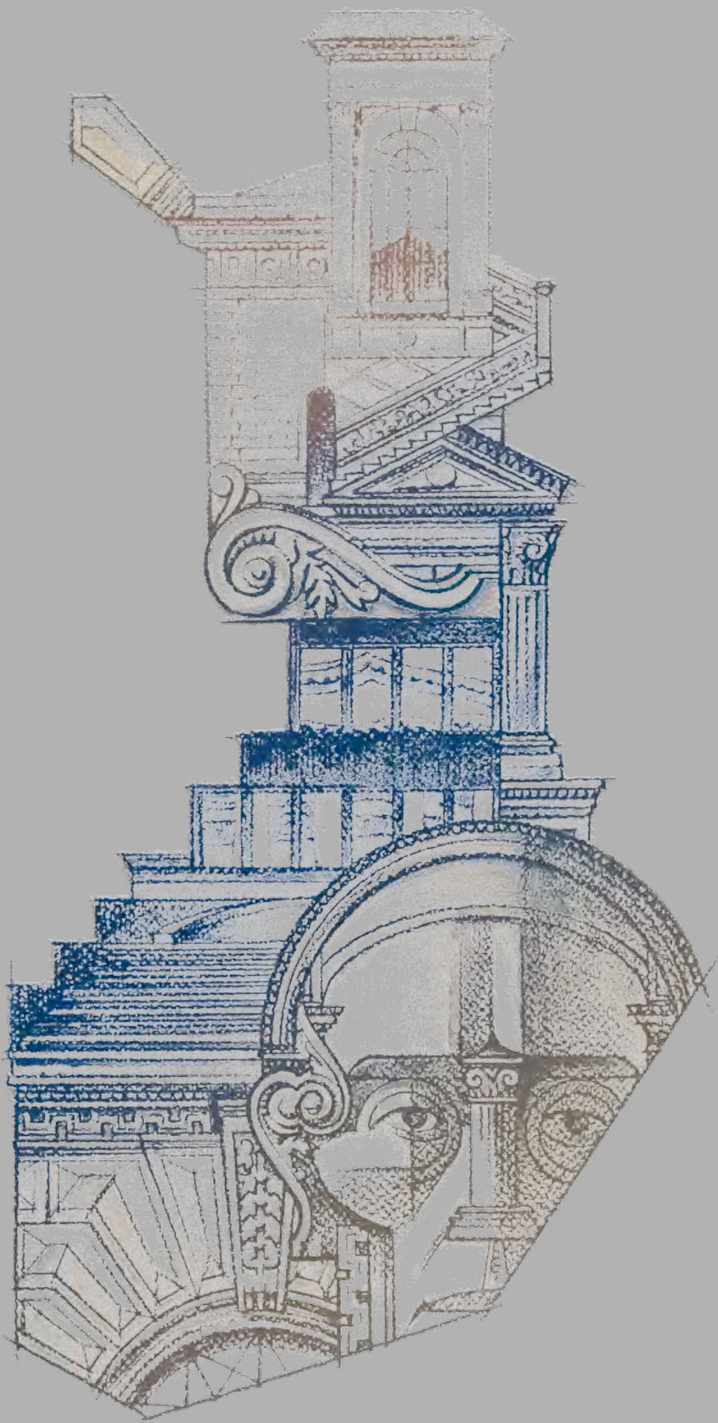
Bank of Finland Annual Report 2012

SUOMEN PANKKI · FINLANDS BANK

EUROJÄRJESTELMÄ
EUROSYSTEMET



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Front cover Ville Tietäväinen's work *Finland's building*.

Bank of Finland

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Photo: Peter Mickelsson.

Foreword

With the financial crisis still dragging on, the Bank of Finland has, pursuing its strategy, operated as an active and constructive member of the Eurosystem. The Bank has also analysed problems in the Finnish national economy, seeking and putting forward solutions to these.

We have been facing the most severe economic crisis of our generation both in Europe and worldwide. Central banks must do everything in their power to limit the adverse effects of this crisis on the economy and employment, while at the same paving the way for sustainable growth. Central banks must be an integral element of the solution, not part of the problem. Doing this requires paying full respect to the central banks' mandate while seeking for new solutions.

Euro area financial markets calmed down significantly in the latter half of the year following the European Central Bank's announcement of its readiness to operate in the Member States' sovereign bond markets, with a view to safeguarding an appropriate monetary policy transmission and the singleness of the monetary policy throughout the euro area. With strict conditionality attached to the commencement of the bond purchases, the purchases were linked to the macroeconomic adjustment programmes of the countries concerned. The readiness announced by the ECB has had a positive impact on the market situation.

During the year, progress was also made in the work on strengthening European financial market structures, as EU Member States reached political agreement on a key component of a banking union – single banking supervision for the euro area. A decision was made to establish a single banking supervisory authority in connection with the European Central Bank. In parallel with this, it is important to move ahead in the area of crisis management and crisis resolution.

Despite discernible stabilisation in the financial markets, developments in Europe's real economy were disappointing. Finland, too, saw its economic prospects weaken in the course of the year, and this has also worsened the outlook for public finances. At the same time, the perspectives for exports and external balance have remained subdued, with a deteriorating trend in our competitiveness.

Weaknesses in the external balance and competitiveness of the Finnish economy and in government finances provide a serious alarm signal of an erosion of Finland's strengths. This makes it necessary to continue structural reforms that improve the economy's growth potential and fiscal sustainability. Reforms related to the labour market have a pivotal role to play in this context. In addition, the international competitiveness of Finnish output must be restored. Wage formation is here of major concern.

In spring 2012, the Government made important decisions on fiscal consolidation. The weakening growth outlook, however, has changed the situation. More decisions are needed to bring the growth of the government debt to GDP ratio to a halt.

The age structure of the population is one of the main reasons for the sustainability gap in public finances. Resolving the problem requires longer working careers. Finnish people can expect to have an increasing number of years of good health, and part of these years should be spent in working life. Simultaneously, service productivity needs to undergo improvements.

For the Bank of Finland, the past year was successful. The Bank has an influential position both at home and abroad, and the Bank's capital strength and operational efficiency have evolved favourably at the same time. Thanks for this go to the Bank's staff members, who have achieved excellent results in a constantly challenging environment.

Erkki Liikanen
21 February 2013

Bank of Finland

The Bank of Finland is Finland's national central bank and a member of the European System of Central Banks (ESCB). The Bank of Finland is an independent institution governed by public law operating under the guarantee and care of the Parliament. The superintendence of the Bank's activities is undertaken by the nine-member Parliamentary Supervisory Council, appointed by the Finnish Parliament. The Bank's status is defined in the Finnish constitution, and its activities are regulated by the Statute of the European System of Central Banks and the Act on the Bank of Finland.

The core functions of the Bank of Finland include participation in monetary policy preparation, monitoring of financial market stability, operational central bank tasks and the maintenance of a secure and efficient currency supply in Finland.

Although the monetary policy decisions of the Eurosystem are centralised in the Governing Council of the European Central Bank (ECB), responsibility for their implementation is at national central bank level. The Governor of the Bank of Finland is a member of the ECB's Governing Council. Experts from the Bank of Finland monitor and assess developments in the financial and real economy, thereby supporting the Governor's participation in the work of the Governing Council.

The Bank of Finland implements the Eurosystem's monetary policy in Finland by conducting monetary policy operations with Finnish counterparties, mainly banks. The Bank of Finland safeguards the liquidity of the domestic financial system and transmits interbank payments. The Bank of Finland's banking operations also include the investment of its own financial assets, such as the foreign reserve portfolio, productively and prudently.

In its function of oversight of the financial markets, the Bank of Finland is responsible for the macroeconomic perspective while supervision of individual market operators is undertaken by the Financial Supervisory Authority (FIN-FSA), functioning as an independent authority in connection with the Bank of Finland. Both the Governor of the Bank of Finland and the Director General of the Financial Supervisory Authority belong to the European Systemic Risk Board (ESRB), operating in conjunction with the European Central Bank, in which Governor Liikanen is a voting member of the General Board.

In 2012, the Board of the Bank of Finland was composed of the Governor Erkki Liikanen, Deputy Governor Pentti Hakkarainen and Member of the Board Seppo Honkapohja. At the end of the review year, a total of 406 staff were employed in the 6 departments of the Bank's head office and regional offices. Following restructuring of Finland's currency distribution, the Bank's regional offices in Kuopio and Tampere were closed in 2012 and currency distribution was concentrated in the Vantaa and Oulu regional offices.

The Financial Supervisory Authority has its own Board, chaired by the Deputy Governor of the Bank of Finland, Pentti Hakkarainen. At the end of 2012, the FIN-FSA employed a total of 207 staff. The FIN-FSA produces its own annual report on its activities.

Photo: Peter Mickelsson.

The Board of the Bank of Finland.
From the left: Seppo Honkapohja, Member of the Board, Pentti Hakkarainen, Deputy Governor, and Erkki Liikanen, Governor.

They are standing in front of a new addition to the Bank's art collection, 'Marian istuin' (Throne of Virgin Mary) by Ilkka Väätti, acquired in 2012.

Photo: Peter Mickelsson.

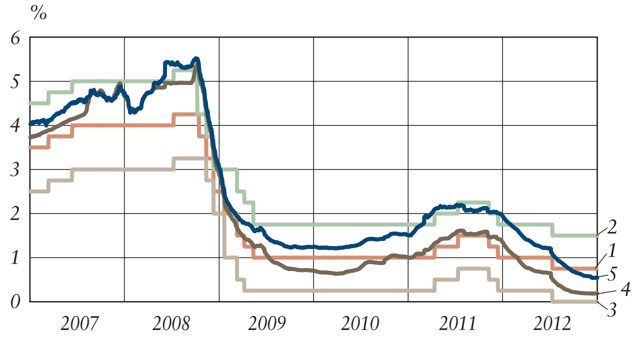
Bank of Finland activities 2012

Monetary Policy

The ECB's monetary policy and its preparation

Non-standard monetary policy measures ensured stability in the euro area
Over the course of 2012, the Governing Council of the ECB expanded its non-standard monetary policy measures used for supporting the lending capacity of the banking sector, which had weakened due to the debt crisis, and transmission of monetary policy in the euro area. In line with the Governing Council's decisions of December 2011, two special longer-term refinancing operations (LTROs) were conducted: the first in December 2011 and the second in February 2012. Another significant monetary policy decision was taken in September 2012 when the Governing Council announced on Outright Monetary Transactions (OMTs) (see Box 1, p. 13). The announcement on OMTs considerably eased market fears about the dissolution of the euro area, alleviating tensions in the financial markets.

Chart 1.
Monetary policy transmission mechanism



1. *Eurosystem interest rate on the main refinancing operations*
2. *Eurosystem interest rate on the marginal lending facility*
3. *Eurosystem interest rate on the deposit facility*
4. *3-month Euribor*
5. *12-month Euribor*

Sources: European Central Bank and Reuters.

The Eurosystem did not conduct OMTs purchases of sovereign bonds in 2012. The ECB Governing Council has repeatedly emphasised that all the non-standard monetary policy measures are, by construction, temporary in nature. In addition to non-standard measures, the Governing Council lowered the key ECB interest rate from 1% to 0.75% in July (Chart 1). Monetary policy was eased because inflation slowed over the year and the debt crisis weakened the economic outlook for the euro area and reduced inflationary pressures.

As measured by the Harmonised Index of Consumer Prices (HICP), inflation fell from 2.7% at the beginning of the year to 2.2% in December 2012 (Chart 2). The average inflation rate was 2.5% in 2012, compared to 2.7% in 2011. Inflation expectations remained well anchored throughout 2012.

The Governing Council's assessment of the economic outlook deteriorated over the year. In May the Governing Council still expected economic activity to recover gradually over the course of 2012, but at its meeting in August the Governing Council considered that the euro area economy would only recover very gradually, with growth momentum being dampened by a number of factors. Such factors were tensions in some euro area sovereign debt markets and their impact on financing conditions, the process of balance sheet adjustment in the financial and non-financial sectors, high unemployment and global slowdown.

In 2012 the ECB Governing Council was particularly concerned about differentiation of country-specific developments and uneven transmission of monetary policy within the euro area. Problems in Spain, in particular, escalated in 2012, leading the country to request external help to recapitalise its banking sector. The Governing Council's measures played an important role in ensuring that destructive scenarios did not materialise and the differentiation in country-specific developments seemed to level off in the latter part of 2012.

The balance sheet of the Eurosystem increased in 2012 by about 3 percentage points relative to GDP. Balance sheet growth was particularly high in the first half of the year due to long-term refinancing operations. The halt in the balance sheet growth in the latter part of the year shows that the Eurosystem's action and other policy measures in the euro area to stabilise the situation were successful.

LTROs improved banks' funding situation, financing conditions and confidence in the first half of 2012

At the end of 2011, the Governing Council had lowered the key ECB interest rates by 0.25 percentage point in November and December and announced new measures that were partly implemented in the early part of 2012. Among the most important new measures were three-year LTROs conducted in December 2011 and February 2012. In January the Governing Council took the view that the extensive recourse to the first three-year refinancing operation in December 2011 indicated that non-standard policy measures were providing a substantial contribution to improving the funding situation of banks, thereby supporting financing conditions and confidence.

As decided by the ECB Governing Council in December 2011, the reserve ratio applied to banks' minimum reserves was halved to 1% (about EUR 100 billion) as of mid-January 2012. In addition, the Governing Council announced in February that it had approved specific national eligibility criteria and risk control measures for the temporary acceptance in a number of countries of additional credit claims as collateral in Eurosystem credit operations. Both of the measures increased available collateral.

In early 2012, the Governing Council considered that the economic outlook was still subject to high uncertainty and substantial downside risks. The euro area HICP inflation remained at 2.7% in

Chart 2.
Harmonised Index of Consumer Prices for the euro area

Source: Eurostat.

January–March. High inflation was mainly due to the rise in energy and other commodity prices. However, the Governing Council expected inflation to decline against a background of weaker economic growth in the euro area and globally. In such an environment, cost, wage and price pressures in the euro area were assessed as remaining modest and inflation rates to develop in line with price stability over the policy-relevant horizon.

The latter of the three-year LTROs was conducted in February. Banks borrowed in December and February a total amount of about EUR 1,000 billion against collateral for three years. The purpose of the non-standard monetary policy measures conducted in early 2012 was to alleviate financial market tensions, thereby maintaining enterprises' and households' access to funding. In March and April, the Governing Council assessed the impact of these measures as having been positive.

In addition to the ECB's non-standard measures, the financial environment improved significantly in the early part of 2012 due to fiscal consolidation, stepped-up structural reforms in several euro area countries and progress towards a stronger euro area economic governance framework.

In March, as envisaged, a haircut was made on the value of Greek sovereign

Box 1.

Monetary policy purchase programmes

In September 2012, the Governing Council of the ECB decided to terminate the Securities Markets Programme (SMP) launched in May 2010. The programme was to be replaced with another monetary policy intervention scheme, Outright Monetary Transactions (OMTs), which were to be carried out in sovereign bond markets (see also p. 11 and p. 25). With the terminated and the new monetary policy intervention scheme, the Eurosystem aims to improve the transmission of monetary policy to the economy by facilitating the functioning of the sovereign bond markets that are pivotal to the transmission mechanism.

Outright transactions as part of the Eurosystem's monetary policy

During the financial crisis, the ECB has divided its monetary policy action into standard and non-standard measures. The standard measures serve to adjust the monetary policy stance, while the non-standard measures primarily aim at improving the transmission of the stance to the economy. The Eurosystem normally offers refinancing to banks by granting credit with different maturities against collateral, whereas outright transactions denote purchases of debt securities in the markets. Even though outright monetary policy transactions have always been among the Eurosystem's policy tools, they were introduced only as part of the non-standard monetary policy measures adopted during the financial crisis.

The Eurosystem conducted the first outright transactions in 2009–2010 in the context of the Covered Bond Purchase Programme (CBPP). That time the purchases concentrated on collateralised bonds issued by banks. These purchases (EUR 60 billion) closely followed the earlier monetary policy approach: financing continued to be solely directed at banks and was secured with collateral.

Outright transactions in sovereign bond markets

The SMP was initially launched in a situation where sovereign bond markets of one euro area country had come to a total standstill and this stagnation began to spread to investors' behaviour in sovereign bond markets of other euro area countries. The Eurosystem began to purchase bonds of certain euro area issuers to support the transmission of monetary policy.

The rationale behind monetary policy purchases of sovereign bonds is that this market segment is critical to financial markets.[1] Each country's sovereign bond markets play a specific role in the transmission of interest rates, since yields on bonds issued by central governments are widely used as reference rates in the financial markets. This is clearly discernible when comparing the price of credit risk derived from credit default swaps (CDSs) of banks and their sovereigns: sovereign risk and banks' credit risk move in parallel.

Because of the correlation between interest rates of sovereigns and banks, growth in sovereign risk is reflected in the price of market refinancing raised by banks. Banks in turn have to pass on funding cost growth to lending rates in order to maintain their operating conditions. So, the increased concern among euro area investors about the continuity of the euro area, has substantially increased financing costs for small enterprises and households in certain countries, despite the otherwise relaxed monetary policy stance (Chart 3, p 18).

[1] *Due to the prohibition of public financing, the Eurosystem is not allowed to purchase central government bonds or bonds of other public sector issuers, in primary markets. Hence, outright transactions in the public sector are conducted in secondary markets, with bonds that have already been issued.*

Such risk premia are unjustified given the irrevocable nature of the euro. The Eurosystem uses monetary policy measures to reduce adverse effects of such risk premia.

Differences between the new outright transactions and the previous purchase programme

The key difference between the SMP scheme terminated in September and the forthcoming OMTs is the explicit conditionality attached to the issuers in the latter. In practice, conditionality means that the ECB only purchases bonds issued by countries that adhere to a programme signed with the International Monetary Fund and the European Financial Stability Facility (EFSF), or later with the European Stability Mechanism (ESM), and whose loans the EFSF/ESM can purchase in primary markets. Conditionality aims to ensure that debt sustainability of an issuer of sovereign bonds purchased by the Eurosystem has been secured. In addition to a programme context, the ECB conducts an own assessment of whether there are monetary policy grounds for OMTs purchases.

In addition to the aspect of conditionality, another key element of OMTs is that the purchases will focus on government bonds with short maturities. The ECB has also stated that it will announce the sizes and issuers of OMTs. Unlike in the SMP scheme, no ex ante limits have been set on the duration and size of OMTs. The interventions will be scaled in accordance with monetary policy needs.

