	3.00	3.05	3.06	7
30	323,482	310,500	1,500	343	3.00	3.00	3.02	7
6 Sep	350,124	307,000	1,868	346	3.00	3.04	3.05	7
13	356,118	300,500	1,765	369	3.00	3.04	3.04	7
20	346,764	311,000	1,700	394	3.00	3.03	3.04	7
27	313,570	313,000	2,150	354	3.00	3.00	3.03	6
3 Oct	342,164	312,000	2,100	342	3.00	3.02	3.04	8
11	367,380	308,000	1,915	378	3.25	3.29	3.30	7
18	378,950	318,500	1,933	398	3.25	3.29	3.30	7
25	378,282	314,000	1,414	387	3.25	3.30	3.31	7
1 Nov	382,135	307,000	1,768	366	3.25	3.31	3.32	7
8	392,532	303,000	1,010	372	3.25	3.31	3.32	7
15	403,488	304,000	1,234	368	3.25	3.31	3.32	7
22	392,901	321,500	1,611	371	3.25	3.30	3.31	7
29	385,957	308,000	1,035	343	3.25	3.30	3.31	7
6 Dec	374,364	329,000	637	333	3.25	3.30	3.31	7
13	383,656	320,000	398	344	3.50	3.55	3.56	7
20	388,525	321,500	142	370	3.50	2.58	3.58	8
28	379,862	330,500	500	373	3.50	3.58	3.68	7

**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
<b>2006</b>							
26 Jan	69,438	40,000	252	168	2.47	2.48	91
23 Feb	63,980	40,000	181	164	2.57	2.57	98
30 Mar	56,708	40,000	61	170	2.73	2.75	91
27 Apr	63,596	40,000	139	188	2.76	2.78	91
1 Jun	59,771	40,000	553	161	2.87	2.88	91
29 Jun	57,185	40,000	92	167	3.00	3.01	91
27 Jul	54,824	40,000	161	158	3.08	3.09	91
31 Aug	51,079	40,000	187	148	3.20	3.21	91
28 Sep	49,801	40,000	210	136	3.30	3.32	84
26 Oct	62,854	40,000	116	159	3.48	3.50	98
30 Nov	72,782	40,000	365	168	3.58	3.58	91
21 Dec	74,150	40,000	44	161	3.66	3.67	98

Source: European Central Bank.

**Table 4.**  
Other tender operations

Date of settlement	Type of operation	Bids, EUR m	Allotment, EUR m	Number of participants	Fixed rate tenders		Variable rate tenders		Running for (...) days
					Fixed rate, %	Marginal rate, %	Weighted average rate, %		
	1	2	3	4	5	6	7	8	
<b>2006</b>									
17 Jan	Variable rate liquidity-absorbing fine-tuning operation	24,900	7,000	28	–	2.27	2.28	1	
7 Feb	Variable rate liquidity-absorbing fine-tuning operation	28,260	6,500	28	–	2.31	2.32	1	
7 Mar	Fixed rate liquidity-absorbing fine-tuning operation	2,600	2,600	3	2.25	–	–	1	
11 Apr	Variable rate liquidity-absorbing fine-tuning operation	47,545	26,000	29	–	2.55	2.58	1	
9 May	Fixed rate liquidity-absorbing fine-tuning operation	15,810	15,810	16	2.50	–	–	1	
14 Jun	Fixed rate liquidity-absorbing fine-tuning operation	4,910	4,910	8	2.50	–	–	1	
11 Jul	Fixed rate liquidity-absorbing fine-tuning operation	9,000	9,000	9	2.75	–	–	1	
8 Aug	Fixed rate liquidity-absorbing fine-tuning operation	19,860	19,860	21	2.75	–	–	1	
5 Sep	Fixed rate liquidity-absorbing fine-tuning operation	13,635	13,635	17	3.00	–	–	1	
10 Oct	Variable rate liquidity-absorbing fine-tuning operation	36,120	9,500	26	–	3.05	3.06	1	
12 Dec	Variable rate liquidity-absorbing fine-tuning operation	21,565	2,500	25	–	3.32	3.33	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
			2 Mar 2006	8 Mar 2006	2.50
			8 Jun 2006	15 Jun 2006	2.75
			3 Aug 2006	9 Aug 2006	3.00
			5 Oct 2006	11 Oct 2006	3.25
			7 Dec 2006	13 Dec 2006	3.50
<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 Oct 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
2 Mar 2006	8 Mar 2006	1.50	2 Mar 2006	8 Mar 2006	3.50
8 Jun 2006	15 Jun 2006	1.75	8 Jun 2006	15 Jun 2006	3.75
3 Aug 2006	9 Aug 2006	2.00	3 Aug 2006	9 Aug 2006	4.00
5 Oct 2006	11 Oct 2006	2.25	5 Oct 2006	11 Oct 2006	4.25
7 Dec 2006	13 Dec 2006	2.50	7 Dec 2006	13 Dec 2006	4.50

Source: European Central Bank.