Similar to the SMP that amounted to over EUR 200 billion, liquidity created through OMTs will be sterilised with other monetary policy operations. This is to ensure that the monetary policy effect of OMTs will come as purely as possible via improved functioning of the transmission mechanism and that the interventions do not affect the monetary policy stance.

The ECB has stated that debt securities purchased via Eurosystem's OMTs will be treated equally with holdings of other investors in the event of default (pari passu).

bonds held by private investors (see Box 2, p. 16). Financial markets reacted calmly to the measure.

In March the projection for economic growth in the euro area was revised slightly downwards. Risks to economic growth were assessed as being on the downside. The euro area economy was expected to recover gradually in the course of the year. The projection for inflation was revised slightly upwards, notably due to increases in energy prices and announced increases in indirect taxes. Risks to projected inflation were broadly balanced, and the inflation rate was expected to fall again below 2% in early 2013. The Governing Council stressed that all the necessary tools were available to address potential upside risks to medium-term price stability in a firm and timely manner. It emphasised in spring that it would pay particular attention to any signs of pass-through from higher energy prices to wages, profits and general price-setting. However, the Governing Council stated that, looking ahead, in an environment of modest growth in the euro area and well-anchored long-term inflation expectations, underlying price pressures should remain limited. In May inflation slowed from about 2.7% in early 2012 to 2.4%.

In May the Governing Council stated that money and credit data up to March confirmed a broad stabilisation of financial conditions. In addition, as intended by the ECB's measures, an abrupt and disorderly adjustment in the balance sheets of credit institutions had been avoided. The Governing Council stated noted the full supportive impact of the Eurosystem's non-standard measures needed time to unfold and have a positive effect on the growth of loans when demand recovers.

Throughout the year, the Governing Council supported bank liquidity by, for instance, continuing in its weekly main refinancing operations (MROs) the fixed-rate full-allotment approach applied since October 2008. This means a commitment to accommodating banks' liquidity needs in full at a predetermined interest rate, as long as banks provide adequate collateral. The Governing Council also repeatedly emphasised that it would ensure that liquidity constraints would not hamper solvent banks' operations. In June the Governing Council decided to continue conducting MROs as fixed rate tender procedures with full allotment for as long as necessary, and at least until mid-January 2013.

Reduction in key interest rates in June brought the deposit rate to as low as 0%

In the first half of 2012, the Governing Council expected the euro area economy to recover over the course of the year, but very slowly. In June the available indicators suggested that growth was slowing. Economic problems in Spain, in particular, had escalated. In June 2012, due to weaker economic outlook and problems in the financial sector, Spain requested external help to recapitalise its banking sector. Cyprus also announced in June that it needed external help.

In June the Governing Council took the view that the economic outlook for the euro area was subject to increased downside risks. The risks related particularly to a further increase in the tensions in euro area financial markets and their potential spillover to the real economy. In July the Governing Council cut the key ECB interest rates by 0.25 percentage point so that the interest rate on MROs was 0.75% and the interest rates on the marginal lending facility and the deposit facility were 1.50% and 0%, respectively. The decision was taken against further dampening of inflationary pressures over the policy-relevant horizon, as some of the previously identified downside risks to the euro area growth outlook had materialised. Inflationary risks were assessed as being balanced in June. Upside risks to inflation pertained to further increases in indirect taxes owing to the need for fiscal consolidation and higher than expected commodity prices over the

Box 2.

Restructuring of Greek sovereign debt

In May 2010, Greece signed a macroeconomic adjustment programme with euro area countries and the International Monetary Fund (IMF). Of the euro area countries, Ireland also had to resort to a similar adjustment programme in autumn 2010 and Portugal in spring 2011.

Over the course of 2011, the Greek adjustment programme ran into difficulties that reached unsustainable proportions in the latter part of the year. At the beginning of 2012, a new adjustment programme had to be signed with Greece, involving a voluntary participation of private investors in the restructuring of Greek debt. However, the implementation of Greece's renewed programme began unsuccessfully eg due to protracted political uncertainty associated with parliamentary elections. Hence, significant changes had to be made also to this programme already at the end of 2012.

The first adjustment programme for Greece ran into difficulties partly as a result of poor implementation of the agreed political measures. Shortfalls had been detected in the consolidation of public finances and execution of structural reforms already in the latter half of 2010. On the other hand, the programme failed because of the unexpected depth and extent of weaknesses in Greece's economy. Rigidities constraining potential economic growth, inefficiency of institutions important for development and weak exports proved to be much greater problems than assessed in spring 2010. The Greek economy contracted significantly more than other programme countries (Chart A) and the debt-to-GDP ratio rose to unsustainable levels.

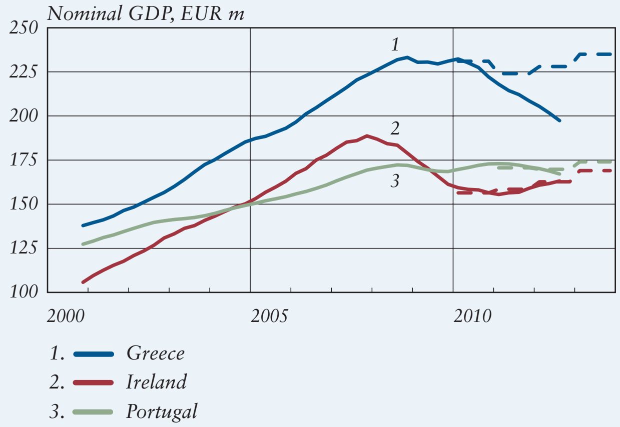
The new adjustment programme for Greece was conditional to private sector involvement (PSI), ie restructuring of Greek sovereign debt held by private investors, so as to return Greece's public finances to a sustainable level. In the restructuring in February 2012, the Greek government offered private creditors the possibility to exchange 31.5% of their old bonds with new long-term debt securities, and 15% with notes with a maturity of 1–2 years issued by the European Financial Stability Facility (EFSF).

Amortisation of the offered Greek sovereign bonds begins in 2022 and the bonds are governed by the law of the United Kingdom. In the debt restructuring deal, the direct haircut to the value of the debt was about 53.5%. Since the interest rate on the new bonds is lower, the net present value of the bonds and, hence, the total costs of Greece's debt burden would, with respect to the new bonds, contract even more, ie by about 75%. However, the net contribution of the sovereign debt restructuring was reduced by the need to recapitalise the Greek banking system that suffered severe losses due to the restructuring.

In connection with the approval of the new programme, it was also agreed to lower the interest rates on EFSF loans so as to improve Greece's debt sustainability. All in all, the purpose of the changes to the outstanding Greek debt and the adjustment programme was to bring down Greece's public debt to close to 120% of GDP by 2020.

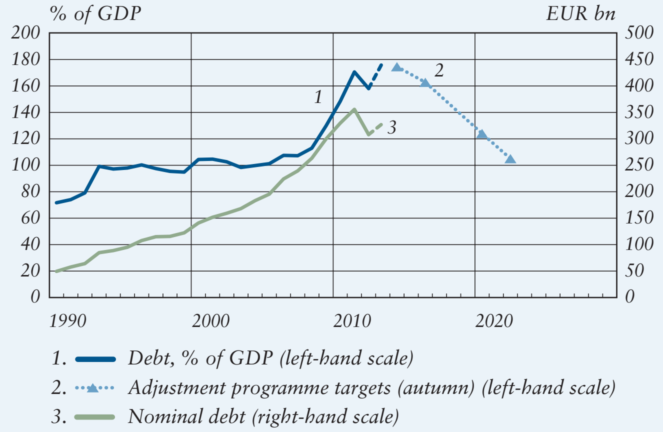
Even though the debt restructuring deal succeeded as expected and a new programme was signed in March 2012, the situation in Greece did not ease significantly. Implementation of economic reforms halted due to political uncertainty, and the debate in connection with parliamentary elections about Greece even leaving the euro area strained the atmosphere in the financial markets to the extreme. The Greek economy contracted further and the prerequisites for achieving the targeted debt ratio were lost again.

Chart A.
Economic developments in countries under an adjustment programme



Dashed line depicts the original forecast for nominal GDP for programme countries.
Sources: European Commission, Eurostat and International Monetary Fund.

Chart B.
Restructuring of Greek debt and adjustment programme targets



Sources: European Commission, Eurostat and International Monetary Fund.

To remedy the situation, additional measures were agreed on in December 2012. In line with the existing adjustment programme, a voluntary debt buy-back operation was conducted and Greece bought back the bonds exchanged in the PSI operation in spring. Since the price of public finance used for funding the debt buy-back scheme is lower than the market price of Greek debt at the end of the year, this meant, in practice, that Greece's total sovereign debt will decreased further.

In addition, the Eurogroup decided to cut interest rates on loans to Greece further, extend loan repayment periods and pass on to Greece all profits made by other central banks by buying Greek bonds during the Securities Markets Programme (SMP). The changes made in 2012 will bring Greece's interest expenditure relative to GDP from over 7% in 2011 to about 4.5% in 2013. In addition, due to the change in the debt repayment profile, the burden arising from debt amortisation will be relatively small in the current decade.

The measures conducted at the end of 2012 will not yet guarantee that Greece would achieve the debt-to-GDP target of 120% by 2020 (Chart B). Further measures to reach this target were postponed to be determined in the coming years. To reach the programme's targets it is essential that Greece implements the agreed budgetary and structural changes. Despite noticeable progress made in balancing eg the primary budget balance, reforms needed to ensure debt sustainability are still substantial and the risks associated with the programme have not yet abated entirely.

medium term. The main downside risks related to the impact of weaker than expected growth in the euro area.

At its meeting in June the Governing Council welcomed the European Council conclusions of 29 June 2012 to take action to address financial market tensions, restore confidence and revive growth. It welcomed the decision to develop a specific and time-bound road map for the achievement of a genuine Economic and Monetary Union. The Governing Council also welcomed the euro area summit initiative towards a single supervisory mechanism (SSM), the use of the existing European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM) in a flexible and efficient manner in order to stabilise markets and the possibility – with appropriate conditionality – to recapitalise banks directly.

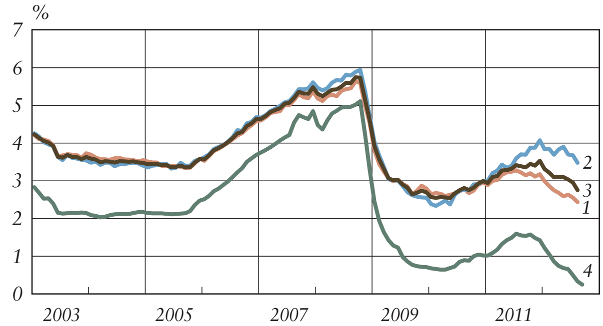
Country-specific differences in financial conditions increased

Country-specific differences in financial conditions increased in the first half of the year (Chart 3). In summer 2012, the view gained ground that the relaxation in the Eurosystem's monetary policy had only transmitted to a limited degree to interest rates paid by households and enterprises in GIIPS countries (Greece, Ireland, Italy, Portugal and Spain). In the early part of the year, these interest rates fell considerably less than short-term money market rates, such as the 3-month Euribor. In addition, the availability of credit weakened and credit conditions tightened in GIIPS countries in particular. At the same time, interest rates paid by enterprises and households on new loans were lower in countries with stronger economic growth and high credit ratings, such as Germany and France, than in the euro area on average.

Tighter financial conditions in the euro area crisis countries reflected the turmoil in the sovereign bond markets and protracted weak economic developments, which deteriorated enterprises' and households' debt-servicing ability as well as the situation in the banking sector and the sector's lending capacity. The Governing Council has emphasised repeatedly that it is essential for monetary policy transmission that banks continue to strengthen their resilience where this is needed. The soundness of banks' balance sheets is a key factor in facilitating both an appropriate provision of credit to the economy and the normalisation of all funding channels.

The debt crisis has increased the importance of market finance for enterprises in the euro area. As bank financing has become harder to obtain and the related costs have increased, large enterprises, in particular, have turned to market-based funding. Consequently, tighter financial conditions have particularly affected small

Chart 3.
Interest rate levels and 3-month Euribor (corporate and housing loans,* new agreements)



1. Countries with high credit rating (Germany, France, the Netherlands, Belgium, Austria and Finland)
2. GIIPS (Greece, Italy, Ireland, Portugal and Spain)
3. Euro area
4. 3-month Euribor

**Loans at floating rate and up to 1 year initial rate fixation.*
Sources: European Central Bank and Bank of Finland calculations.

and medium-size enterprises dependent on bank loans in the crisis countries.

The Eurosystem clarified its role in the management of the debt crisis in early autumn

Market concerns over debt sustainability in Spain and Italy and the future of the euro area increased in late spring and summer 2012. There was a positive change in market expectations following a speech by Mario Draghi, the President of the ECB, in London on 26 July. In his speech the President emphasised the irreversible nature of the euro and ensured that, within its mandate, the Governing Council was ready to do whatever it takes to preserve the euro.

At its meeting in August the Governing Council stated that risk premia in sovereign bond markets in several countries had increased and financial fragmentation was hindering the effective working of monetary policy. The Governing Council emphasised that risk premia that were related to fears of the reversibility of the euro were unacceptable and would be addressed in a fundamental manner. The Governing Council also stressed that the euro is irreversible. The Governing Council's announcement that it would begin to prepare sufficient policy action eased the financial markets, and particularly the interest rates on Spanish and Italian sovereign bonds declined.

At its September meeting the Governing Council took significant decisions to avoid destructive scenarios in the euro area. It decided on the key elements of new Outright Monetary Transactions (OMTs) and terminated the Securities Markets Programme (SMP) launched in May 2010. In the context of OMTs, the Eurosystem may purchase sovereign bonds in secondary markets. A necessary condition for the Eurosystem's measures is strict conditionality attached to an EFSF/ESM programme, since solving the debt crisis depends primarily on action taken by euro area governments to reform economic structures and achieve necessary savings in their own country. The purpose of OMTs is to create a backstop that contributes to avoiding destructive scenarios, thereby reducing concerns over the materialisation of such scenarios. (The modalities of OMTs are discussed in Box 1, p. 13.) The Governing Council also made changes to collateral requirements to ensure the availability of adequate collateral in Eurosystem refinancing operations.

In September the euro area growth projection for 2012 and 2013 was revised downwards. The Governing Council considered that the risks surrounding the economic outlook continued to be on the downside. Inflation projections for 2012 and 2013 were revised slightly upwards, whereas risks to the outlook for price developments continued to be broadly balanced over the medium term.

In autumn the Governing Council emphasised that, as regards fiscal policies, it was crucial that efforts were maintained to restore sound fiscal positions, in line with the commitments under the Stability and Growth pact and the 2012 European Semester recommendations. A rapid implementation of the fiscal compact would also play a major role in strengthening confidence in the soundness of public finances. At the same time, structural reforms were as essential as fiscal consolidation efforts and measures to improve the functioning of the financial sector. In October the Governing Council also stressed that it was essential to push ahead with European institution-building. The Governing Council welcomed the Commission proposal of 12 September for the establishment of a single supervisory mechanism (SSM) involving the ECB for the euro area banking system. The Governing Council considered an SSM to be one of the fundamental pillars of a financial union and one of the main building blocks towards a genuine Economic and Monetary Union.

Readiness to undertake OMTs calmed the financial markets at the end of the year

At its November meeting the Governing Council stressed that the Eurosystem was ready to undertake OMTs. It took the view that the decisions on OMTs had visibly calmed the financial markets. However, the euro area growth outlook was assessed as remaining weak. Even though the outlook was supported by the monetary policy stance and the OMTs programme, the necessary process of balance sheet adjustment in the financial and non-financial sectors continued to weigh on the economic outlook.

At its December meeting the Governing Council decided to continue conducting MROs as fixed rate tender procedures with full allotment for as long as necessary, and at least until 9 July 2013.

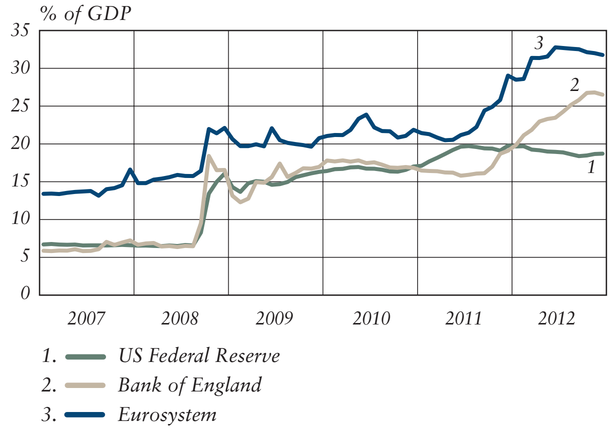
In December the euro area growth projections for 2012 and 2013 were revised and economic growth was expected to remain considerably weaker than previously forecast. Even though growth projections were revised downwards over the year, the Governing Council repeatedly assessed risks to economic growth as being on the downside. Similarly, in December the Governing Council continued to see downside risks to the euro area economic outlook. They were mainly related to uncertainties about the resolution of sovereign debt and governance issues in the euro area, geopolitical issues and fiscal policy decisions in the United States. Inflation rates for 2013 were expected to remain slightly lower than previously forecast, but inflationary risks were assessed as being balanced. Inflation fell to about 2.2% in November–December. Towards the end of the year, the economic problems in Greece were addressed again with new measures, and at the end of November the Eurogroup and the International Monetary Fund (IMF) reached an agreement on new debt relief for Greece (see Box 2, p. 16).

The Eurosystem's balance sheet increased particularly in the early part of the year on account of the two LTROs (Chart 4). In the latter half of the year, the balance sheet contracted slightly relative to GDP. The downturn in balance sheet growth indicates a slight reduction in the demand for central bank refinancing, which in turn reflects abatement of financial market tensions and slight easing of banks' access to funding.

Bank of Finland – contribution to preparation of monetary policy

As a member of the Governing Council of the ECB, the Governor of the Bank of Finland participates in monetary policy decision-making. In addition, experts from the Bank of Finland contribute to the preparation of monetary policy decisions and other background work. They contribute to the preparation of Governing Council's meetings in the context of the Eurosystem's Monetary Policy Committee and the Market Operations Committee. In 2012 the emphasis of monetary policy preparation was on non-standard monetary policy measures to address debt market disruptions and uneven transmission of monetary policy.

Chart 4.
Central bank balance sheets



Sources: National statistical authorities, Eurostat and Bloomberg.

Implementation of monetary policy in the euro area and Finland

The Eurosystem implements monetary policy as determined by the Governing Council of the ECB with the help of an operational framework. The main elements of the operational framework are open market operations, the standing facilities and the minimum reserve system. During the financial crisis, also outright securities purchases have been introduced. An integral part of monetary policy implementation and risk management is collateral, against which banks borrow funds from the central bank.

The operational framework serves to steer the amount of liquidity available in the banking system and the level of short-term market interest rates. In liquidity-providing open market operations, counterparty banks can obtain credit from the central bank against collateral, while in liquidity-absorbing operations they can deposit excess liquidity with the central bank. Minimum reserve requirements, in turn, create structural liquidity need for banks. The two standing facilities – the deposit facility and the marginal lending facility – provide banks with the possibility of levelling off short-term fluctuations in liquidity, and the interest rates applied to the standing facilities create a corridor within which short-term money market rates fluctuate. As for securities purchases, with this tool the Eurosystem seeks to affect the functioning of certain market segments pivotal to the transmission of monetary policy. Finally, the purpose of collateral, which is subject to eligibility criteria and risk control measures (such as daily market pricing and valuation haircuts), is to secure the Eurosystem's position as creditor.

Implementation of monetary policy in the Eurosystem is decentralised through national central banks. Monetary policy counterparties operating in Finland participate in central bank operations at the Bank of Finland. Since counterparties have uneven liquidity needs across euro area countries, the amount of refinancing is higher in some countries, whereas in others the counterparties place more deposits with the central bank. These differences are reflected in the balance sheet structure of national central banks – with monetary policy operations showing up either on the assets or the liabilities side of the balance sheet and correspondingly in intra-Eurosystem claims and liabilities (so called TARGET balances).

During the financial crisis in recent years, the Eurosystem has temporarily introduced several non-standard measures to improve the efficiency of monetary policy implementation. The Eurosystem used these measures also in 2012 (see the previous chapter on monetary policy and its preparation). The purpose of the measures was to ensure the availability of liquidity for counterparties, safeguard the functioning of the monetary policy transmission mechanism and secure financial stability.

Three-year refinancing operations covered counterparties' liquidity needs

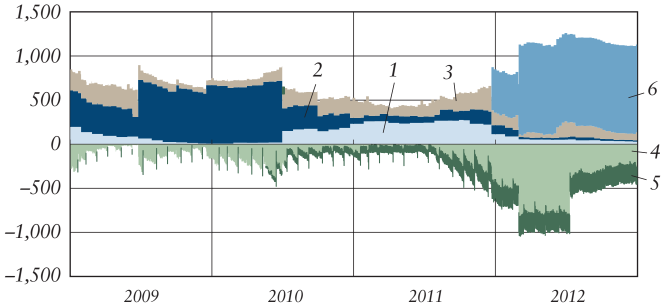
Longer-term refinancing operations (LTROs) with exceptional three-year maturities played a key role in monetary policy operations conducted in 2012. With these operations the Eurosystem sought to reduce uncertainty about liquidity in the financial markets. Prior to the three-year LTROs, one year had been the longest maturity period in the Eurosystem's market operations. In addition to an exceptionally long maturity, another special feature of these operations was the option of early repayment for counterparties. The first opportunity for this arose in January 2013.

The first of the three-year LTROs had already been conducted in December 2011. In the latter tender conducted in February 2012, counterparties showed even more interest in the operation than in the first tender. As all the other liquidity-providing operations, the three-year LTROs were carried out using full allotment policy, meaning that the Eurosystem accepted all bids made by the counterparties in full. The amount of liquidity supplied through the latter three-year LTRO totalled EUR 530 billion, and 800 banks participated in the operation (the corresponding figures for the December operation were EUR 489 billion and 523 participants). With the operation conducted in February, the total amount of outstanding refinancing increased to EUR 1,130 billion.

Besides the exceptionally long LTROs, the Eurosystem also conducted normal one-week main refinancing operations (MROs) and LTROs with maturities of about one and three months. However, the bulk of liquidity was provided to the banking system through the three-year LTROs. At the end of 2012, these operations accounted for as much as 88% of liquidity allotted to banks (Chart 5). In addition to euro-denominated liquidity, the Eurosystem also offered to counterparties, as in the previous year, liquidity in US dollars with one-week and three-month maturities. These operations were conducted in cooperation with the US Federal Reserve System.

Chart 5.
Eurosystem monetary policy operations

EUR bn

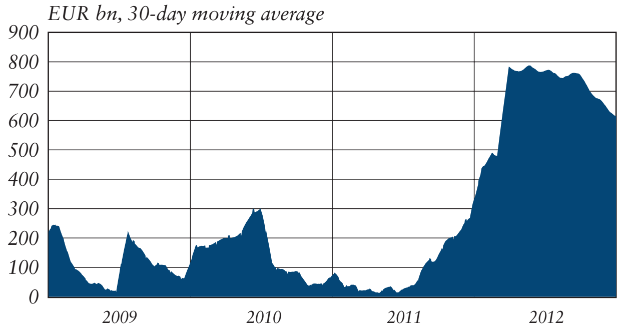


1. *Longer-term refinancing operations (3 months)*
2. *Supplementary longer-term refinancing operations (1–12 months)*
3. *Main refinancing operations (1 week)*
4. *Recourse to standing facilities (overnight)*
5. *Fine-tuning operations (1–7 days)*
6. *Supplementary longer-term refinancing operations (36 months)*

Sources: European Central Bank and Bank of Finland.

Chart 6.
Excess liquidity*

EUR bn, 30-day moving average



** Reserve holdings – minimum reserve requirements + overnight deposits – marginal lending facilities.*

Sources: European Central Bank and Bank of Finland.

Excess liquidity in the banking system historically high

After the three-year LTROs, the amount of liquidity in the banking system exceeding counterparty banks' liquidity needs increased to historically high levels, peaking at over EUR 800 billion (Chart 6). In addition to the decisions concerning refinancing operations, the Eurosystem had also decided in 2011, for the first time since its establishment, to change the reserve ratio used to calculate banks' minimum reserve requirements. The reduction of the reserve ratio from 2% to 1% as of January 2012 eased the counterparties' liquidity situation by about EUR 100 billion.

Prior to the financial crisis, the Eurosystem fulfilled banks' liquidity needs in a way that brought the shortest money market rates very close to the key ECB interest rate. The accommodative stance of monetary policy has been stepped up in recent years by offering banks as much liquidity against full collateral as they wish and are able to borrow. This has led to reduced uncertainty about the availability of central bank refinancing and a visible reduction in the price of short-term liquidity. After the three-year LTRO conducted in February, short-term interest rates up to three months fell below the key ECB interest rate. The spread between the EONIA overnight interest rate and the interest rate on the Eurosystem's deposit facility – which can be regarded as the lowest level of short-term money market rates – decreased to slightly below 0.10 percentage point.

Abundance of liquidity also had an impact on counterparties' behaviour in other central bank operations. Participation in shorter refinancing operations decreased markedly, as the three-year LTROs largely satisfied counterparties' liquidity needs. By contrast, counterparties' needs to make short-term deposits with the central bank increased.

The bulk of excess liquidity was transferred to the deposit facility. The purpose of the deposit facility is to give banks the possibility to make temporary overnight deposits. However, due to increased liquidity in the banking system, counterparties have used the deposit facility on an ongoing basis, and ample liquidity conditions created by longer-term refinancing operations have multiplied the amounts deposited. The volume of daily overnight deposits increased after the second three-year LTRO to over EUR 800 billion.

Counterparties also had the possibility to make one-week fixed-term deposits with the central bank in weekly liquidity-absorbing operations conducted as variable-rate tenders. In these operations the Eurosystem collects deposits that equal the amount of liquidity provided to the markets through the Securities Markets Programme (SMP). Since this liquidity amount remained around EUR 210 billion for most of 2012, the impact of increased liquidity in the banking system was reflected in liquidity-absorbing operations in the level of interest rates at which banks were ready to make deposits with the central bank. Consequently, the interest rate on one-week fixed-term deposits fell to stand only 0.01 percentage point above the deposit facility rate.

Reduction in interest rate in July pushed the deposit facility rate to zero

The fall in market interest rates was further supported by the ECB Governing Council's decision to reduce the key interest rate from 1% to 0.75% in July 2012. The corridor between the interest rates on the standing facilities and the key ECB interest rate was kept unchanged at +/– 0.75 percentage point. This was a historical decision because the key ECB interest rate fell to below 1% for the first time since the establishment of the Eurosystem, and at the same time the deposit facility rate, ie the interest rate paid on banks' overnight deposits with the central banks, fell to zero. As the spread between short-term money market rates and the deposit facility rate was almost non-existent due to the ample liquidity situation in the banking sector, also the shortest money market interest rates fell to very close to zero.

In addition to the impact on market interest rates, the Governing Council's decision to reduce the key ECB interest rate was also important in terms of operational activity. When the overnight deposit rate is zero, it is economically irrelevant for banks whether they transfer their excess overnight liquidity to the central banks' deposit facility or leave it unremunerated on their current accounts with the central bank, as excess reserves. The amount of overnight deposits halved in the Eurosystem from about EUR 800 billion to about EUR 400 billion immediately when the interest rate decision had become effective, and banks' current account balances increased by almost an equal amount (Chart 7). Overnight deposits decreased thereafter further in the latter part of the year, to over EUR 200 billion.

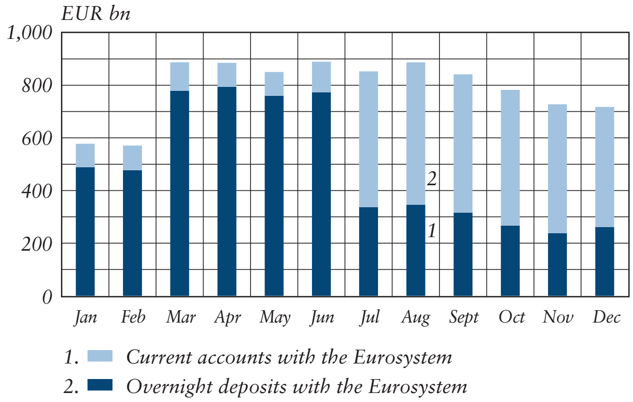
Collateral policy adapted to increased central bank refinancing

The increase in liquidity obtained from the central bank was reflected in increased volumes and variety of collateral provided to the central bank. The Eurosystem also made several temporary changes aimed at improving the availability of eligible collateral. Such changes included the introduction of additional credit claims as collateral, acceptance of certain currency-denominated collateral and broadening of the range of eligible asset-backed securities.

A number of other changes were also made to collateral eligibility criteria and risk control measures throughout the year. For example, the Governing Council decided to suspend the application of minimum credit rating threshold (BBB level) in the collateral eligibility requirements in the case of countries whose bonds are eligible for Outright Monetary Transactions (OMTs). A similar procedure had already been applied to countries under an adjustment programme signed with the EU and the International Monetary Fund (IMF). In addition, it was decided that national central banks are not obliged to accept as collateral uncovered bank bonds guaranteed by Member States under an EU-IMF adjustment programme. Furthermore, an upper limit was imposed on the use of own-used government guaranteed bank bonds. During the year, debt instruments issued and guaranteed by the Hellenic Republic were ineligible from time to time, eg in connection with the debt exchange deal with the private sector. Cyprus became the second euro area state whose bonds were excluded from the ECB's list of eligible assets when the country's credit rating fell below the minimum acceptable threshold. Risk control measures were improved by launching the Common Eurosystem Pricing Hub (CEPH) for the valuation of collateral.

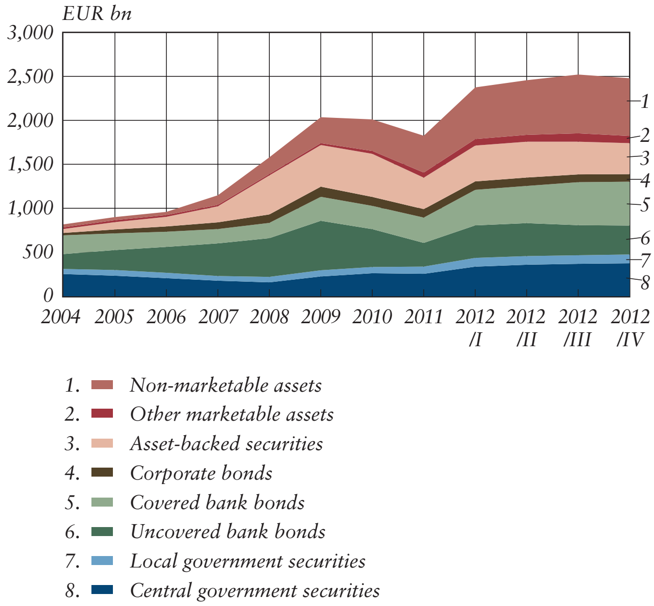
The average amount of collateral submitted to the Eurosystem increased from over EUR 1,800 billion in 2011 to about

Chart 7.
Liquidity shift from overnight deposits to counterparty current accounts, 2012



Sources: European Central Bank and Bank of Finland.

Chart 8.
Collateral put forward to the Eurosystem



Source: European Central Bank.

EUR 2,450 billion in 2012 (Chart 8). The amount of outstanding monetary policy operations increased in the corresponding period from about EUR 550 billion to slightly over EUR 1,100 billion. In addition to monetary policy operations, banks need collateral for intraday credit with the payment system, and normally they also deliver a considerable amount of excess collateral to the central bank. At the end of 2012, non-marketable assets were the largest (26%) component of collateral put forward to the central bank. Non-marketable assets include eg credit claims and fixed-term deposits placed with the central bank via liquidity-absorbing monetary policy operations. The second largest collateral component was covered bonds (20%), which were followed by public sector issuances, ie central and local government securities (19%).

Eurosystem's previous securities purchase programmes less attractive after the announcement on outright monetary transactions

At the beginning of 2012, the Eurosystem had two securities purchase programmes at its disposal: the Securities Markets Programme (SMP) and the second Covered Bond Purchase Programme (CBPP2). However, both programmes remained moderate in terms of utilisation and effect during the year. Covered bonds purchased under CBPP2 amounted to EUR 16.4 billion instead of the intended amount of EUR 40 billion, since the three-year LTROs satisfied banks' liquidity needs very extensively. The CBPP2 ended in November 2012 as it reached the determined one-year term. The SMP was in active use only at the beginning of the year, after which the volume of cumulative purchased remained stable at around EUR 210 billion. The programme was terminated in September 2012 with the Eurosystem's announcement on new non-standard monetary policy measures.

In order to safeguard the functioning of monetary policy transmission mechanism and the singleness of the monetary policy, the ECB Governing Council announced in September 2012 that it was ready to undertake Outright Monetary Transactions (OMTs) in the secondary sovereign bond markets. These transactions may be conducted on short-term debt securities of Member states that adhere to an adjustment programme determined by the European Financial Stability Facility (EFSF) and the European Stability Mechanism (ESM). No ex ante quantitative limits are set on the size of OMTs. The Eurosystem did not undertake OMTs in 2012, but the announcement on OMTs stabilised financial markets notably. OMTs are discussed in more detail in Box 1 (p. 13).

Liquidity situation of the Bank of Finland's counterparties still good

In 2012 the refinancing needs of the Bank of Finland counterparties were very limited and largely concentrated on longer-term financing. Counterparties obtained funding in three-year LTROs in a total amount of EUR 3.7 billion, which is only 0.4% of total long-term central bank refinancing in the euro area. In addition, Bank of Finland counterparties participated in only six other liquidity-providing operations.

On the other hand, counterparties were more active in depositing excess liquidity with the central bank (Chart 9), which is an indication of their good short-term liquidity situation. In liquidity-absorbing operations, the share of banks operating in Finland averaged at 9.2% of the Eurosystem total, which is much more than Finland's share according to the capital key (1.8%). The volume of weekly deposits amounted to EUR 19.5 billion on average. The share of overnight deposits of banks operating in Finland was also high, 7% on average, relative to the Eurosystem total. The volume of counterparties' daily overnight deposits averaged at EUR 44.8 billion prior to the reduction of the key ECB interest rate and at EUR 23.7 billion thereafter. As in other euro area countries, also in Finland the banks' excess liquidity was shifted from the deposit facility to the current accounts after the July reduction of the key ECB interest rate.

Largely on account of deposits placed by counterparties, the balance sheet of the Bank of Finland increased to unprecedented levels and the balance sheet total peaked at over EUR 100 billion in 2012. The counteritem of deposits on the other side of the balance sheet is intra-Eurosystem claims.

Relative to the low level of central bank credit, the volume of collateral put forward by the Bank of Finland counterparties to the central bank was very high. The amount of collateral put forward by counterparties to the Bank of Finland averaged at EUR 28.2 billion. Of this, 11% was used to cover monetary policy credits, 44% payment system needs and 45% were surplus collateral reserves.

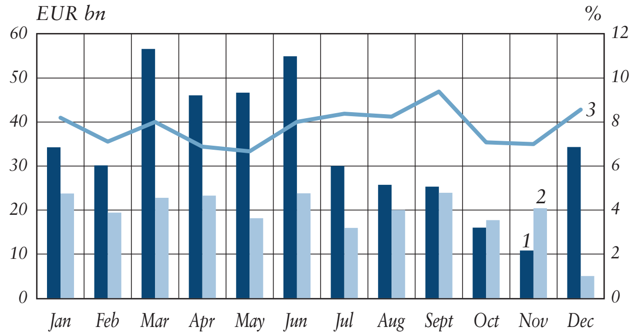
The breakdown of collateral put forward to the central bank did not change markedly in Finland (Chart 10). As in the previous year, covered bonds constituted the largest component of collateral, amounting to 40% on average of all collateral submitted. Fixed-term deposits placed via liquidity-absorbing fine-tuning operations constituted the second largest component (18%). They were followed by debt securities issued by the public sector as well as asset-backed securities (11% respectively).

The Bank of Finland and economic policy in Finland

In 2012 the Bank of Finland participated in a variety of ways in analysis and economic policy discussions relating to global and domestic economic developments. For example, it published two forecasts for Finnish macroeconomic developments: the first in June and the second in December. In addition, the Governor and experts of the Bank of Finland were consulted by the Parliament and other domestic institutions on several occasions.

Macroeconomic developments in Finland deteriorated markedly in 2012.

Chart 9.
Finnish counterparties' contribution to Eurosystem monetary policy deposits, 2012

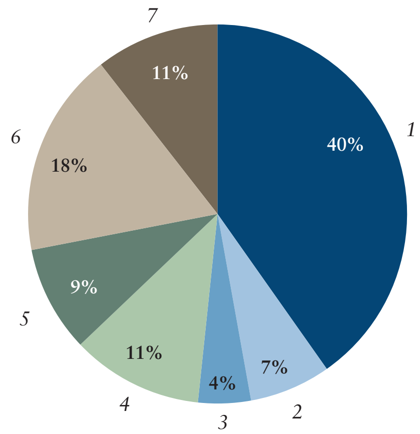


1. Overnight deposits with the Bank of Finland
2. Fixed-term deposits with the Bank of Finland
3. Share of Eurosystem deposits (right-hand scale)*

* Includes both overnight and fixed-term deposits.