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

Maintenance period ending in <sup>1</sup>	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
<b>2005</b>												
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
<b>2006</b>												
Jan <sup>1</sup>	317.6	316.4	89.6	0.2	0.2	0.1	0.0	559.2	44.2	-33.5	154.1	713.3
Feb	325.2	310.0	96.2	0.0	0.3	0.1	0.0	548.4	56.6	-28.7	155.4	703.9
Mar	324.7	299.3	104.7	0.1	0.0	0.2	0.1	550.8	53.3	-34.0	158.3	709.2
Apr	327.9	290.1	113.7	0.1	0.7	0.3	0.0	556.4	51.6	-35.2	159.5	716.2
May	337.0	291.3	120.0	0.2	0.0	0.2	0.4	569.1	51.1	-33.5	161.2	730.5
Jun	336.9	287.0	120.0	0.1	0.0	0.1	0.1	572.0	45.5	-37.0	163.3	735.4
Jul	334.3	316.5	120.0	0.2	0.0	0.6	0.3	578.8	67.0	-42.1	166.3	745.7
Aug	327.6	329.7	120.0	0.2	0.0	0.1	0.6	588.2	73.0	-51.5	167.1	755.4
Sep	327.3	314.0	120.0	0.1	0.0	0.1	0.4	588.7	61.4	-55.6	166.4	755.2
Oct	326.7	308.7	120.0	0.1	0.3	0.2	0.0	588.5	59.1	-59.1	167.0	755.7
Nov	327.4	311.9	120.0	0.1	0.0	0.1	0.0	592.8	60.2	-60.6	167.0	759.8
Dec	327.0	313.1	120.0	0.1	0.1	0.1	0.0	598.6	54.9	-66.4	173.2	771.8
<b>2007</b>												
Jan	325.8	322.3	120.0	0.1	0.0	0.2	1.0	619.5	45.0	-72.7	175.3	794.9

<sup>1</sup> Each month refers to the reserve maintenance period ending in the month in question. For example, January 2006 refers to the maintenance period starting on 6 December 2005 and ending on 17 January 2006.  
Source: European Central Bank.

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

Maintenance period ending in <sup>1</sup>	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
<b>2005</b>												
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
<b>2006</b>												
Jan <sup>1</sup>	9,565.9	1,340.6	607.3	0.0	0.0	3.1	0.0	9,226.1	0.0	-113.7	2,398.3	11,627.5
Feb	9,500.8	1,600.0	523.8	0.3	0.0	3.9	0.0	9,188.7	0.0	-114.0	2,546.3	11,738.8
Mar	9,306.9	1,725.9	557.7	0.0	0.0	3.5	0.0	9,127.4	0.0	-42.2	2,501.7	11,632.7
Apr	7,067.4	1,771.3	544.0	0.0	0.0	5.7	0.0	9,214.2	0.0	-2,287.8	2,450.6	11,670.5
May	6,392.8	1,955.4	440.5	0.0	0.0	6.1	0.0	9,390.5	0.0	-3,024.1	2,416.1	11,812.8
Jun	6,410.7	1,909.1	524.8	0.0	0.0	3.4	0.0	9,491.8	0.0	-3,214.8	2,564.2	12,059.4
Jul	6,422.1	1,660.7	767.6	0.0	0.0	8.3	0.0	9,631.1	0.0	-3,364.7	2,575.7	12,215.1
Aug	6,360.7	1,932.6	794.0	0.4	0.0	2.9	0.0	9,730.6	0.0	-3,178.8	2,533.0	12,266.5
Sep	6,393.2	1,597.9	727.3	0.0	0.0	9.4	0.0	9,759.6	0.0	-3,656.4	2,605.8	12,374.8
Oct	6,444.6	1,915.2	483.3	0.9	0.0	4.9	0.0	9,749.4	0.0	-3,455.2	2,544.8	12,299.1
Nov	6,485.9	1,757.4	536.9	0.0	0.0	4.3	0.0	9,832.0	0.0	-3,611.4	2,555.4	12,391.8
Dec	6,496.4	1,105.3	579.3	0.0	0.0	3.5	0.0	9,935.0	0.0	-4,310.6	2,553.0	12,491.5
<b>2007</b>												
Jan	6,473.6	486.3	563.1	0.0	0.0	3.4	0.0	10,190.8	0.0	-3,532.0	2,621.8	12,816.1