Sources: European Central Bank and Bank of Finland.

Chart 10.
Collateral put forward by Bank of Finland counterparties (averages in 2012)



1. Covered bank bonds
2. Uncovered bank bonds
3. Corporate and other similar bonds
4. Asset-backed securities
5. Credit claims
6. Fixed-term deposits
7. Central and local government securities

Source: Bank of Finland.

During the previous two years, Finland's GDP grew by about 3% per annum, as the economy recovered from the recession of 2008 and 2009. However, in 2012 economic growth came virtually to a halt and output remained noticeably below the levels observed prior to the recession.

Global economic developments remained relatively weak in 2012 and the situation was rather poor particularly in Europe. The trend in Finnish exports and industrial output remained subdued, and the share of industry in total output declined further, remaining significantly smaller than in the years prior to the recession of 2008 and 2009.

Private consumption and investment demand continued to increase in Finland until the turn of 2011–2012. In the course of 2012, however, investment dynamics weakened in particular, as did private consumption, albeit to a lesser degree. The low level of interest rates supported domestic demand which was nevertheless restrained by uncertainty about the economic outlook and subdued growth in real household income. Output volumes contracted during 2012 in private service production and construction alike.

The moderation in general economic developments became increasingly evident in labour markets in the third quarter of 2012, as the unemployment rate increased. In the past few years, the number of employed has grown particularly in the services sector, while it has contracted in manufacturing. Sectoral employment structures continued to evolve similarly in 2012.

The economic outlook for Finland deteriorated markedly in the latter half of 2012 due to weaker international and domestic developments. According the Bank of Finland forecast published in December 2012, GDP in Finland will virtually stagnate in 2013, and growth will recover gradually in 2014. According to the forecast, exports will grow already in 2013, while domestic demand will not improve considerably before 2014.

The pace of growth in consumer prices remained relatively high in Finland in 2012. Measured by the Harmonised Index of Consumer Prices (HICP), prices rose by 3.2% from the previous year. Inflation was particularly fuelled by higher service and food prices. Food prices rose on the back of tax increases on alcohol, tobacco, sweets, ice cream and soft drinks at the beginning of 2012. Alcohol tax changes also affected prices of restaurant services. The rise in service prices was also boosted by the acceleration of the rise in rents. Higher pace of growth in earnings contributed to the rise in consumer prices in 2012.

According to the Bank of Finland forecast published in December 2012, inflation will slow gradually in Finland in 2013 and 2014. The increase in VAT will support inflation in 2013. However, the rise in consumer prices will be constrained by the weak cyclical situation, the slower pace of growth in earnings and the assumed decline in energy commodity prices.

Finland's public finances deteriorated in response to weaker economic growth in 2012, leading to a slight rise in the general government deficit. The relatively brisk economic growth and tighter fiscal policy had strengthened the general government balance still in 2011.

In spring 2012 important decisions were taken, particularly with respect to balancing central government finances, but also as regards extending the number of years people spend in working life, which affects the general government balance in the longer term. However, the economic growth outlook deteriorated after spring, which also cast a shadow over the outlook for the public finances. For this reason, according to the Bank of Finland forecast published in December 2012, the Government objective of turning the trend in the central government debt ratio downward by the end of the parliamentary term would not be achieved without additional measures.

According to the December 2012 forecast, ensuring the long-term sustainability of Finland's public finances would require considerable additional measures. The Bank of Finland emphasised the importance of such measures, given that the economic implications of population ageing were estimated to grow gradually in the coming years. The Bank of Finland saw that the challenges posed by the fiscal outlook would require a determined grip on policy from both the present and future governments.

As regards ensuring the sustainability of public finances, the Bank of Finland emphasised the need to implement structural reforms. Among such important measures are those to boost labour supply. These measures include reforms that lengthen working life at the beginning and the end of the career cycle and reforms that otherwise provide incentives to those of working age to offer their labour.

In December 2012 the Bank of Finland stressed that Finland's public finances can still be strengthened in a controlled way. Postponement of measures was considered to increase the risk of a sudden stop that would lead to significant economic and social costs.

In 2012 the Bank of Finland also paid attention to the current account deficit and the related risks for Finland (see Box 3, p. 29). The Bank of Finland emphasised that foreign trade balance and employment in the open sector of the economy should be taken in to account in next rounds of wage agreements.

The Bank of Finland jointly organised a lecture on EU challenges in the debt crisis with the European Movement in Finland, at the Bank of Finland Museum. The lecture was open to the general public.

Photo: Jaakko Koskentola.

Box 3.

Current account developments and competitiveness in Finland

Finland's current account turned into deficit in 2011 after a long period of surpluses. The deficit was equal to 1.6% of GDP, while at its height in 2002 the current account had posted a surplus of 8.5% of GDP. The last time the current account ran a deficit was in 1993.

A deficit in the current account means that total expenditure in the economy was larger than total income. The deterioration in the current account since 2002 has been due particularly to a decrease in the value of goods exports relative to the value of goods imports.

The deterioration in the current account has several causes. One is a decline in exports of electronics and paper industry products. In recent years, the electronics industry has suffered particularly from the weakening of Nokia's relative position in mobile phone product development. The paper industry has in turn suffered from a weaker product demand in Europe.

Finland's current account has also deteriorated as a result of rising oil prices. Compared with the average of EU countries, energy consumption by industry and households is exceptionally high in Finland, and about half of energy is imported from abroad. In fact, one-fourth of the current account deterioration in 2002–2011 is explained by an increase in the deficit on foreign trade in energy products.

In recent years, wages have risen faster in Finland than in a number of other countries. This has led to increased costs, which has contributed to the weakening of the current account balance. Since 1999 labour costs have risen about 10% more in Finland than in Finland's trading partners on average. Wage growth was exceptionally high in 2008 and 2009, due to collective agreements made just before the international recession, which included large wage increases.

The importance of wage developments for the balance of foreign trade is often measured by using unit labour costs as an indicator. Similarly to labour costs, since 1999, unit labour costs have increased in the economy as a whole by about 10% relative to Finland's trading partners, while in manufacturing they have contracted relative to trading partners.

However, relative unit labour costs – especially in manufacturing – provide an overly positive picture of developments in Finland's competitiveness in terms of the conditions for balanced foreign trade. This is explained by price developments, since export price developments have been exceptionally poor in Finland. As average prices of export products have fallen, growth in labour productivity in the production of exports has not denoted a corresponding rise in export values and export companies' wage margins.

The current account has also deteriorated in recent years as a result of households' economic behaviour. Household expenditure has exceeded household revenue, which has led to higher imports. This has been exceptional by international standards.

The current account deficit does not seem to imply an acute risk for Finland in terms of availability of finance. It does, however, reflect imbalanced economic developments, and if continued, it will raise the economy's level of vulnerability. The significance of this vulnerability is emphasised by the current problems in those euro area countries that posted high current account deficits before the onset of the financial crisis.

The greatest risks relating to the current account deficit can be avoided if public sector and household indebtedness declines, cost competitiveness improves and operating conditions for the open sector of the economy are otherwise favourable.

Financial system

Financial stability

Mixed developments in the euro area financial markets and real economy
In 2012, financial stability in the euro area was threatened by the re-escalation of the economic and sovereign debt crisis. The interdependence of banks and governments was reinforced particularly in distressed countries. The Eurosystem took measures, with the aim of reversing the downward trend.

In early 2012, the European economy was still extremely vulnerable. In the distressed countries, the interdependence of banks and governments was reinforced as domestic banks replaced foreign investors as financiers of government debt. The withdrawal of foreign investors from the distressed countries hampered access to finance for even healthy banks and companies.

The outlook for the European banking sector remained uncertain. Financial markets were fragmented and banks reduced their funding needs only marginally in the cross-border interbank market. Many banks were dependent on central bank refinancing, and there was a high degree of heterogeneity across countries in banking sector funding costs. The deterioration in the macroeconomic outlook increased banks' credit risks. Uncertainties over the contents and impact of future regulation added to the higher bank risks.

On the other hand, there were also factors that supported financial stability. Due to the improvement of market sentiment, banks with a strong financial position were able to access market funding. In June 2012, the European Banking Authority's (EBA) finished its capital exercise. The purpose of the exercise was to improve the capital adequacy of large European banks. The capital exercise improved the resilience of the European banking system and thus confidence in the banking sector. Despite the improvement in market sentiment, large banks' acquisition of bond funding remained subdued. Several banks had already acquired from the ECB longer-term refinancing in the form of longer-term refinancing operations (LTRO) (the operations are discussed in greater detail in the Annual Report section on the implementation of monetary policy, p. 21). Banks' need for refinancing was also reduced by the ongoing balance sheet adjustment.

The ECB's Outright Monetary Transactions (OMT) and the austerity measures taken by excessively indebted European countries eased financial market tensions in autumn 2012 (for detailed information on the purchase programmes related to monetary policy, see Box 1, p. 13). The division of euro the euro area into two groups of countries narrowed slightly, as the outlook for the real economy also weakened in those countries with a high credit rating and the acute financial crisis eased in the distressed countries.

Banks' funding structure diversified in autumn 2012, as a result of the increase in the relative significance of senior unsecured bonds, which was an indication of the restoration of confidence. European banks' access to US dollar funding also improved slightly, and US money market funds' investments in euro area banks started to grow.

Due to the vulnerability of the financial markets, it is important to avoid factors that increase uncertainty. In 2012, these factors included the partial lack of market transparency, which hampered the pricing of banks' risks. Uncertainty was also caused by the rise in banks' asset encumbrance, which was due to the increase in secured funding. There was also uncertainty as to the comparability of banks' loan forbearances and the risk weights applied to capital adequacy calculations.

Finnish banking system has remained stable
Twice a year, the Bank of Finland publishes its evaluation regarding the stability of the domestic and international financial systems.

This evaluation is targeted at all parties active in the financial sector, other authorities and general public, not only to inform them but to facilitate discussion about risks to financial stability. According to the Bank of Finland's stability assessments published in May and December 2012, the Finnish banking sector has thus far remained sound and profitable. Banks' profitability was supported by favourable market developments, which boosted income from trading and investment activities in 2012. Banks' structural interest rate risk started to materialise as net interest income, excl. derivatives trading, started to decline, due to the narrowing of the margin between lending and deposit rates.

The Finnish banking sector's credit risks have remained small, as reflected by developments in loan losses and nonperforming assets. A strong negative shock to the macroeconomy would, however, be reflected as a rapid rise in loan losses, particularly those on corporate loans.

The capital adequacy of the Finnish banking sector has remained sound. The capital adequacy ratio, ie the ratio of own funds to risk-weighted assets, has remained close to 15%, and at the end of September 2012 it stood at 15.2%. The largest share of own funds is accounted for by common equity (Core Tier 1), the most suitable type of capital for covering potential losses. The average capital adequacy ratio calculated on the basis of these figures was 14.0%. This is well above the level of 9% set by the European Banking Authority (EBA) for large European banks in 2012. Despite the fact that the ratios calculated based on risk-weighted assets are good, the Bank of Finland has drawn attention to the fact that the ratio of equity to non-risk weighted assets of the Finnish banking sector is relatively small by international standards.

Finnish banks obtained funding from the international financial markets at a reasonable price in 2012. Bank funding was eased by the partial restoration of confidence and the demand for investment instruments that are considered safe, eg Finnish banks. The risk premia on covered bonds, particularly on senior bonds, decreased considerably.

The banking sector's biggest risks in the next few years arise from the low level of interest rates and the slow pace of economic growth. Subdued developments in net interest income and an increase in credit risks will create profitability pressures on banks. The stress test conducted in spring 2012 confirmed the resilience of the Finnish banking sector's capital buffers to a strong deterioration in profitability. In the stress test's risk scenario for 2012–2015, the real economy is hit by a strong negative growth shock, which would lead to an increase in unemployment and loan losses. Banks' situation would be weakened further by the decline in asset prices and the low level of interest rates. In this longer-term stress scenario, the banking sector's average capital adequacy ratio would decrease considerably but would nevertheless remain higher than the minimum requirement.

Household indebtedness gives cause for concern

Finnish household's debt ratio has risen continuously for the past 15 years. The debt ratio is lower than in the other Nordic countries but at the same level as the EU average.

Finnish household indebtedness displays features that give cause for concern. An increasing number of households are heavily indebted in view of their income and collateral assets, and their relative significance has increased for a prolonged period. Variable rate contracts, which are typical for the Finnish housing loan market, expose households to interest rate risk. Growth in the stock of household loans started to slow in the second half of 2012, which was a positive development in terms of indebtedness. Nevertheless, household credit continued to grow at a significantly higher pace than the euro area average.

Finnish non-financial corporations' access to funding remained relatively good.

Non-financial corporations acquired financing mainly for working capital purposes, as the level of investments was low. The annual pace of growth in bank lending to non-financial corporations started to slow towards the end of 2012. This is partly explained by the acquisition of long-term funding from the international capital markets by the largest companies, which partially replaced bank funding from the domestic market. Growth in the credit stock of Finnish non-financial corporations continued to significantly exceed that of the euro area corporate sector. Banks increased the margins on new corporate credit and the other terms and conditions on loans to SMEs dependent on domestic bank financing also tightened.

Financial system policy

The development of EU-wide solutions for financial regulation continued in 2012. The Bank of Finland took part in the development of financial regulation within the EU via participation in ECOFIN and the ESCB. The Bank also participated in preparations supporting national implementation, in cooperation with the Ministry of Finance and the Financial Supervisory Authority.

One of the key new EU-level initiatives was the conclusion adopted by the European Council in mid-2012 on the creation of banking union. The creation of banking union can be considered as one of the most significant integration initiatives in Europe since the establishment of the EU and the adoption of the single currency (see Box 4, p. 33).

In June 2012, the European Commission adopted a proposal for a Directive establishing a framework for the recovery and resolution of credit institutions and investment firms. The Directive would significantly harmonise and revise crisis resolution legislation across Member States. Even so, this Directive will not yet create a new common EU-wide crisis resolution mechanism, which is scheduled for inclusion in banking union.

In February 2012, the European Commission appointed a High-level Expert Group on reforming the structure of the EU banking sector. The expert group was chaired by the Governor of the Bank of Finland, Erkki Liikanen, and the Group submitted its proposal to the European Commission in October 2012 (see Box 5, p. 35). One of the key proposals of the Group was that a bank's high-risk activities should be transferred to a separate subsidiary as soon as they exceed a certain threshold.

In October 2012, the Basel Committee on Banking Supervision published its recommendations for tightening the capital requirements of domestic systemically important banks (D-SIBs). Systemically important banks are banks whose failure or other major distress could seriously damage the economy as a whole. To mitigate this risk, the Basel Committee recommended that the loss absorbency of systemically important banks be strengthened by imposing tighter capital requirements on them than on other banks.

In the May 2012 evaluation regarding the stability of the domestic and international financial system, the Bank of Finland noted that Finnish authorities should be equipped with discretionary means to moderate excessively rapid growth in total lending and housing loans, at least. The Bank of Finland also noted that there is also reason to assess whether the authorities need discretionary means to restrict excessive growth in bank balance sheets and short-term market funding, among other things.

In January 2012, the Ministry of Finance appointed a working group whose task is to propose necessary measures for creating an effective national system of macroprudential supervision. At the beginning of November, a working group led by Minister Antti Tanskanen submitted its proposal for new tools for the Finnish authorities to stave off systemic risks. The expression 'systemic risks' refers to collective risks that emerge within, or are amplified by, the financial system and, if

Box 4.

Banking union

In June 2012, the European Council decided to deepen Economic and Monetary Union as one measure to combat the economic crisis. As part of this objective, the European Commission presented a communication entitled 'Roadmap towards a Banking Union' in September 2012. The **banking union project** shifts three areas of relevance to the stability of the financial markets from national to EU level: banking supervision, the bank recovery and resolution framework and deposit insurance schemes. The aim of banking union is to restore confidence in the operation of the financial system and to reduce the social costs of banking crises.

The **Single Supervisory Mechanism** (SSM) is composed of the European Central Bank and competent national authorities. The ECB will be responsible for the overall functioning of the Single Supervisory Mechanism, supervising euro area banks in close cooperation with national supervisory authorities. The ECB's direct oversight covers banks significant for the stability of the euro area financial markets. Member States outside the euro area may participate in the Single Supervisory Mechanism if they wish to do so.

The ECB's monetary and supervisory tasks will be strictly separated, to avoid a potential conflict of interest between the objectives of monetary policy and prudential supervision. For this purpose the ECB will have a supervisory board responsible for the preparation of supervisory tasks. The supervisory board's proposals for decisions would be deemed adopted unless rejected by the ECB Governing Council. National supervisors would continue to perform tasks not conferred on the ECB, such as those relating to consumer protection, money laundering, payment services and branches of banks from third countries.

The European Council reached agreement on the details of the Single Supervisory Mechanism for banks on 13 and 14 December 2012. Work on concrete implementation will be done during 2013, with the aim of having the Single Supervisory Mechanism up and running in early 2014.

The Commission's proposal in June 2012 for a **Directive establishing a framework for the recovery and resolution of credit institutions and investment firms** significantly harmonises and revises Member States' crisis resolution powers and tools. The Directive does not yet include a proposal for a single crisis resolution mechanism, but creates a good foundation for its establishment.

The aim of a Union-level **deposit insurance scheme** is to increase depositor confidence in the functioning of the system in the event of more extensive crises. A mere doubt about the proper functioning of a deposit insurance scheme may lead to a bank run, which would further exacerbate the problem situation. The operation of a Union-level deposit insurance scheme would not be dependent on a single Member State's solvency and would thus strengthen confidence in the sustainability of deposit insurance as a whole.

Box 5.

Proposals of the High-level Expert Group on reforming the structure of the EU banking sector

At the beginning of 2012, a High-level Expert Group was set up to examine the reform of the structure of the EU banking sector. Its task was to consider whether, in addition to ongoing regulatory initiatives, there is a need for structural reforms in the banking sector, with the objective of establishing a safe, stable and efficient banking system serving the needs of citizens, the EU economy and the internal market. Behind the assignment were structural reforms that are being implemented in the United States and the United Kingdom.

The Group submitted its proposals to the European Commission on 2 October 2012. The Chairman of the Group was Erkki Liikanen, Governor of the Bank of Finland.

The Group concluded its work with five proposals that should be implemented at EU level.

1. ***Mandatory separation of high-risk trading activities from banking groups' other activities***

Banks' proprietary trading in securities and derivatives and related market making must be organised into a separate legal entity ('trading entity') within a banking group if the scale of such activity is significant. The separation also concerns, for example, loan commitments to hedge funds and structured investment vehicles (SIVs). Client-driven low-risk securities and derivatives trades need not be shifted to a separate unit.

The trading entity must be capitalised and funded separately in the market and may not accept funds subject to deposit insurance.

The deposit-taking part of a banking group, the deposit bank, is not allowed to support the trading entity directly or indirectly to the extent that its capital adequacy would be endangered or that the general limits on large exposures would be exceeded. Only the deposit bank is allowed to provide retail payment services.

2. ***Additional separation of activities from deposit banking***

In accepting a banking group's recovery and resolution plan, the authorities need to carefully assess whether the credibility of the plan requires, for example, a wider separation of trading activities from deposit banking.

3. ***Investor involvement via the use of designated bail-in instruments***

Banks should issue to investors outside the banking sector a certain amount of debt instruments allowing conversion into bank equity or write-down for the purpose of covering losses. The contractual properties of such debt instruments should be made as transparent as possible. The proposal complements the Commission's draft Bank Recovery and Resolution Directive, which enables a rapid process divergent from normal bankruptcy proceedings to reorganise the operations of a bank in severe financial distress and to cover the losses incurred.

4. ***Capital requirements***

The Commission should assess whether the ongoing international initiatives concerning capital requirements on banks' trading assets are sufficient from the point of view of the European Union. The Commission should also conduct a similar assessment of capital requirements regarding home and real estate related loans.

5. ***Banks' corporate governance***

Banks' corporate governance, such as the role of risk management and reasonable remuneration with a long-term focus, should be strengthened.

Following the publication of the report, the European Commission launched a consultation round and will be responsible for the conduct of the impact assessment. The Commission is expected to announce further measures before summer 2013.

Box 6.

Organisation of macroprudential supervision in Finland

The global financial crisis that came to a head in 2008 triggered the launch of extensive international initiatives with a view to bringing greater efficiency to financial market regulation and supervision. As part of these reforms, work is currently underway to develop 'macroprudential instruments', which authorities could employ to address, whenever necessary, risks threatening the stability of the financial system as a whole. Such macroprudential tools will complement traditional regulation and supervision concerning the capital adequacy and liquidity of individual credit institutions.

A working group set up by the Ministry of Finance to prepare the introduction of macroprudential instruments in Finland submitted its report in November 2012. The legislative proposals of the working group are based on the recommendations of the European Systemic Risk Board (ESRB) and the European Commission's proposal for a new Directive on Credit Institutions.

The working group's proposal includes new additional capital buffers for banks according to the international capital requirements reform (Basel III). The countercyclical capital buffer, which can be adjusted at national level to stabilise credit market conditions, is of particular importance for macroprudential policy. Banks' capital requirements would be tightened if their lending were to increase exceptionally rapidly. Similarly, capital requirements could be restored to their former levels in a downturn.

The working group noted that, in further preparations, it should still be assessed whether a separate systemic risk buffer could be required in Finland of credit institutions most significant for the overall stability of the financial market.

In addition to its proposals regarding banks' capital requirements, the working group suggested that the size of personal bank loans collateralized with residential property or securities could be limited, whenever necessary, relative to the value of the collateral. This type of credit ceiling has been used in Sweden since 2010. The working group proposed that, if a maximum loan-to-value (LTV) ratio were imposed, its strictest limit could be set at 80% for housing loans and at 60% for securities-backed lending.

According to the working group, the Financial Supervisory Authority (FIN-FSA) would be the competent authority to decide both a countercyclical capital buffer requirement for banks to smooth credit cycles and the limits concerning the maximum LTV ratio. These decisions should be taken by FIN-FSA's Board, with ex ante consultations with the Ministry of Finance, the Ministry of Social Affairs and Health and the Bank of Finland. These bodies would also have the right to make proposals on such decisions. In December 2012, the EU reached agreement on the establishment of a Single Supervisory Mechanism (SSM). It foresees a shift of the main responsibility for euro area banking supervision to the European Central Bank (ECB) in 2014. From that year onwards, the ECB will also participate in decisions concerning the application of macroprudential tools. Decisions at national level will be subject to consultation with the ECB. The ECB may also directly, instead of national authorities, apply higher requirements for countercyclical capital buffers if it deems such action necessary.

materialised, would cause serious damage to the financial system as a whole and the national economy. The working group's proposals are discussed in more detail in Box 6 (p. 35).

Financial market infrastructure

The financial system infrastructure refers to the payment systems and securities trading, clearing and settlement systems. Their smooth functioning is crucial for the financial market and the economy as a whole. The Bank of Finland's statutory task is to oversee these infrastructures and participates in their development, with the aim of ensuring the reliable and efficient functioning of these systems.

The Bank of Finland conducts its oversight activities by monitoring the operation of the systems and by preparing oversight assessments, based on oversight principles harmonised jointly by central banks. The Bank for International Settlements (BIS) published in 2012 revised global oversight principles for certain financial market systems, and the Bank of Finland, as a member of the Eurosystem, is committed to following these principles.

Operations of the financial market infrastructure have been mainly reliable during the financial market crisis, thereby supporting crisis resolution. Migration to SEPA (Single Euro Payments Area) credit transfers in 2011 did however not go smoothly, and the transfer of national payments continues to experience disruptions. Banks, headed by the Finnish Federation of Financial Services, have made a number of technical, functional and communications-related improvements that they have been required to make, based on the oversight assessment. Work will continue with the development of contingency procedures.

In its role as a catalyst for the development of financial market infrastructure, the Bank of Finland organised, for the sixth time, a payment forum addressing the future and security of European retail payments, in May 2012. The core group of the SEPA forum, chaired by the Bank of Finland, continued to work for the completion of the SEPA migration. In 2012, banks performed the system changes that were required for the successful changeover in 2013 to services that will replace the national direct debit scheme.

TARGET2-Securities (T2S) is the single platform for securities settlement provided by euro area central banks, which is set to go live in waves, starting in 2015. Based on current plans, the Finnish national CSD will join the T2S platform in late 2016, at the end of the implementation phase. The Bank of Finland has been heavily involved in EU-level preparations and has coordinated national preparations.

In terms of infrastructures, the key regulatory initiatives finalised in the year under review were the overall reform of securities markets legislation and the EU regulation on central counterparties, derivatives and trade repositories. The European Commission is also preparing a regulation on a common regulatory framework for CSDs (CSD Regulation). The Bank of Finland has participated actively also in the preparation of these initiatives.

The availability of cash and banking services constitutes an essential element of a well-functioning financial system. The Bank of Finland has approached the banking sector via the Finnish Federation of Financial Services and required that they ensure the provision of cash and banking services to all customer groups. If banks reduce the number of bank branches and the availability of cash services, they must inform customers how they can access the banking services they may need.

The Bank of Finland has continued the development of the BoF-PSS2 simulator, which is an analysis tool for payment and settlement systems. In August, the Bank organised a 10th Anniversary Simulator Seminar for international user groups. The BoF-PSS2 simulator is used worldwide, by central banks, universities and some clearing houses. The financial crisis in the last few years has further boosted interest in the stress testing of financial market infrastructures by means of simulations.

Payment system services

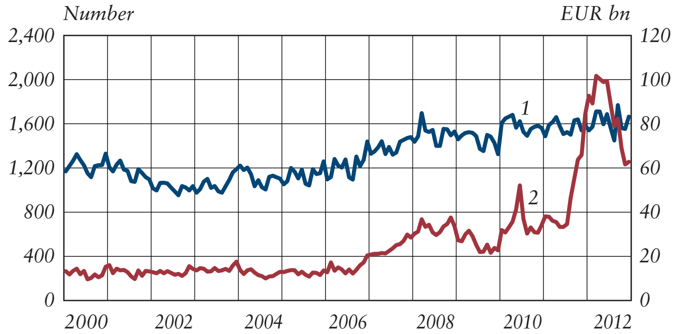
TARGET2 (Trans-European Automated Real-time Gross Settlement Express Transfer system) is a payment system owned and operated by the Eurosystem for the processing of large payments in real time and on a gross basis. The TARGET2 system is also used for executing Eurosystem's monetary policy operations, and all key payment and settlement systems, use TARGET2 for settlement purposes.

In 2012, the TARGET2 system again functioned in line with the high availability requirements set for it. In the year as a whole, the TARGET2 system processed on average 354,000 payments per day, with an aggregate value of approximately EUR 2,500 billion. Of these, the TARGET2 component of the Bank of Finland, TARGET2-Suomen Pankki, executed on average 1,600 payments per day, with an aggregate value of about EUR 85.4 billion. The value and volume of payments processed in TARGET2 rose slightly at the level of the whole system. At the level of TARGET2-Suomen Pankki, the value and volume of payments also increased in 2012 (Chart 11). In December 2012, TARGET2 had 999 direct participants connected to the system through 24 central banks' components. At the end of 2012, the TARGET2-Suomen Pankki component had 23 participants, of which three were ancillary systems.

The interbank retail payment system (PMJ) transmitted payments as batch transfers between 12 PMJ banks operating in Finland. The volume and value of payment transfers processed in the PMJ system contracted substantially already in 2011, due to the introduction of the Single Euro Payments Area (SEPA) and the migration of payments to STEP2, a pan-European system managed by EBA Clearing. The Bank of Finland's operative role in the transfer of funds in the PMJ system will end in 2013.

In 2012, the Eurosystem's TARGET2-Securities (T2S) project started to prepare for operational readiness. Towards the end of 2012, the Bank of Finland launched its own operative T2S project. This project will generate completely new tasks for the Bank of Finland. At the beginning of the year, the Bank of Finland also launched a development project for its new collateral management system (BoF-CMS-Cola). The purpose of the project is to define, design and implement a modern collateral management system for the Bank of Finland's domestic and international needs.

Chart 11.
Daily average volume and turnover of TARGET payments processed for TARGET2-Suomen Pankki system participants



1. *Volume of payments (left-hand scale)*
2. *Turnover (right-hand scale)*

Source: European Central Bank.

Financial asset management

Bank of Finland financial assets and financial asset management

The Bank of Finland manages a total of approximately EUR 16,570 million of financial assets. These assets are comprised of the Bank's own financial assets, the share of foreign reserve assets transferred to the ECB and the Bank of Finland's pension fund assets. At the end of 2012, the value of the Bank's own financial assets, the foreign reserve assets transferred to the ECB and the Bank's pension fund assets amounted to EUR 15,073 million, EUR 912 million and EUR 583 million, respectively.

The Bank's own financial assets comprise gold, foreign reserves and assets denominated in euro. Foreign reserves, in turn, are divided into liquidity portfolio and foreign-currency-denominated investment portfolio as well as items in IMF Special Drawing Rights (SDR) (Table 1). After yields on short-term euro area government bonds had fallen to very low levels – even turning negative in part, the Bank of Finland decided to temporarily reduce the size of its financial assets by EUR 3 billion in the latter half of 2012. This was implemented by reducing the amount of euro area government bonds within the Bank's investment portfolio, which led to a decrease in the relative share of euro-denominated assets in its financial assets (Table 2).

Objectives for the management of financial assets

The Bank of Finland's financial asset management means the investment of the Bank's liquidity portfolio and foreign-currency and euro-denominated investment portfolios in international financial markets.

The objective of the Bank of Finland's financial asset management is to ensure the security and liquidity of, as well as return on, the investments. In managing its

Table 1.

Bank of Finland's financial assets*

	31 Dec 2012 EUR m
Gold	*1,988*
Foreign reserves	*4,773*
SDR	*711*
Liquidity portfolio	*1,200*
Foreign-currency-denominated investment portfolio	*2,862*
Euro-denominated investment portfolio	*8,312*
Total	***15,073***

** Covered Bond Purchase Programmes are not included in financial assets. The impact of SDR hedging transactions has been taken into account by reducing SDR component currencies in the foreign-currency-denominated investment portfolio and by increasing the euro-denominated investment portfolio.*

Source: Bank of Finland.

Table 2.

Distribution of Bank of Finland's financial assets by currency*

Currency	*31 Dec 2012 %*	*31 Dec 2011 %*
Euro (EUR)	*55*	*61*
US dollar (USD)	*19*	*17*
Pound sterling (GBP)	*5*	*5*
Japanese yen (JPY)	*3*	*3*
Gold (XAU)	*13*	*11*
SDR	*5*	*3*
Total financial assets	***100***	***100***

** Covered Bond Purchase Programmes are not included in financial assets. The impact of SDR hedging transactions has been taken into account by reducing SDR component currencies (USD, GBP, JPY) and by increasing the euro amount.*

Source: Bank of Finland.

Table 3.

Return on Bank of Finland's own financial assets in 2011 and 2012

	2012 %	*2012 EUR m*	*2011 %*	*2011 EUR m*
Interest rate return	*2,59*	*380,3*	*3,24*	*460,6*
Exchange rate return	*–0,84*	*–100,4*	*1,06*	*161,6*
Total return	*1,73*	*279,8*	*4,30*	*622,2*

Source: Bank of Finland.

financial assets, the Bank of Finland secures the value of its financial assets and its ability to support the liquidity of the banking system and the economy, whenever necessary. The Bank shall always, when required, be prepared to provide liquidity for central banking needs; on the other hand, however, return on investment shall be good relative to the level of risk involved, in order to safeguard continued favourable development of the balance sheet.

The partly conflicting needs of holding financial assets are met by dividing the financial asset management into two separate portfolios: liquidity portfolio and investment portfolio. The strategic target for the management of the liquidity portfolio is to ensure the Bank's ability to provide liquidity for acute policy needs under all circumstances. The aim of the investment portfolio, in turn, is to safeguard the value of financial assets and the Bank of Finland's ability to meet with its central bank commitments also in the future. The strategic allocation set for investments and the strict restrictions set for credit risk ensure that the Bank of Finland's liquidity and investment portfolios are managed prudently.

Interest rate return on both liquidity and investment portfolios is mainly dictated by the strategic allocation of investments and their duration. The investments of the liquidity portfolio are exclusively composed of US dollar-denominated government debt securities, which ensure the Bank of Finland's ability to provide promptly central bank refinancing in foreign currencies, if needed. A significant part of the investment portfolio is also invested in government bonds. In 2012, several sovereign credit ratings were downgraded, which prompted the Bank of Finland to shift the weight of government bond investments to government issuers with the highest ratings. A small amount of government bond investments are in bonds of euro area countries that have ended up in financial difficulties. Investments are also made in asset classes exposed to credit risk. The strategic duration for both liquidity and investment portfolios is 2 years.

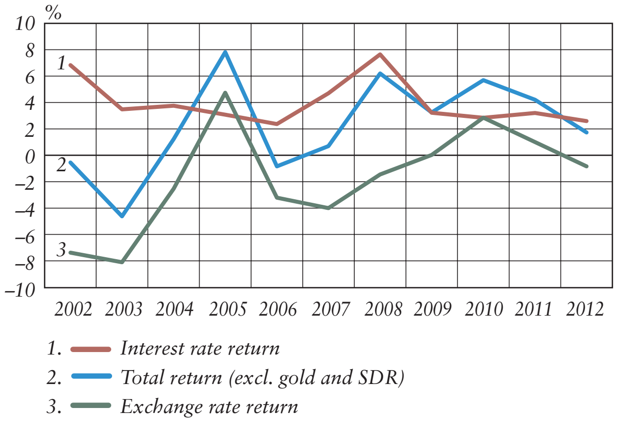
Interest rate developments in 2012 were markedly impacted by central banks' unconventional stimulus measures and low policy rates. In the euro area, the ECB's three-year longer-term refinancing operations and particularly the promise to do whatever it takes to preserve the euro, accompanied by increasing demand in the markets in the second half of the year, led to a significant fall in interest rates. These factors had an upward impact on the value of Bank of Finland investments, which is reflected in good interest rate returns.

Total return on liquidity and investment portfolios in 2012 was 1.73%, about EUR 280 million. Total return breaks down into interest rate return and exchange rate return (Table 3). The exchange rate return on liquidity and investment portfolios amounted to –0.84%, about EUR –100 million. The interest rate return on the liquidity portfolio in 2012 was 0.39%, about EUR 4.9 million. Interest rate return on the investment portfolio in 2012 was 2.79%, about EUR 375 million. The target set for return on the Bank's investment portfolio is the opportunity cost of holding the assets, which is the central bank interest rate for each investment currency. In 2012, the investment portfolio generated average interest rate return of 2.07% in excess of the central bank interest rate. The five-year moving average was 2.58% above the central bank interest rate.

In the second half of the year, following euro appreciation, exchange rate changes affecting the Bank's foreign reserves were negative (Chart 12). During the year, the value of the euro vis-à-vis the US dollar fluctuated within a range of 1.206–1.346, ending up at the end of the year about 2.0% stronger than at the beginning of the year.

The Bank's Investments division is allowed to deviate from the strategic allocation for the investment portfolio within the set risk limits by making active investment decisions. Such decisions are made in respect of allocation weights, interest rate level and yield curve shape, as well as relative values of individual securities. An active management mandate facilitates more rapid responses than the strategic allocation to changing economic expectations. The aim of active management is to generate return in excess of the strategic benchmark. To this end, active management has been assigned a return target relative to the strategic benchmark, calculated in terms of a moving average from the last three years' returns. In the year under review, active management focused on asset classes exposed to credit risk and generated positive returns in the amount of approximately EUR 50 million. Extra return according to the three-year moving average was 0.12%.

Chart 12.
Return on Bank of Finland's own financial assets



Source: Bank of Finland.

Investments

The Bank of Finland's investment portfolio is invested in government and government related securities, covered bonds and corporate bonds in the chosen currencies (Table 4). The investments in the liquidity portfolio are exclusively composed of US dollar-denominated government debt securities.

Investments are diversified to mitigate risks to particular investments, to generate additional return and to improve the investment return/risk ratio. In the management of credit risk, the key principles are the setting of a minimum credit rating threshold for issuers and an effective diversification of investments geographically, by sector and by rating category. The distribution of investments by credit rating and geographically is presented in the Notes on risk management (p. 109).

Reform of financial asset management and its implementation

In 2012, the Bank of Finland continued work on reforming its financial asset management, commenced in 2010. The benchmark for main objective has been to shift the focus of financial asset management towards a more overall approach and to act in accordance with market standards without abandoning a central bank perspective. As an important

Table 4.