<sup>1</sup> Each month refers to the reserve maintenance period ending in the month in question. For example, January 2006 refers to the maintenance period starting on 6 December 2005 and ending on 17 January 2006.  
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
<b>2005</b>						
Dec	14,040.7	7,409.5	499.2	1,753.5	1,174.9	3,203.6
<b>2006</b>						
Jan	14,165.7	7,451.5	517.8	1,766.1	1,215.4	3,215.0
Feb	14,353.6	7,511.1	534.2	1,804.6	1,241.7	3,262.0
Mar	14,500.2	7,604.7	550.2	1,825.1	1,241.5	3,278.8
Apr	14,649.5	7,740.4	563.8	1,833.0	1,231.5	3,280.7
May	14,769.0	7,765.7	583.5	1,843.6	1,264.4	3,311.7
Jun	14,712.2	7,764.5	550.9	1,877.1	1,174.4	3,345.3
Jul	14,797.1	7,787.3	553.4	1,891.9	1,192.2	3,372.4
Aug	14,850.7	7,760.2	576.3	1,906.6	1,234.7	3,372.8
Sep	15,261.0	8,064.9	584.0	1,931.6	1,269.7	3,410.8
Oct	15,421.0	8,133.9	615.2	1,965.1	1,264.5	3,442.4
Nov	15,543.0	8,199.7	613.2	1,973.0	1,285.9	3,471.2
Dec	15,648.3	8,411.7	601.9	1,968.4	1,180.3	3,486.1

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
<b>2005</b>					
Dec	152.0	153.0	1.0	0.0	2.07
<b>2006</b>					
Jan	153.3	154.1	0.8	0.0	2.29
Feb	154.7	155.4	0.7	0.0	2.30
Mar	157.7	158.3	0.6	0.0	2.31
Apr	158.9	159.5	0.6	0.0	2.56
May	160.4	161.2	0.8	0.0	2.58
Jun	162.6	163.3	0.7	0.0	2.57
Jul	165.6	166.3	0.8	0.0	2.81
Aug	166.5	167.1	0.6	0.0	2.80
Sep	165.8	166.4	0.6	0.0	3.04
Oct	166.3	167.0	0.7	0.0	3.03
Nov	166.2	167.0	0.8	0.0	3.30
Dec	172.5	173.2	0.7	0.0	3.30
<b>2007</b>					
Jan	174.3	175.3	1.0	0.0	3.57

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
<b>2005</b>						
Dec	151,533	107,896	18,868	5,985	10	18,774
<b>2006</b>						
Jan	148,490	104,363	19,894	5,543	0	18,690
Feb	147,740	102,880	19,647	5,682	25	19,505
Mar	157,269	108,705	21,004	5,622	91	21,846
Apr	158,338	108,606	21,824	5,697	51	22,161
May	156,108	106,103	22,214	5,657	33	22,101
Jun	160,755	111,040	20,890	5,653	32	23,141
Jul	157,683	108,652	20,198	5,648	32	23,153
Aug	158,066	108,451	20,940	5,621	33	23,021
Sep	159,710	109,595	19,682	5,765	34	24,633
Oct	164,215	111,864	20,866	5,773	33	25,679
Nov	161,919	109,745	19,971	5,664	30	26,510
Dec	166,361	114,007	19,720	5,672	336	26,627

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
<b>2005</b>					
Dec	2,305	2,305	0.3	0.0	2.07
<b>2006</b>					
Jan	2,397	2,398	0.8	0.0	2.29
Feb	2,545	2,546	0.9	0.0	2.30
Mar	2,501	2,502	1.1	0.0	2.31
Apr	2,450	2,451	0.2	0.0	2.56
May	2,416	2,416	0.2	0.0	2.58
Jun	2,559	2,564	4.4	0.0	2.57
Jul	2,574	2,576	1.9	0.0	2.81
Aug	2,532	2,533	1.4	0.0	2.80
Sep	2,604	2,606	1.8	0.0	3.04
Oct	2,542	2,545	2.6	0.0	3.03
Nov	2,553	2,555	1.6	0.0	3.30
Dec	2,551	2,553	1.9	0.0	3.30
<b>2007</b>					
Jan	2,620	2,622	1.6	0.0	3.57

Source: Bank of Finland.