Strategic and year-end allocation of Bank of Finland's liquidity and investment portfolios in 2012

Liquidity portfolio	*Strategic allocation (%)*	*Allocation at year-end (%)*
Central government debt instruments	*100*	*100*
Investment portfolio	***Strategic allocation (%)***	***Allocation at year-end (%)***
Central government debt instruments	*68*	*60*
Government-related debt instruments	*20*	*24*
Covered bonds	*6*	*7*
Corporate bonds	*6*	*7*
Cash holdings	*0*	*2*
Total	***100***	***100***

Source: Bank of Finland.

part of the reform work, the benchmark for the Bank's financial asset management was changed to public indices, which are customised so as to ensure that the investment risk profile does not materially change. The new benchmark was introduced on 1 December 2012. The Securities Markets Programme (SMP) was terminated in early September 2012 and the second Covered Bond Purchase Programme (CBPP2) ended in October 2012. The Bank has also maintained its readiness for the activation of the Outright Monetary Transactions (OMT) programme.

When managing its investment portfolios, the Bank of Finland refrains from operating in the same markets where monetary policy is implemented. For this reason, the existence of these programmes meant more restricted own investment activities than normal, particularly in covered bond markets.

Share of the ECB's foreign reserves managed by the Bank of Finland
Management of the foreign reserves of the European Central Bank has been distributed among the Eurosystem national central banks according to their respective capital keys. The foreign reserves managed on behalf of the ECB comprise assets denominated in US dollars and Japanese yen as well as gold and items in IMF SDRs. Foreign reserve management is based on the premise that each national central bank may as a rule manage one portfolio. The value of the net foreign reserve assets of the European Central Bank was approximately EUR 64.8 billion at the end of 2012. Since the beginning of 2012, the Bank of Finland has managed the US dollar-denominated share, amounting to about EUR 912 million at the end of 2012, together with the Estonian central bank as Finland's and Estonia's pooled portfolio of the ECB's foreign reserves. Since the foreign reserve assets of the ECB are used for intervention purposes, security and liquidity objectives are pronounced in the investment of the foreign reserves. The ECB's Annual Report provides additional information on the management of its foreign reserves.

Bank of Finland's pension fund assets
The objective of the Bank of Finland's pension fund is to develop the management of assets held to cover the Bank's pension liability in accordance with the generally accepted principles for the management of pension assets. These may deviate from the principles applied to the management of the Bank's own financial assets. The value of the pension fund's assets was EUR 583 million on 31 December 2012, with the Bank's pension liability amounting to EUR 578 million. Total return on assets in 2012 amounted to about 12%. More information on the pension fund's asset management is available from the fund's own annual report.

Investment risks and risk management

Investment activities are exposed to risks, which risk management seeks to identify, measure and limit. The risks to which the Bank of Finland's investment activities are exposed are market, credit, liquidity and operational risks (for a definition of the risks, see the Financial statements section, p. 108). In managing these risks, use is made of widely employed risk management methods, market and credit risk models as well as sensitivity analyses.

The Bank of Finland's financial assets are invested in order to meet the Bank's international commitments and crisis management needs. For these commitments and purposes, the Bank of Finland holds portfolios of foreign currency-denominated investments and other foreign currency claims, which involve exchange rate risk. On top of this, the Bank has a significant euro-denominated investment portfolio, which is mainly used to cover the liability arising from banknotes in circulation.

From the point of view of risks related to investment activities, the investment categories applied and their shares in total financial assets are of key importance. The Board of the Bank of Finland decides annually the targeted strategic allocation by investment category and the leeway permitted for the shares of investment categories. The investment categories currently in use are government and government-related securities, covered bonds, private-sector bonds and cash.

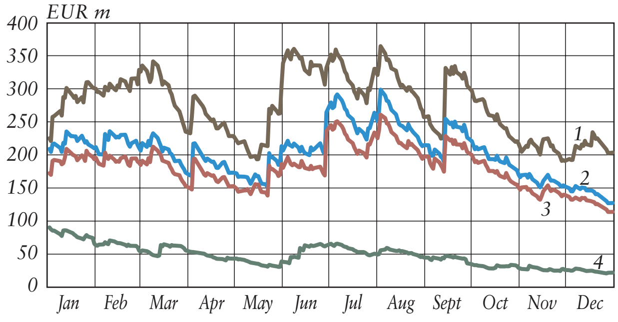
The targeted size and currency distribution of foreign currency-denominated investments and claims are generally assessed by the Bank of Finland at three-year intervals. The previous decision on the matter dates back to the end of 2009, and no new decision had been made by the end of 2012. As in preceding years, the Bank of Finland undertook partial hedging against the SDR exchange rate risk in 2012 by selling other SDR component currencies (US dollar, pound sterling and Japanese yen) against the euro.

In managing interest rate risk, the Bank of Finland mainly relies on 'modified duration', which is a measure of changes in the value of investments when the level of market interest rates changes. The average duration of the investments was shortened to about 2 years from approximately 2.5 years at the end of 2011. Moreover, the Bank of Finland has reduced its financial assets by cutting the amount of euro-denominated government paper in its investment portfolio. Both the reduction in financial assets and the shortening of the duration of investments have mitigated interest rate risk in financial assets. Interest rate risk related to financial assets is also managed by spreading both foreign currency and euro-denominated investments among several debt instruments with different maturities.

The daily levels of total market risk, exchange rate risk and interest rate risk are measured in terms of the VaR figure (Chart 13). A limit based on the VaR figure is also in place to restrict interest rate risk in the investment portfolio relative to the benchmark index. The setting of the VaR limit for the investment portfolio was altered and the size of the limit was redefined as, in its financial asset management, the Bank changed over to using a benchmark index based on public indices, instead of an internally customised investment benchmark, in December 2012.

Credit risk related to securities issuers and counterparties to deposits is gauged and limited daily in terms of a separate credit risk VaR method, at three different confidence levels. The Bank of Finland requires sufficiently good creditworthiness from issuers in whose securities investments are made and from counterparties to trades. This is ensured by defining minimum permitted public credit rating thresholds. Issuers and counterparties are also monitored by market-based indicators. A small proportion of financial assets can also be invested in securities of domestic issuers without public ratings. These issuers are subject to separate scrutiny for establishing the relevant limits.

Chart 13.
VaR figures for market risk in Bank of Finland's financial assets in 2012*



* One-month horizon, 95% confidence level.
Source: Bank of Finland.

Photo: Peter Mickelsson.

Credit risk is also managed by an effective diversification of investments, which the Bank seeks to ensure by establishing limits for issuers, counterparties and debt instruments. During the course of 2012, in the process of establishing limits for individual issuers, a breakdown of investment categories was introduced and the structure of the limit framework, the criteria for determining the limits and the size of the limits were confirmed. This change both harmonised the limit structure relative to other financial asset management and brought more uniformity to the setting of limits within investment categories. In addition to the investment category, the size of the allocated limit is affected by credit rating, currency and maturity, among other factors.

Liquidity risk is managed in such a way that the Bank of Finland has defined a component in its financial assets that must be highly liquid and saleable within a short period of time and at low cost. The Board of the Bank of Finland determines the amount of this liquidity portfolio. Liquidity features are also taken into account in connection with other financial assets. Limits are established for the maturity of investment instruments and for the Bank of Finland's share in individual bond issues or issuers' total debt. In addition, securities lending and short selling are subject to rules of their own.

Operational risk is managed by ensuring staff adequacy and expertise and focusing attention on the reliability of information systems. Reliable and well-documented workflows and instructions related to work also reduce operational risk. Moreover, sufficient backup arrangements are in place and tested regularly.

For more information on risk management and control in investment activities, risk measures and breakdowns, see the Financial statements section (p. 109).

Remaining markka banknotes and coins were redeemed at the Bank of Finland in early 2012, after ten years since the introduction of euro cash.

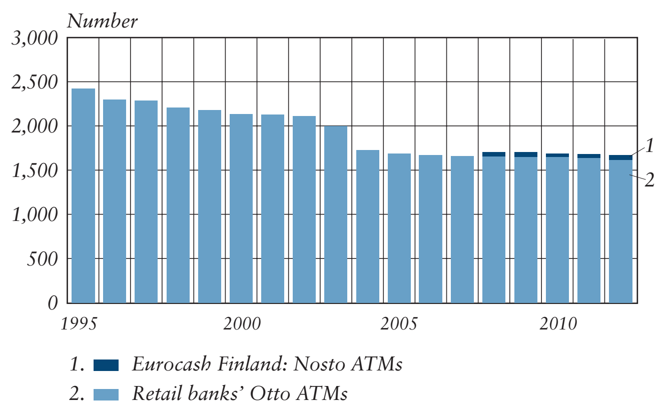
Photo: Peter Mickelsson.

Banknotes and coins

The Bank of Finland is the issuer of cash in Finland. In the Eurosystem, euro banknotes are procured from printing works authorised by the ECB. Each euro area the national central bank (NCB) is responsible for the procurement of an allocated share of the total procurement requirement. In recent years, the Bank of Finland has procured euro banknotes based on a joint tender process initiated by a procurement group of eight euro area NCBs. The Bank of Finland purchases coins that it issues from the State at a nominal price. The Bank of Finland's current contract parties regarding the currency supply are Automatia (ATM network), which is owned by a number of banks, Rekla, which is part of the S Group, and Ålandsbanken for currency supply in the Åland Islands. When it comes to currency supply, the Bank of Finland provides wholesale services and the contract parties are responsible for retail customers.

Although, according to statistics and surveys, the use of cash in domestic retail transactions has reduced, over the decade or more since the changeover to the euro, no significant slowing in the issue of banknotes and coins has occurred. In practice, the growth in cash volumes tends to be as a result of tourism migration, outside the Finnish borders, which means that the amount of cash actually in circulation in Finland hasn't in fact increased in the last few years. The amount of cash distributed to the general public via ATMs and bank branches was slightly down. In terms of euro denominated payments, cash lost its dominant position in the mid-2000s. In recent years, only a third of customers have more often paid in cash for daily consumer-ables.

Chart 14.
Number of ATMs in Finland



Sources: Automatia Pankkiautomaatit and Eurocash Finland.

Changes in the availability of cash

The reduction in the use of cash can also be seen in the availability of cash, particularly in the less densely populated areas of the country. The number of bank branches offering distribution of cash was reduced in 2012 by 76 and now totals 1,005. However, availability of cash via ATMs has not weakened to any significant degree in recent years. In 2012 the number of ATMs was reduced by 25, but 12 additional ATMs under the *Nosto* sign and serviced by the Eurocash service provider, unattached to any of the banks, were installed. (Chart 14). Any problems in the ATM distribution of cash have tended to appear in the more sparsely populated regions of Finland.

As a result of a public debate on access to cash, in the summer of 2012, the board of Automatia decided to make any ATMs that were more than 20 km apart from the nearest ATM exempt from the so-called location compensation. Thus smaller communities, where ATM usage was low, could keep their ATM to ensure access to cash.

In November, the Bank of Finland issued a press release to announce that it considers cash services to be an essential element of a deposit bank's operations. If accessibility to cash services is weakened, banks must inform their customers and must explain what arrangements they have set up to ensure their customers can acquire cash in the future.

Box 7.

Markka notes and coins returned

The redemption period for the markka was set before the Euro was adopted by Finland, at 10 years from the time the markka was ceased to be distributed. Up until 29 February 2012, the usable notes issued after 1945 and markka coins that were still viable currency from then on, could still be redeemed. It was also possible to redeem commemorative coins issued after 1985.

In 2001, the Bank of Finland began its awareness campaign regarding the finite nature of the markka redemption period, which meant returns accelerated leading up to the end of 2012.

In a survey on the redemption of markka notes and coins, commissioned by the Bank of Finland at the end of 2011, 65% of respondents still had some markka in their possession. Approximately 90% of respondents replied that they were aware of the end date for redeeming markka notes and coins. Of those who replied that they or someone close to them still possessed some markka, only 2% said they intended changing the markka for euro.

The Bank of Finland redeemed markka notes and coins via its customer service point in the head office in Helsinki. It was also possible to redeem markka notes and coins at the Bank of Finland, by post. Nearly all the main banking groups in Finland, as well as the foreign exchange company Forex, participated in the final call for markka notes and coins. S-Bank took receipt of bank notes as well as markka coins from its customers that they left at the bank's nearly 100 Sokos and Prisma retail outlets around Finland.

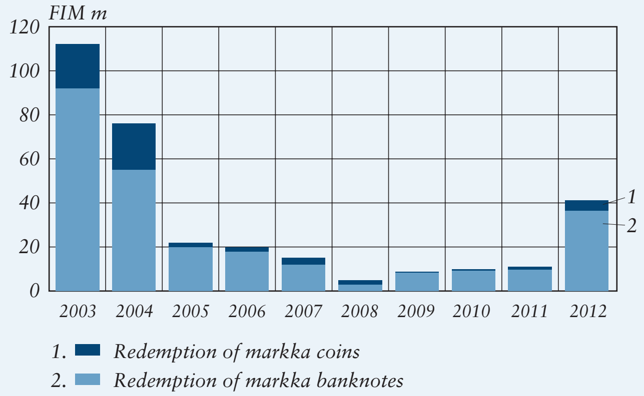
In comparison to the returns of markka notes and coins made in 2011, excluding commemorative coins, returns in 2012 was close on four times the volume and totalled almost FIM 41.3 million in value. (Chart). The value of redeemed markka banknotes and coins amounted to FIM 36.6 million and FIM 4.7 million respectively. Following the end of the redemption period, markka bank notes and coins retain only numismatic or sentimental value.

Counting the final returned notes and coins took several months to complete. The final count required the assistance of additional staff, extra involvement by the cash-in-transit companies and additional coin-counting machines. The last markka redemption credits were finally made in the middle of June 2012, after which the last payments were made into customers' accounts.

Eventually close to FIM 709 million-worth of markka banknotes were still non-redeemed and value of non-redeemed markka coins totalled approximately FIM 917 million. Of the non-redeemed coins, those in normal circulation as change came to about FIM 586 million of the total, while commemorative coins accounted for less.

The Bank directly redeemed 22, 000 deliveries, as returns by post or to the customer service office. Approximately the

Chart.
Return of markka banknotes and coins to the Bank of Finland



Source: Bank of Finland.

same number of deliveries was made from the various banks in Finland.

It is calculated that the non-redeemed banknotes and coins represent 8.3% of the markka that were in circulation at the end of 2011. During 2001, before the changeover took place, close to FIM 3.9 billion in markka notes and coins were paid back into bank accounts. In relation to the peak of markka notes and coins in circulation, in December 2000, 6.6% of that amount is still non-redeemed.

A reduction in the distribution of cash to the public via ATMs and bank branches has been compensated for by the chance to get cash at retail cashier points (known as cashback). The retail outlets belonging to the S-group and the s bank's approximately network of 1,000 outlets will compensate for the reduction in ATMs and bank branches in terms of access to cash. Luottokunta also began a trial arrangement whereby it enabled cash to be withdrawn at retail cashier points. The distribution of cash from retail cashier's (cash back) is becoming more popular, particularly in areas where the provision of banking services has fallen off.

Last markka coins and notes redeemed at the end of February

In January – February 2012 the last markka were able to be redeemed for euro. In those two months four times more markka notes and coins were returned in order to be redeemed than in the same months the previous year. Eventually however, close to FIM 709 million-worth of markka banknotes were still not returned with a value approximately EUR 120 million. The debt to the public, the cash holders, which this represents for the Bank of Finland, will be written off the Bank's balance sheet. Income generated will be paid to the State as part of the Bank of Finland's profit distribution. Markka coins returned to the Bank of Finland have been sold to the State for their nominal base value. A separate Box explains the markka return process in greater detail (p. 46).

Tampere and Kuopio regional offices closed down

In connection with the reorganisation of the Bank's currency distribution arrangements decided on in 2011, two of the Bank's regional offices, involved in the distribution of currency in their respective regions were closed down during the reporting year. The Tampere office was closed down in September and the Kuopio office at the beginning of December 2012. By closing down these regional offices, the Bank of Finland reduced its sorting staff by 11 persons.

By closing down some of the regional offices, we aim to concentrate the Bank's own banknote sorting procedures and make them more efficient and reduce the overlapping provision that had occurred between the Bank and private sorting providers while increasing localised recycling of cash through cash-in-transit depots. The purpose of all this has been to reduce the handling of cash at the public's expense and which, in turn, enables a more competitive approach to payment.

In 2012 the ECB published a 13-country sample from an extensive and systematic cost analysis survey based on 2009 data. Finland, Sweden and Denmark represented the Nordic countries surveyed. The cost to society of retail payments (cash, card, direct debit and traditional credit transfer) were calculated as being fractionally below 1 per cent of GDP. The figure for the total cost was a little below or close to the study average in Finland. In the Nordic countries, with their highly-developed and extensively-used card payment systems, debit cards, in terms of unit cost, are by far the cheapest form of payment. In other countries, cash as a means of payment remains a cheaper instrument, which is explained by the larger volume of transactions in relation to card payments. Along with the reduction in cash, the individual cost per payment threatens to rise, as cash distribution and handling costs are difficult to bring down in line with the diminishing use of cash. Whereas when the use of cards for retail payments increases, the individual transaction cost drops as the share of fixed system costs falls. Therefore the economies of scale also apply in the future in favour of the use of cards as a means of payments.

Clear slowing in large denomination banknotes

The issue of the more frequently-used banknote denominations continued to be growing robustly in Finland, last year. Part of the demand for EUR 50 is based on tourism to other euro countries. On the other hand more EUR 500 and 100 denomination banknotes were returned than were ordered. Spending in Finland by tourists is seen to be the reason for the continuing high volume of returned EUR 100 notes. Orders placed with the Bank of Finland for EUR 500 notes was smaller than returns for the first time ever, in 2012 (Chart 15). The reason for this is seen to be a clear drop in demand and improved recirculation of this denomination of banknote in Tampere and Vaasa.

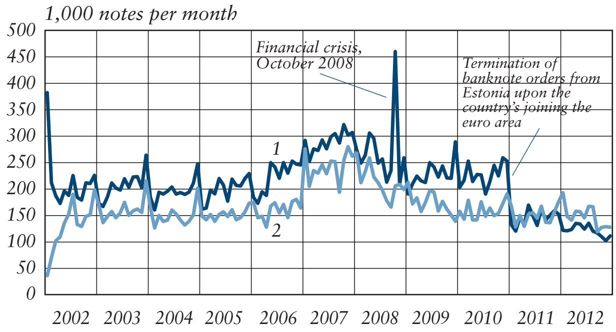
Preparations for the issue of new euro banknote designs

The Eurosystem will commence the issue of new designs of EUR 5 banknotes in May 2013. The entire range of banknotes will gradually be replaced with new designs. In 2014, it is planned that EUR 10 denomination notes will be replaced. The security

The exchange of markka for euro terminated at the end of February 2012. In order to qualify for redemption, at least half of the surface area of a banknote had to be left.