**Table 9.**  
Euro area monetary aggregate M3 and corresponding items of Finnish monetary financial institutions<sup>1</sup>

	Euro area monetary aggregate M3			Liabilities of Finnish monetary financial institutions included in M3 <sup>2</sup>		
	Stock <sup>3</sup> , EUR bn	12-month change <sup>3,4</sup> , %	3-month mov avg of 12-month change <sup>3,4</sup> , %	Stock, EUR bn	12-month change <sup>4</sup> , %	3-month mov avg of 12-month change <sup>4</sup> , %
	1	2	3	4	5	6
2002	5,767.5	6.9	7.1	73.4	6.6	5.5
2003	6,142.1	7.1	7.0	83.1	11.0	10.2
2004	6,534.6	6.6	6.5	88.2	6.3	6.4
2005	7,069.1	7.3	7.5	95.7	8.2	7.8
2006	7,719.6	9.8	9.7	103.2	8.2	8.7
<b>2006</b>						
Jan	7,117.5	7.7	7.6	95.8	7.4	7.4
Feb	7,162.0	7.9	8.0	95.1	6.6	7.7
Mar	7,222.3	8.5	8.4	98.4	9.1	6.9
Apr	7,283.7	8.7	8.6	99.6	5.1	7.4
May	7,318.8	8.7	8.6	99.0	8.0	7.7
Jun	7,362.9	8.4	8.3	100.4	10.0	9.5
Jul	7,391.7	7.8	8.1	100.3	10.6	10.6
Aug	7,474.4	8.2	8.1	100.9	11.2	10.4
Sep	7,568.5	8.5	8.4	100.7	9.3	9.9
Oct	7,596.0	8.5	8.8	101.5	9.1	9.0
Nov	7,652.0	9.3	9.2	101.1	8.5	8.6
Dec	7,719.6	9.8	9.7	103.2	8.2	8.7

<sup>1</sup> Excl. negotiable instruments held by central governments and non-euro area residents.  
<sup>2</sup> Excl. notes and coins held by the public.  
<sup>3</sup> Seasonally and calendar effect adjusted.  
<sup>4</sup> Calculated from monthly differences in stocks adjusted for reclassifications, other revaluations, exchange rate variations and any other changes which do not arise from transactions.  
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
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
2006	2.84	2.945	3.018	3.083	3.238	3.353	3.440	3.59	3.78
<b>2006</b>									
Jan	2.33	2.388	2.444	2.512	2.651	2.749	2.833	3.10	3.28
Feb	2.35	2.459	2.547	2.600	2.725	2.828	2.914	3.24	3.44
Mar	2.52	2.633	2.669	2.723	2.872	3.000	3.105	3.44	3.62
Apr	2.63	2.649	2.712	2.794	2.956	3.107	3.221	3.66	3.88
May	2.58	2.693	2.821	2.889	3.058	3.199	3.308	3.69	3.94
Jun	2.70	2.869	2.925	2.986	3.158	3.293	3.401	3.72	4.02
Jul	2.81	2.939	3.030	3.102	3.288	3.426	3.539	3.78	4.06
Aug	2.97	3.094	3.148	3.226	3.410	3.527	3.615	3.69	3.94
Sep	3.04	3.157	3.265	3.335	3.527	3.641	3.715	3.64	3.80
Oct	3.28	3.350	3.405	3.502	3.645	3.739	3.799	3.70	3.84
Nov	3.33	3.421	3.548	3.597	3.728	3.811	3.864	3.68	3.75
Dec	3.52	3.643	3.654	3.687	3.793	3.873	3.928	3.77	3.82

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 <sup>1</sup>	Narrow plus euro area indicator <sup>1</sup>	Broad indicator <sup>1</sup>	Effective exchange rate of the euro, narrow group of countries <sup>1</sup>
	January–March 1999 = 100			
	1	2	3	4
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
2006	103.7	101.9	102.8	104.7
<b>2006</b>				
Jan	102.2	101.2	102.0	102.6
Feb	101.7	100.9	101.6	101.9
Mar	102.3	101.2	102.0	102.6
Apr	103.1	101.6	102.4	103.8
May	103.9	102.0	103.0	105.0
Jun	103.8	102.0	103.0	105.0
Jul	104.1	102.1	103.1	105.4
Aug	104.3	102.2	103.2	105.8
Sep	104.3	102.3	103.2	105.5
Oct	104.0	102.1	102.9	105.1
Nov	104.5	102.3	103.2	106.1
Dec	105.5	102.8	103.7	107.6

<sup>1</sup> 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
2002	2.2	2.0
2003	2.1	1.3
2004	2.1	0.1
2005	2.2	0.8
2006	2.2	1.3
<b>2006</b>		
Jan	2.4	1.2
Feb	2.3	1.3
Mar	2.2	1.2
Apr	2.5	1.5
May	2.5	1.7
Jun	2.5	1.5
Jul	2.4	1.4
Aug	2.3	1.3
Sep	1.7	0.8
Oct	1.6	0.9
Nov	1.9	1.3
Dec	1.9	1.2

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	
	2005	2006	2005	2006
	1	2	3	4
Belgium	-2.3	-0.2	93.2	89.4
Germany	-3.2	-2.3	67.9	67.8
Greece	-5.2	-2.6	107.5	104.8
Spain	1.1	1.5	43.1	39.7
France	-2.9	-2.7	66.6	64.7
Ireland	1.1	1.2	27.4	25.8
Italy	-4.1	-4.7	106.6	107.2
Luxembourg	-1.0	-1.5	6.0	7.4
Netherlands	-0.3	0.0	52.7	50.5
Austria	-1.5	-1.3	63.4	62.1
Portugal	-6.0	-4.6	64.1	67.4
Slovenia	-1.4	-1.6	28.0	28.4
Finland	2.7	3.9	41.4	39.1
Euro area	-2.4	-2.0	70.6	69.4

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***
							<i>1 euro =</i>
				<i>Lithuanian litas (LTL)</i>	+	15%	3.97072*
					=	15%	3.4528**
					-		2.93488***
							<i>1 euro =</i>
				<i>Slovenian tolar (SIT)</i>	+	15%	275.586*
					=	15%	239.64**
					-		203.694***
<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%	38.4550**
	-	15%	0.597383***		-	15%	32.6868***
			<i>1 euro =</i>				
<i>Cyprus pound (CYP)</i>	+		0.673065*				
	=	15%	0.585274**				
	-	15%	0.497483***				
			<i>1 euro =</i>				
<i>Maltese lira (MTL)</i>	+		0.493695*				
	=	15%	0.4293**				
	-	15%	0.364905***				

\* 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>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
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
2006	1.1826	1.2556	1.3331	137.50	146.02	156.93
<b>2006</b>						
<i>Jan</i>	1.1826	1.2103	1.2294	137.50	139.82	142.19
<i>Feb</i>	1.1852	1.1938	1.2092	137.77	140.77	143.05
<i>Mar</i>	1.1913	1.2020	1.2185	138.56	140.96	142.42
<i>Apr</i>	1.2063	1.2271	1.2537	142.11	143.59	145.27
<i>May</i>	1.2592	1.2770	1.2914	140.88	142.70	144.51
<i>Jun</i>	1.2502	1.2650	1.2958	143.89	145.11	146.42
<i>Jul</i>	1.2482	1.2684	1.2794	145.17	146.70	147.68
<i>Aug</i>	1.2718	1.2811	1.2919	146.42	148.53	150.56
<i>Sep</i>	1.2654	1.2727	1.2852	147.83	148.99	150.30
<i>Oct</i>	1.2515	1.2611	1.2737	148.67	149.65	150.40
<i>Nov</i>	1.2702	1.2881	1.3200	149.24	151.11	153.29
<i>Dec</i>	1.3095	1.3213	1.3331	152.66	154.82	156.93
	<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>
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
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
2006	0.66800	0.68173	0.7006	8.9661	9.2544	9.4733
<b>2006</b>						
<i>Jan</i>	0.68140	0.68598	0.68880	9.2265	9.3111	9.3977
<i>Feb</i>	0.67880	0.68297	0.68810	9.2352	9.3414	9.4490
<i>Mar</i>	0.68060	0.68935	0.69640	9.3340	9.4017	9.4733
<i>Apr</i>	0.69030	0.69463	0.70060	9.2882	9.3346	9.4195
<i>May</i>	0.67755	0.68330	0.68865	9.2726	9.3310	9.3985
<i>Jun</i>	0.68175	0.68666	0.69210	9.1893	9.2349	9.2809
<i>Jul</i>	0.68160	0.68782	0.69445	9.1625	9.2170	9.2655
<i>Aug</i>	0.67365	0.67669	0.68370	9.1655	9.2098	9.2667
<i>Sep</i>	0.66950	0.67511	0.68160	9.1740	9.2665	9.3285
<i>Oct</i>	0.66800	0.67254	0.67790	9.2002	9.2533	9.3317
<i>Nov</i>	0.66845	0.67397	0.67840	9.0375	9.1008	9.2017
<i>Dec</i>	0.66990	0.67286	0.67760	8.9661	9.0377	9.0757