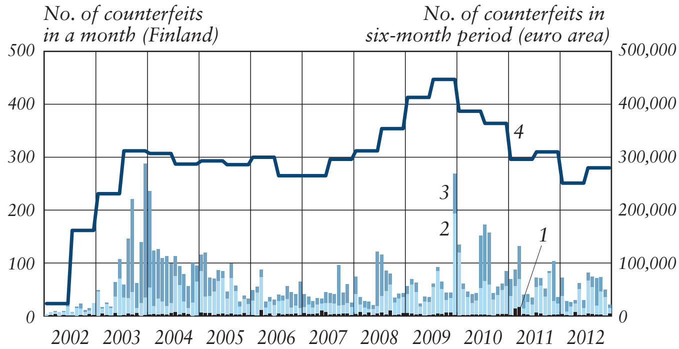
Photo: Peter Mickelsson.

Chart 15.
EUR 500 notes ordered from and returned to the Bank of Finland



Source: Bank of Finland.

Chart 16.
Counterfeit euro banknotes in Finland and the euro area by denomination



Sources: European Central Bank and Finnish National Bureau of Investigation.

features on banknotes are updated at approximately 10-year intervals as printing and copying technology develops. Otherwise there could be a growing counterfeit risk. The new EUR 5 banknote's three key visual security features were revealed to the public in November 2012, and the overall appearance of the new design was revealed in January 2013.

Pilot deposit arrangements set up on the Åland Islands

In line with BoF's currency distribution guidelines of 2011, the changeover to a cash storage system based on the current credited interest-based arrangements with the Bank's private outside parties to the notes held to order (NHTO) system used in many other euro countries was commenced. A pilot scheme commenced in the Åland Islands in April 2012.

Further fall in number of counterfeit banknotes

The number of counterfeit euro banknotes found in circulation has shown promising signs of falling. Worldwide, during 2012, slightly more than 0.5 million counterfeits were discovered with a value of EUR 24 million. Within the euro area the denomination of the most commonly found counterfeit was EUR 20 banknotes and EUR 50 was the second-most commonly found. In terms of numbers, these represented 80% of all the counterfeits found from circulation. The denomination most susceptible to being counterfeited is closely related to how commonly used the denomination is, even though larger denomination banknotes are counterfeited relatively more often due to their apparent high face value. The risk of being caught increases considerably when handling high denomination notes as the person receiving the note is likely to be that much more wary.

The number of counterfeits distributed in Finland is on the downturn. In all we discovered 620 counterfeits, the third smallest number in all euro countries. The most commonly occurring denomination counterfeit banknote in Finland is the EUR 50 note, which occurred extensively in circulation in July-August 2012. (Chart 16).

Other operations

Research

Economic research at the Bank of Finland supports the Bank's policy preparation, operational development and external influence. The aim of the Research unit is to produce internationally top-ranking research in areas of key importance to the Bank's activities. This allows the Bank to make a strong contribution to the debate on monetary policy and financial market development, both in Finland and internationally.

The Bank of Finland's Research unit grew to its full dimensions in autumn 2012. The focus in the revamped structure of research shifted during 2012 to implementation of the research policy guidelines and normalisation of operational forms.

Monetary research

Monetary research in the Bank of Finland is concentrated in the Research unit within the Monetary Policy and Research department. The Bank's new research policy guidelines emphasise stability and the mutual interplay between the financial markets and the real economy.

Financial crises, international economic recessions and the sovereign debt crisis were visibly represented in our economic research in 2012. The issue of general government sustainability and the possible stabilising and expansionary impacts of non-standard monetary policy measures have been prominent research themes.

In addition to these acute issues, the international research community has actively invested energy in developing alternative research approaches and analytical techniques. Modelling work continued on integrating into macroeconomic analysis research into operational weaknesses in the financial markets and financial intermediation, and particularly the credit markets. To date, this work has largely concentrated on synthesising micro and macroeconomic approaches to examining banking business and instabilities therein.

In 2012, the research projects and publications of the Bank of Finland's Research unit focused on numerous topical themes, such as housing market price fluctuations and their macroeconomic effects, budgetary planning and debt accumulation in the euro area under uncertain conditions, the interdependency between household optimism and borrowing and the macroeconomic impacts of credit regulation. The Research unit's projects also dealt with key issues relating to corporate funding and corporate governance culture. Research projects administered by the Research unit in 2012 gave rise to 37 discussion papers.

According to the results of research projects, anticipatory news items are among the factors that influence household behaviour on the housing market as well as fluctuations in house prices. At the same time, credit market cycles have a clear connection with extreme swings in house prices. The state of the credit markets also influences extreme swings in the economy as a whole caused by disturbances originating elsewhere than the credit markets. In particular, a low rate of borrowed funds moderates extreme cyclical movements driven by beliefs and helps stabilise the evolution of household debt and consumption as well as GDP.

On the other hand, statistical data gathered in Finland suggests that those households with a tendency to optimism that consequently make optimistic forecasting errors in relation to their own finances would appear to become more indebted than other households and are also more likely than other households to report problems related to indebtedness. These types of optimistic households also react less to their forecasting errors than other households do to their corresponding errors.

Projects that examined key issues in corporate governance looked particularly at the significance of the independence of company board members during the financial crisis, boards' influence on the terms of bank loans to their companies and the influence of asymmetrical information on banks' credit ratings. According to our research results, only genuinely independent board members improve the performance of their companies during financial crises. Moreover, boards experienced as independent have a beneficial effect on the terms of bank loans extended to their companies. On the other hand, the impact of a bank's balance sheet indicators on its international credit rating depends on how serious a problem asymmetric information is on the financial markets on which the bank operates. Thus, the results support transparency and effective financial market legislation.

Scientific meetings

In the year under review, the Bank of Finland organised several international scientific meetings on issues touching on its research activities. In June, the Bank cooperated with the Central Bank of Brazil, the Journal of Financial Stability and the Central Bank of the Republic of Turkey in organising a 2-day international conference in Istanbul under the title 'Financial and Macroeconomic Stability: Challenges Ahead'. In August, the same organisations organised, in the Brazilian city of São Paulo, the 2-day annual 'Seminar on Risk, Financial Stability and Banking'. The themes of both events were very topical, and the atmosphere of crisis influenced the flavour of debate.

In October 2012, the Bank of Finland hosted in Helsinki an international scientific meeting entitled 'Search Frictions and Aggregate Dynamics', which was organised, for the thirteenth time, in cooperation with the London-based Centre for Economic Policy Research. On this occasion, the Federal Reserve Bank of Philadelphia was also among the organisers. Search frictions have long been considered an important distinguishing feature of labour and product markets and their addition to macroeconomic models has been a key research priority. The studies selected for presentation at the meeting sought to grasp the macroeconomic significance of search frictions and the scale of their possible impacts.

In November 2012 the Central Bank of Luxembourg organised an international meeting entitled 'Financial Stability, Regulation and Bank Risk in the Light of the Crisis'. The Bank of Finland contributed to the arrangements along with the central banks of Brazil and Turkey and the Journal of Financial Stability. The presentations at this meeting considered the possible impacts of the crisis on financial market regulation and banking risks.

Bank of Finland Institute for Economies in Transition

The research efforts of the Bank of Finland Institute for Economies in Transition (BOFIT) concentrate mainly on applied macroeconomics with a focus on monetary and exchange rate policy issues and the functioning of financial systems. The primary target countries are Russia and China, although individual research topics often require the use of more extensive comparative data. Collaboration between research, monitoring and forecasting forms the foundation for the work of BOFIT's experts.

In 2012, BOFIT continued to publish (in both Finnish and English) its popular weekly digest of economic news items from Russia and China. These go out to around 2,000 subscribers all over the world. Another aspect of BOFIT's work was the presentation of topical information releases on the Russian and Chinese economies and the publication of reports based thereon. In addition to the needs of research and monitoring, BOFIT's information service also caters to the needs of external customers.

Academic studies are published initially in BOFIT's own Discussion Papers series, of which 31 were published in 2012. In addition, 5 shorter reports were published in the BOFIT Online series. As well as the work of the in-house researchers, the Discussion Papers series also includes articles by visiting scholars and studies presented at BOFIT's seminars and workshops.

In 2012, research into financial systems as well as Russia and China were still particularly important areas of activity for BOFIT. Another object of research was the integration of the Chinese economy into the global economy and the impact of Chinese growth on other economies around the world.

In September 2012, BOFIT organised a scientific meeting on the internationalisation of China's financial markets and the deregulation of capital movements under the title 'China's financial markets and internationalization of the renminbi'. Chinese authorities have already taken several steps towards freeing up both the domestic financial system and movements of foreign capital, but at the present moment it is still unclear how quickly the country's new administration wishes to progress in this area. Major speakers at the meeting included Yu Yongding (Chinese Academy of Social Sciences) and He Dong (Hong Kong Monetary Authority, HKMA). Professor Yu emphasised the importance of timing in the

The Bank of Finland and the Oesterreichische Nationalbank arranged the CEEI 2012 Conference on European Economic Integration in Helsinki in November 2012. The photo depicts the central bank governors Erkki Liikanen and Ewald Nowotny, Professor Danny Quah and Seppo Honkapohja, Member of the Board of the Bank of Finland.

Photo: Peter Mickelsson.

reform process and that gradual reforms would probably work better. For his part, He Dong, head of research at the HKMA (Hong Kong's central bank) told how China is now experimenting with freer capital movements through Hong Kong. This has led to rapid growth in use of the Chinese currency in Hong Kong.

In November, BOFIT, in cooperation with the Oesterreichische Nationalbank, organised a major international conference in Helsinki (CEEI 2012) on the achievement of balanced growth in the countries of Central and Eastern Europe. The conference also discussed how the economies of the region have adjusted to the effects of the economic crisis in Europe. The main speakers at the conference were Danny Quah (London School of Economics), Florencio López-de-Silanes (EDHEC Business School) and Seppo Honkapohja (Bank of Finland).

Statistics

The Bank of Finland is responsible for producing the Finnish data for euro area statistics on monetary financial institutions (MFIs) and other financial and balance of payments statistics, together with corresponding national data. In 2012, statutory European System of Central Bank (ESCB) statistics and statistics required by international organisations were produced as required and issued according to schedule.

During the year under review, the development and expansion of statistical compilation focused particularly on the needs of financial stability analysis. At EU level, the European Systemic Risk Board (ESRB) published for the first time in September a package of 45 indicators to help in monitoring the stability of the financial system in Europe. At the Bank of Finland, similar indicators were introduced to serve the needs of national macroprudential supervision.

Work continued on developing the micro data used in preparing ESCB statistics and expanding their use. The advantage of detailed data and databases is that they can be used flexibly for different purposes without any extra reporting burden. Quality control guidelines were created for the ECB's centralised securities database: these oblige national central banks to maintain comprehensive, up-to-date basic data on their own country's securities. The Governing Council of the ECB also approved a regulation on securities holding statistics. The new statistics are to be based on basic security-specific data, and continuous compilation will be commenced in 2014 so as to cover the situation as at the end of 2013. The trend towards using collections of micro data was also visible when national central banks began to report balance sheet data on their largest banks to the ECB at unit level to facilitate deeper analysis of the monetary economy and monetary policy transmission.

Distribution of statistics via online services was further developed. The European System of Central Banks is committed to providing the statistics it produces to the public as a free service irrespective of the intended use of the statistics. In relation to this, the Bank of Finland published in September together with the ECB and several other central banks principles for the reuse of ESCB statistics that permit use of the data for commercial purposes as well.

Implementation of the requirements contained in the IMF's sixth Balance of Payments Manual progressed according to schedule, and the new system of data collection and compilation is ready to be introduced in the first half of 2013.

With regard to balance of payments statistics, the Bank of Finland Board decided in May to explore the possible transfer of statistical compilation functions from the Bank to Statistics Finland. The expert working group that carried out the preparatory study delivered its final report in October, on the basis of which it was decided to commence formal negotiations with Statistics Finland.

International operations and activities

The Bank of Finland in the European System of Central Banks

The Governing Council of the European Central Bank (ECB) is the highest decision-making body in the Eurosystem. It is composed of members of the Executive Board of the ECB and the governors of the national central banks of countries that have adopted the euro. Bank of Finland Governor Erkki Liikanen is a member of the Governing Council, and his personal alternate member is Deputy Governor Pentti Hakkarainen.

The Governing Council generally convenes twice a month in Frankfurt. At the first meeting of the month it conducts a thorough evaluation of developments in the monetary and real economies and takes its monthly monetary policy decision. In the second meeting of the month, discussion generally focuses on other tasks and responsibilities of the ECB and the Eurosystem. In 2012, two of the Governing Council's meetings were held outside Frankfurt: one organised by the Bank of Spain in Barcelona and the other by the Bank of Slovenia in Ljubljana. In addition, the Governing Council also held teleconferences and made decisions using a written decision-making procedure.

The Governor of the Bank of Finland is also a member of the ECB's General Council, which includes the governors of all the national central banks of EU Member States plus the President and Vice-President of the ECB. The General Council meets an average of four times a year.

In 2012, Board members and experts from the Bank of Finland participated in the work of the European System of Central Banks (ESCB) at all stages of preparation. The Bank of Finland had at least one representative on each of the ESCB committees as well as the Budget Committee, the Eurosystem IT Steering Committee and the Human Resources Conference. The bank was also represented on most of the working groups (altogether approximately 60). During the year, a total of 11 Bank of Finland employees were seconded to the ECB on fixed-term contracts of varying lengths.

The Eurosystem also has a number of temporary, high-level committees. Members of the Bank of Finland Board or experts at the bank attended the meetings of these committees in accordance with their own areas of responsibility.

The ECB also has an Audit Committee, whose task is to improve ECB and Eurosystem administration and supervision. It is composed of three members of the Governing Council and is currently chaired by the Governor of the Bank of Finland, Erkki Liikanen.

International Monetary Fund

The Bank of Finland has a statutory responsibility for Finland's contacts with the International Monetary Fund (IMF). Finland's representative on the highest governing body of the IMF, the Board of Governors, was Bank of Finland Governor Erkki Liikanen, with Deputy Governor Pentti Hakkarainen as his alternate member. The IMF's Board of Governors held its annual meeting in Tokyo in October.

The IMF's advisory International Monetary and Financial Committee (IMFC) met in April and October. The day-to-day operations of the IMF are the responsibility of an Executive Board of 24 Directors and the Managing Director, who also serves as Chairman.

Finland belongs to the Nordic-Baltic constituency within the IMF. In the review year, coordination of the constituency was led by Denmark, with participation from the Bank of Finland and the Ministry of Finance. The purpose of coordination is to form a common position on matters to be determined by the IMF Board.

The Nordic-Baltic Monetary and Financial Committee (NBMFC) met before the IMFC meetings in April and October in order to prepare the constituency's policy positions. The Bank of Finland was

Box 8.

Bank of Finland representatives at the ECB, EU and other international bodies in 2012

Bank of Finland representatives on the Governing Council of the ECB

Erkki Liikanen, member
Pentti Hakkarainen, alternate member

Antti Suvanto, assistant (until 31 August 2012)
Tuomas Saarenheimo, assistant (from 1 September 2012)
Maritta Nieminen, assistant (until 31 October 2012)

Mika Pösö, assistant (from 1 November 2012)
Hanna Westman, assistant (from 1 November 2012)

Bank of Finland representatives on ESCB committees, the Budget Committee, the Eurosystem IT Steering Committee and at the Human Resources Conference

Accounting and Monetary Income Committee
Tuula Colliander

Banknote Committee
Mauri Lehtinen
Kari Takala

Budget Committee
Pirkko Pohjoisaho-Aarti

Committee on Controlling
Pentti Hakkarainen, chair (6 June 2012)
Annika Karjalainen (until 9 April 2012)
Sirpa Joutsjoki (10 April –12 June 2012)
Tuula Colliander (from 10 April 2012)
Marko Ala-Pöntiö (from 13 June 2012)

External Communications Committee
Mika Pösö (31.8.2012 saakka)
Jenni Hellström (1.9.2012 alkaen)
Richard Brander

Eurosystem IT Steering Committee
Seppo Honkapohja

Financial Stability Committee
Kimmo Virolainen
Jouni Timonen

Human Resources Conference
Antti Vuorinen

Information Technology Committee
Petteri Vuolasto
Raimo Parviainen

Internal Auditors Committee
Erkki Kurikka
Pertti Ukkonen

International Relations Committee
Pentti Hakkarainen
Janne Hukka (until 4 October 2012)
Olli-Pekka Lehmussaari
(from 5 October 2012 alkaen)

Legal Committee
Maritta Nieminen
Eija Brusila

Market Operations Committee
Harri Lahdenperä
Tuomas Välimäki

Monetary Policy Committee
Tuomas Saarenheimo
Jarmo Kontulainen

Payment and Settlement Systems Committee
Marianne Palva
Kirsi Ripatti

Risk Management Committee
Antti Nurminen
Kaarina Huumo

Statistics Committee
Laura Vajanne
Harri Kuussaari

Bank of Finland representatives on EU committees

European Systemic Risk Board, General Board
Erkki Liikanen

Economic and Financial Committee
Pentti Hakkarainen
Olli-Pekka Lehmussaari, alternate member

Economic Policy Committee
Lauri Kajanoja

European Banking Authority's Board of Supervisors
Kimmo Virolainen

Committee on Monetary, Financial and Balance of Payments Statistics
Laura Vajanne

Balance of Payments Committee
Harri Kuussaari

Bank of Finland representatives at the Bank for International Settlements (BIS), the IMF and the OECD

BIS meetings of central bank governors
Erkki Liikanen

IMF Board of Governors
Erkki Liikanen
Pentti Hakkarainen, deputy member

OECD Economic Policy Committee
Tuomas Saarenheimo
Samu Kurri

OECD Financial Markets Committee
Jyrki Haajanen

represented on the NBMFC by Deputy Governor Pentti Hakkarainen. The NBMFC meetings were prepared by a committee of alternate members, on which the Bank of Finland had a representative.

Under Article 4 in the IMF's Articles of Agreement, IMF experts prepare an annual assessment of the state of the Finnish economy and the economic policy pursued in Finland. According to the assessment conducted in the review year, the fundamentals of the Finnish economy are strong and discipline in management of the public finances has remained robust. The financial sector has, in general, remained strong. The assessment supports the Finnish Government's fiscal consolidation programme that stretches to 2015, albeit the achievement of its objectives may require additional measures.

Due to the large volume of loans provided by the IMF to its members, the Fund was compelled to strengthen its base funding from membership shares with the help of its New Arrangements to Borrow (NAB) facility. Finland is a party to this arrangement, which was in use throughout the review year.