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
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
2006	0.57578	28.342	7.4591	15.6466	264.26	3.4528	0.6962	0.4293
<b>2006</b>								
<i>Jan</i>	0.57376	28.722	7.4613	15.6466	250.71	3.4528	0.6960	0.4293
<i>Feb</i>	0.57436	28.407	7.4641	15.6466	251.57	3.4528	0.6961	0.4293
<i>Mar</i>	0.57530	28.650	7.4612	15.6466	260.85	3.4528	0.6961	0.4293
<i>Apr</i>	0.57613	28.501	7.4618	15.6466	265.47	3.4528	0.6960	0.4293
<i>May</i>	0.57510	28.271	7.4565	15.6466	262.37	3.4528	0.6960	0.4293
<i>Jun</i>	0.57504	28.386	7.4566	15.6466	272.39	3.4528	0.6960	0.4293
<i>Jul</i>	0.57500	28.448	7.4602	15.6466	277.49	3.4528	0.6960	0.4293
<i>Aug</i>	0.57585	28.194	7.4609	15.6466	274.41	3.4528	0.6960	0.4293
<i>Sep</i>	0.57650	28.383	7.4601	15.6466	274.42	3.4528	0.6961	0.4293
<i>Oct</i>	0.57672	28.290	7.4555	15.6466	267.10	3.4528	0.6961	0.4293
<i>Nov</i>	0.57770	28.029	7.4564	15.6466	258.84	3.4528	0.6970	0.4293
<i>Dec</i>	0.57811	27.778	7.4549	15.6466	253.97	3.4528	0.6976	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
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
2006	..	34.1109	1.8089	1.6668	1.4237	10.0096	9.7545	11512.37
<b>2006</b>								
<i>Jan</i>	3.6449	34.3190	1.6152	1.6152	1.4025	9.7630	9.3851	11472.89
<i>Feb</i>	3.5393	33.6802	1.5830	1.6102	1.3723	9.6117	9.2640	11048.98
<i>Mar</i>	3.5074	33.4973	1.6071	1.6540	1.3919	9.6581	9.3270	11009.15
<i>Apr</i>	3.4892	33.7987	1.6381	1.6662	1.4052	9.8361	9.5182	10956.51
<i>May</i>	3.5072	34.5386	1.8400	1.6715	1.4173	10.2353	9.9019	11536.41
<i>Jun</i>	3.5501	34.1587	2.0258	1.7104	1.4089	10.1285	9.8210	11850.97
<i>Jul</i>	3.5715	34.1393	1.9712	1.6869	1.4303	10.1347	9.8600	11582.39
<i>Aug</i>	3.5271	34.2755	1.8802	1.6788	1.4338	10.2141	9.9627	11649.96
<i>Sep</i>	3.5274	34.0549	1.8870	1.6839	1.4203	10.0971	9.9051	11646.15
<i>Oct</i>	3.5191	33.8849	1.8654	1.6733	1.4235	9.9651	9.8189	11569.46
<i>Nov</i>	3.4955	34.2602	1.8786	1.6684	1.4635	10.1286	10.0246	11772.03
<i>Dec</i>	3.4137	34.7316	1.8920	1.6814	1.5212	10.3356	10.2704	12003.18

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
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	..
2006	3.8959	239.5961	37.234	1.5729	87.76	8.0472	1.9558	7.3247
<b>2006</b>								
<i>Jan</i>	3.8201	239.4868	37.492	1.5494	74.58	8.0366	1.9558	7.3774
<i>Feb</i>	3.7941	239.4850	37.390	1.5580	76.57	8.0593	1.9558	7.3191
<i>Mar</i>	3.8837	239.5504	37.478	1.5691	83.74	7.9775	1.9558	7.3300
<i>Apr</i>	3.9177	239.6044	37.374	1.5748	91.94	7.8413	1.9558	7.3111
<i>May</i>	3.8954	239.6300	37.578	1.5564	91.69	7.7988	1.9558	7.2731
<i>Jun</i>	4.0261	239.6468	38.062	1.5601	94.38	7.8559	1.9558	7.2575
<i>Jul</i>	3.9962	239.6467	38.377	1.5687	94.33	7.9386	1.9558	7.2509
<i>Aug</i>	3.9046	239.6213	37.669	1.5775	90.08	7.9920	1.9558	7.2893
<i>Sep</i>	3.9649	239.5905	37.497	1.5841	89.31	8.2572	1.9558	7.3945
<i>Oct</i>	3.9014	239.5955	36.804	1.5898	86.29	8.3960	1.9558	7.3913
<i>Nov</i>	3.8248	239.6395	35.884	1.5922	89.29	8.2446	1.9558	7.3482
<i>Dec</i>	3.8125	239.6595	34.967	1.5969	91.59	8.1575	1.9558	7.3564
	<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
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
2006	1198.58	4.6044	1.9373	64.379	1.9941	47.594	8.5312	0.853046
<b>2006</b>								
<i>Jan</i>	1190.02	4.5425	1.7616	63.590	1.9761	47.965	7.3811	0.836439
<i>Feb</i>	1157.96	4.4487	1.7741	61.776	1.9448	47.014	7.3079	0.831579
<i>Mar</i>	1171.84	4.4514	1.8956	61.499	1.9486	46.836	7.5171	0.835265
<i>Apr</i>	1168.67	4.4918	1.9733	63.077	1.9643	46.619	7.4656	0.845230
<i>May</i>	1202.04	4.6107	2.0240	66.622	2.0133	48.534	8.0859	0.857392
<i>Jun</i>	1207.64	4.6364	2.0462	67.259	2.0129	48.541	8.8431	0.855854
<i>Jul</i>	1205.89	4.6527	2.0551	66.291	2.0083	48.197	8.9892	0.858334
<i>Aug</i>	1231.42	4.7078	2.0220	65.712	2.0185	48.192	8.9034	0.861542
<i>Sep</i>	1212.64	4.6724	1.9453	64.029	2.0101	47.640	9.4553	0.859027
<i>Oct</i>	1202.31	4.6390	1.9066	63.022	1.9905	47.068	9.6481	0.855862
<i>Nov</i>	1205.01	4.6927	1.9263	64.186	2.0049	47.049	9.3616	0.864672
<i>Dec</i>	1222.34	4.6909	1.9094	65.274	2.0354	47.224	9.3092	0.876058



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

	2006				2006
	I	II	III	IV	
<b>Banknotes put into circulation by the Bank of Finland</b>					
500 euro	276.0	340.1	350.0	372.7	1,338.8
200 "	74.6	84.7	83.0	89.0	331.3
100 "	147.6	169.1	162.7	187.1	666.5
50 "	1,124.8	1,340.5	1,359.0	1,396.0	5,220.3
20 "	1,192.1	1,460.9	1,424.1	1,450.1	5,527.2
10 "	99.8	116.5	104.3	110.8	431.4
5 "	62.7	72.5	69.3	69.0	273.5
Total number, millions	107.0	128.8	125.4	128.3	489.6
Withdrawn banknotes, number in millions	20.15	19.97	23.23	23.50	86.8
<b>Coins put into circulation by the Bank of Finland</b>					
<b>Ordinary coins</b>					
2 euro	10.3	16.2	13.9	17.6	58.0
1 "	3.4	6.7	4.0	5.9	20.0
0.50 "	1.8	3.4	2.5	2.9	10.6
0.20 "	1.5	2.3	1.8	2.1	7.7
0.10 "	0.5	1.0	0.8	1.0	3.3
0.05 "	0.3	0.5	0.5	0.5	1.7
0.02 "	0.0	0.0	0.0	0.0	0.0
0.01 "	0.0	0.0	0.0	0.0	0.0
<b>Commemorative coins</b>					
100 euro					0.0
50 "				0.4	0.4
20 "					0.0
10 "	0.4	0.2			0.6
5 "		0.3		0.3	0.6
Total	18.1	30.5	23.4	30.8	102.8
Withdrawn coins, number in millions					
Ordinary coins	-	-	-	-	-
Commemorative coins	-	-	-	-	-

Source: Bank of Finland.

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

	Euro banknotes				Markka banknotes	
	2003	2004	2005	2006	2001	
500 euro	1.8	2.1	1.6	1.5	1,000 markka	7.3
200 "	1.8	1.7	1.3	1.2	500 "	14.9
100 "	6.7	5.7	5.4	5.2	100 "	548.4
50 "	84.4	74.6	76.5	79.6	50 "	51.3
20 "	290.5	222.4	179.3	180.7	20 "	80.7
10 "	30.3	37.4	32.2	31.1	10 "	-
5 "	31.0	45.2	39.6	38.8		
Total	446.5	389.2	335.9	338.1	Total	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
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
2006	23	152.4	1,658.8	159.4	2,044.0	212.4	2,043.5	371.8	4,087.6	524.3	5,746.4
<b>2006</b>											
Jan	17	12.0	123.6	12.1	156.8	15.0	155.7	27.2	312.5	39.2	436.0
Feb	17	11.1	119.4	11.3	145.1	14.1	144.0	25.4	289.1	36.5	408.5
Mar	18	13.1	141.8	16.4	168.2	18.1	171.4	34.5	339.6	47.6	481.5
Apr	18	11.2	137.2	12.0	147.7	15.1	145.7	27.1	293.3	38.3	430.5
May	18	12.9	148.2	13.6	161.2	18.7	161.0	32.3	322.2	45.2	470.4
Jun	18	12.6	120.2	15.4	149.5	18.6	149.4	34.0	298.9	46.7	419.0
Jul	18	12.2	140.7	11.2	154.3	16.4	154.0	27.6	308.3	39.8	449.0
Aug	18	13.0	134.5	12.2	146.0	16.6	148.2	28.8	294.2	41.8	428.7
Sep	18	12.3	128.4	15.1	162.9	17.6	162.1	32.7	325.0	45.0	453.4
Oct	19	13.7	154.7	13.1	195.8	18.6	194.3	31.7	390.0	45.4	544.7
Nov	23	14.3	164.3	13.7	214.0	21.0	215.5	34.7	429.6	49.0	593.9
Dec	23	14.0	145.8	13.3	242.6	22.5	242.2	35.9	484.9	49.9	630.7

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, %<sup>1</sup></i>	<i>End-of-day balances, EUR m</i>
	<i>1</i>	<i>2</i>	<i>3</i>
2002	3,669	50	2,011
2003	4,476	63	1,951
2004	4,624	63	2,179
2005	4,385	65	2,269
2006	4,622	57	2,518
<b>2006</b>			
<i>Jan</i>	4,233	64	2,569
<i>Feb</i>	4,233	57	2,506
<i>Mar</i>	4,236	62	2,440
<i>Apr</i>	4,487	61	2,452
<i>May</i>	4,487	57	2,675
<i>Jun</i>	4,568	51	2,325
<i>Jul</i>	4,685	50	2,652
<i>Aug</i>	4,676	50	2,686
<i>Sep</i>	4,718	60	2,410
<i>Oct</i>	4,896	62	2,573
<i>Nov</i>	5,003	55	2,553
<i>Dec</i>	5,242	55	2,380

<sup>1</sup> 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>
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
2006	343.5	12.9	227.6	202.8	571.1	215.7
<b>2006</b>						
<i>Jan</i>	26.0	1.0	18.8	16.6	44.8	17.6
<i>Feb</i>	24.2	0.9	17.8	15.0	41.9	15.8
<i>Mar</i>	27.5	1.1	19.6	17.3	47.1	18.5
<i>Apr</i>	25.7	1.0	17.1	15.3	42.8	16.3
<i>May</i>	31.6	1.2	20.0	16.8	51.5	18.0
<i>Jun</i>	29.7	1.1	19.5	18.2	49.2	19.3
<i>Jul</i>	31.7	1.2	17.3	16.1	49.0	17.2
<i>Aug</i>	29.8	1.1	18.4	16.5	48.3	17.5
<i>Sep</i>	27.0	1.0	18.5	16.8	45.4	17.8
<i>Oct</i>	30.1	1.1	20.3	18.2	50.4	19.3
<i>Nov</i>	28.4	1.1	20.4	17.7	48.9	18.7
<i>Dec</i>	31.8	1.2	19.9	18.4	51.7	19.6

Source: Bank of Finland.

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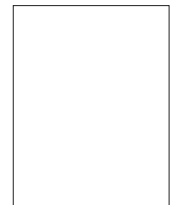
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