EU committees

The European Systemic Risk Board (ESRB) is part of the European System of Financial Supervision. It concentrates on macroprudential supervision of the financial markets. Its task is to identify risks to the financial system as a whole and to mitigate them by issuing warnings and recommendations. The ESRB comprises a General Board, a Steering Committee, a Secretariat, an Advisory Scientific Committee and an Advisory Technical Committee. Decisions are taken by the General Board, on which Bank of Finland Governor Erkki Liikanen is a voting member. Another member is FIN-FSA Director General Anneli Tuominen. The ESRB meets an average of four times annually. The Bank of Finland also has a representative on the Advisory Technical Committee.

The task of the European Banking Authority (EBA) is to ensure effective and consistent supervision and regulation of banks in the EU and strengthen international supervisory coordination, for instance by issuing regulatory and supervisory standards as well as mediating and settling disagreements between competent national supervisory authorities. In the year under review, the EBA designed and implemented an investigation into the capital adequacy of large banks operating within the EU and defined temporary additional capital requirements for the banks concerned. The voting members of the Board of Supervisors – the EBA's principal decision-making body – are the heads of the relevant competent authorities in each Member State and a representative from each central bank that does not perform the tasks of banking supervision.

The key responsibility of the European Union's Economic and Financial Committee (EFC) is to prepare the meetings of the ECOFIN Council of economic and finance ministers of the EU Member States. In 2012, the work of the EFC focused particularly on management of the European debt crisis, close monitoring of the economic situation in EU countries and the increased need for coordinating economic policy.

Each EU Member State can appoint a maximum of two members to the Committee, one from their finance ministry and one from their national central bank. Each member has a personal alternate member. The meetings are also attended by representatives of the ECB and the European Commission. The EFC has convened in both restricted and extended composition. Representatives of the central banks participate in the latter. The Bank of Finland's representative on the EFC is Deputy Governor Pentti Hakkarainen.

The EFC has also met twice a year in the role of the Financial Stability Table. Representatives of EU supervisors have attended these meetings and reported on the condition of the Union's financial markets.

The work of the EU's Economic Policy Committee (EPC) is focused on preparation of the Union's economic policy guidelines and structural policy issues. Represented on the EPC are Member States' finance ministries, some national central banks (including the Bank of Finland) as well as the European Commission and the ECB.

The Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) has representatives from, on one hand, national statistical authorities and Eurostat, and, on the other hand, the national central banks and the ECB. The Committee's remit is to foster better statistical cooperation between the ECB and Eurostat and to issue statements on statistical matters.

The members of Eurostat's Balance of Payments Committee are the statistical authorities and central banks responsible for balance of payments statistics. The purpose of the Committee is to assist Eurostat in implementation of the Regulation of the European Parliament and of the Council on Community statistics concerning balance of payments.

Other international activities

The Bank of Finland participates as a shareholder in the activities of the Bank for International Settlements (BIS). The Governor of the Bank of Finland also took part in the regular Governors' meetings. In addition to the global economy and topical issues relating to the financial markets, the discussions covered current challenges relating to the stability of the financial system and the management of indebtedness. The Bank of Finland was represented at the Annual General Meeting of the BIS in June.

The Bank of Finland is also involved in the work of the Organisation for Economic Cooperation and Development (OECD).

In 2012, members of the Bank of Finland Board also attended several other international meetings, seminars, conferences and other events.

Nordic cooperation continued in the customary manner, and this time the governors of the Nordic central banks, accompanied by experts from their banks, met in May in the Finnish city of Mikkeli. The main theme of this meeting was macroprudential supervision. Moreover, the governors of the Nordic central banks also met each other on several occasions at Nordic meetings as well as in other international contexts.

Communications

The general public's awareness of the role and activities of the Bank of Finland and the Eurosystem is enhanced by effective and targeted communications providing information on monetary policy, the financial markets and means of payment as well as the activities of the Bank of Finland and the Eurosystem in these areas.

Topics covered included central bank risks and the end to markka redemption

The sovereign debt crisis was prominent in a number of ways in the Bank of Finland's external communications during the review year. Both in public discussions and in contacts with the Bank from members of the public there have been questions over the role and responsibilities of the Bank of Finland in managing the common monetary policy of the Eurosystem. Board members and managers as well as experts at the Bank have dealt with these themes in their speeches, writings and interviews. The risks of central bank operations were also a key topic during the Governor's annual appearance before the Commerce Committee of Parliament.

The Bank of Finland Museum organised several public events on topical issues in the economy, while the blog on the Bank's website has had entries on issues of topical interest to central banking. In addition to the blog, the Bank of Finland has also become more visible in other social media. For instance, the Bank communicates its events in Twitter. Both the Museum and the Bank of Finland Library also have their own Facebook pages.

The end of the mandated markka redemption period at the end of February (see Box 7, p. 46) was reflected in numerous contacts from the public, mainly by telephone or email. The end of the redemption period also attracted a lot of attention in the media early in the year. Public awareness of the situation was ascertained in advance by commissioning a survey from the market research company Taloustutkimus. According to the results, most Finns were aware the markka redemption period was coming to an end.

In November, the Bank of Finland emphasised in a press release that it considered ensuring the availability of cash and banking services to be a key component in a well-functioning banking system. The Bank considered it important that banks shoulder their responsibility to society in this matter.

A substantial international profile

The High-level Expert Group on reforming the structure of the EU banking sector chaired by Bank of Finland Governor Erkki Liikanen delivered its final report to the European Commission in October. In addition to the Governor in the chair, numerous other Bank of Finland staff also contributed to the work of the Expert Group.

The Expert Group's recommendations for structural reforms to the banking sector (see Box 5, p. 34) attracted considerable attention in the media all over Europe. Among others, the Financial Times devoted several articles to discussion of the recommendations. In addition, German and French media outlets, in particular, reported on them extensively. The Expert Group's final report was presented to the Finnish press at a specially arranged event.

Governor Liikanen took part in numerous speaking events around Europe devoted to discussing the Expert Group's results. The Governor was also heard on the topic in the UK Parliament in October.

In November, the Bank of Finland, in cooperation with the Oesterreichische Nationalbank, organised an international conference in Helsinki entitled 'CEEI 2012 – Conference on European Economic Integration: Achieving balanced growth in the CESEE countries'. This high-level conference discussed the European economy's recovery from the crisis. There were contributions from leading researchers, central bank governors, representatives of the financial sector and representatives of international news agencies and the domestic media.

Euro & talous Bulletin dealt with the outlook for the economy and the financial system

The Bank of Finland's most important publication, the bulletin Euro & talous [also published in English as the Bank of Finland Bulletin, with occasional minor differences in content] was published 5 times in 2012. Each edition of Euro & talous was launched with a briefing for the press.

The online publication series BoF Online saw 17 articles published during the course of the year.

Bank of Finland publications are available on the Bank's website. Some are also published in print. Information on the main publications in 2012 is provided in the appendix on page 123.

The Bank's website is an important channel for communication with the public. It provides topical information on the economy and the financial markets as well as the work of the Bank of Finland and the Eurosystem.

Bank of Finland fosters economic skills among the young

One goal of the Bank of Finland's communications is to foster financial knowledge, particularly among the young. In association with the Federation of Finnish Financial Services and the Association for Teachers of History and Social Studies in Finland, the Bank of Finland organises an annual 'Economic Guru' competition for upper secondary students. The Bank also organised the Finnish event for the 'Generation €uro' competition for teams of secondary students held in different countries of the euro area.

In 2012, Economic Guru was won by Daniel Sazonov from the coeducational secondary Helsingin Suomalainen Yhteiskoulu, Helsinki. Generation €uro, held for the first time in 2012, was won by a team of upper secondary students from the coeducational secondary Lahden yhteiskoulu, Lahti.

A two-year research project to find ways of fostering financial knowledge among young people (TOKATA) was concluded at the end of 2012. The Bank of Finland was a party to the project, with the research being conducted by the National Consumer Research Centre and the Jyväskylä University School of Business and Economics.

The Bank of Finland Museum serves as the Bank's visitor centre. During the course of the year, around 11,000 people visited the Museum. In January 2012, the book Viimeiset markat – Suomen markkamääräiset setelityypit 1945–2002 ('The last markkas – Finland's markka-denominated banknotes 1945–2002'), written by the Bank of Finland's and European Central Bank's banknote expert Antti Heinonen and published by the Bank of Finland, was presented to the public in the Museum. A seasonal exhibition based on the book was on display in the Museum almost throughout the year.

During the year, numerous public events were organised in the Museum, in the Studia monetaria lecture series and Talouskirja Nyt discussions on topical books in the field of economics and finance. There was also a publication event in April for the second volume in the new history of the Bank of Finland. Jointly with the European Movement in Finland, the Bank organised a discussion on the challenges the debt crisis poses for the EU.

The team from the Lahden yhteiskoulun lukio upper secondary school has just been declared the winner of the Generation €uro Students' Award, organised by the Bank of Finland.

Photo: Peter Mickelsson.

Photo: Peter Mickelsson.

Management and personnel

Review of the strategy

The Bank of Finland's strategic guidelines that are used to direct the Bank's development were revised in 2012. New performance indicators were also specified at the same time. This work was based on the Bank of Finland's mission and vision statements which had been revised a year earlier (see Box 10, p. 63). The updated strategy was incorporated in the objectives and results framework that is used for steering and assessing the Bank's activities.

The new strategy is based on developing competence-based influence and on efficient and qualitatively competitive production of operative central banking services. The key current changes in the operating environment relate to the banking union, ie the creation of common stability policy and banking supervision for the euro area, and the associated enhancement of macroprudential supervision in Finland. Because of these changes the Bank of Finland aims to increase its contribution to financial market policy. Consequently, the emphasis of expertise is on combining macroeconomic and financial market perspectives.

The strategy work paid particular attention to the perspective of external stakeholders in a broad sense. The Bank of Finland's activities are to be developed and assessed according to how society trusts the Bank and how the Bank is considered to perform its activities. In addition to the external perspective, the strategy also emphasised ongoing improvement of productivity and efficiency.

The updated objectives and results framework, which controls the implementation of the strategy, consists of 11 concrete objectives in the form of guidelines, and indicators that monitor the achievement of the objectives. The strategic guidelines are described in more detail in Box 9 (p. 62).

The objectives and results framework builds on four perspectives:

The perspective of external stakeholders is described via the Bank of Finland's influence and service capacity. The financial perspective emphasises capital adequacy and efficient use of resources. Risk management, together with assessing and ensuring capital adequacy, are strategically important issues during the financial crisis. The perspective of internal processes, in turn, sets objectives for the quality of operative processes, eg in terms of productivity and environmental sustainability. Finally, the perspective of learning and growth encompasses competence improvement, management and promotion of wellness at work. Enforcement of equality is also important.

The indicators were reviewed in an interactive process in which Banks' departments played a central role. In addition to Bank-level indicators, specific indicators were determined for each department and core process. The indicators were derived from the strategy and they steer the activities of each department and core process. Objectives were set eg for initiatives in international forums and successful participation in the Eurosystem's joint projects.

Box 9.

Bank of Finland's revised strategic guidelines

(December 2012)

Influence and service capacity

1. The Bank of Finland's influence builds on high-level expertise and research that combines both macroeconomic and financial market perspectives.
2. The Bank of Finland participates in maintaining the service level of the financial markets and market infrastructure, and offers competitive central bank services to financial market participants.
3. Public confidence in the Bank of Finland and awareness of the Bank's and the Eurosystem's activities are promoted through effective, well-targeted communication.

Efficient use of resources and capital adequacy

4. The Bank of Finland's financial assets are invested in a secure and productive manner in accordance with international commitments and crisis management requirements.
5. The aim is to enable stable profit distribution to the State without jeopardising the Bank's capital adequacy.
6. The Bank of Finland is one of the most efficient EU central banks.

Efficiency of internal processes

7. The quality of the Bank of Finland's analytic and operative processes is actively improved.
8. The Bank of Finland's ICT solutions enable top-quality, influential work by our experts.
9. The activities of the Bank of Finland are environmentally sustainable.

Building the future

10. The Bank of Finland raises levels of expertise and professional competence among its staff.
11. The Bank of Finland cares for the long-term wellbeing of its staff.

Box 10.

Bank of Finland's mission, vision and values

Mission

The Bank of Finland works towards economic stability. Price stability, secure payment systems and reliable financial systems are prerequisites for sustainable growth, employment and the wellbeing of Finnish society.

Vision

The Bank of Finland is known as a forward-looking and effective central bank and as a constructive and influential member of the Eurosystem.

The vision underlines the Bank of Finland's objective of being a forward-looking authority, whose activities and statements are constructive in promoting the long-term robustness and stability of the Finnish economy. Reference to effectiveness shows that the Bank itself aims to operate in the spirit of its own statements.

A constructive role within the Eurosystem requires the Bank of Finland to be actively involved in developing solutions to common problems. While being influential imposes high expectations on the competence and communication skills of the Bank's personnel.

Summary of the strategy

- The Bank of Finland's influence is based on expertise, reliability and research.
- We ensure the availability of competitive central bank services in Finland.
- We participate in maintaining the service level of the financial markets and related infrastructure.
- We maintain such capital adequacy and liquidity as is required by our operations, and we honour our financial accountability to Finnish society.
- Our working processes are of high quality, technically advanced and environmentally sustainable.
- We build our expertise and professional competitiveness with an eye to the future, while simultaneously caring for the long-term wellbeing of our staff.

Values

Competence – Appreciation – Responsibility

The values reflect our attitude towards our own work, our colleagues and the rest of the society. Common values drive the staff's day-to-day activities and underpin the organisation's working culture. The entire organisation was involved in defining the Bank's values.

Competence

Our work builds on excellence and professional ethics. We keep our knowledge and skills at the forefront.

Appreciation

We strive towards common objectives with mutual respect. We encourage open discussion and fresh ideas.

Responsibility

We act responsibly and we are independent. We are a reliable and cooperative partner.

Management system

The key elements of the Bank of Finland's management system, in addition to the Bank's strategy, are the objectives and results framework, the action planning framework, staffing and budgetary ceilings and overall risk assessment. (Chart 17). Overall risk assessment and analysis is integrated with action planning at department, unit and process levels. Performance appraisal and pay discussions with staff are another part of the Bank's management system.

Action planning

Action planning at department and process level is conducted with a three-year timeline. The objectives of the action plan are written up as the Bank's objectives and results framework, which is reviewed and undersigned by all the heads of department each year. The framework outlines the relevant indicators and major projects for the individual departments.

Objectives and results framework

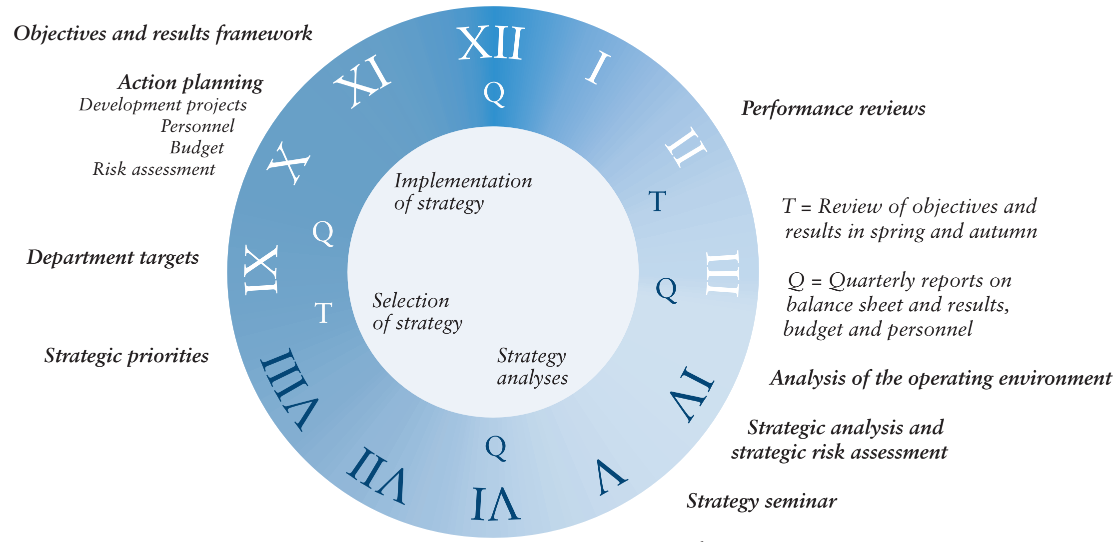
In line with the Bank's strategy, an objectives and results framework (see Box 11, p. 66) is used as a tool of corporate governance. This provides something that can be shown to the Bank's external stakeholders to illustrate how the Bank has set its service objectives with respect to society and how achievement of these objectives is measured. As with the objectives at the level of the bank as a whole, each department and process has also been provided with its own objectives derived from the framework.

In reference to the objectives and results framework for 2012, the objectives were well achieved on average in the review year (see Box 11).

Personnel and budget frameworks

Resource planning in the departments is guided by three-year personnel and operating costs frameworks, which are updated annually in connection with confirmation of the action plan and expenditure budgets. The

Chart 17.
Annual Planning Cycle



Source: Bank of Finland.

framework system facilitates medium-term resource planning at departmental level. The procedure is of help in achieving the Bank's strategic objective of being one of the most efficient EU central banks.

Risk management within corporate governance

In line with the principles adopted by the Board, risk management is an integral element of the Bank of Finland's governance framework. Annual reporting on objectives and results incorporates an evaluation of the likelihood of the risks being realised over the period under review. The Bank's risks are divided into strategic risks, financial risks and operational risks. Overall responsibility for the provision and governance of risk management and the definition of the level of risk exposure rests with the Bank's Board, but each member of staff is responsible for the management of risks falling within his or her own job description and tasks.

Strategic risks

The Bank of Finland's strategic risks are related to strategic choices and the underlying assumptions regarding the domestic and international operating environment and changes therein. Assessment and monitoring of strategic risks has been adopted as part of the action planning process.

Total financial risks

In the Bank's organisation, the monitoring and reporting of total financial risks in the balance sheet has been entrusted to the Risk Control division of the Administration department, which is responsible for assessment, analysis and management of portfolio risks. For a more detailed discussion of the total financial risks in the balance sheet, see page 76.

Operational risks

The risks of the Bank's core operative functions have mainly been assessed against set objectives and their achievement. However, in the assessment of risks related to systems and security, damage, loss and reputational aspects could be applied.

Part two of the historical account of the Bank of Finland was released in April 2012. At the publication event, Professor Markku Kuisma interviewed the authors Juha Tarkka and Antti Kuusterä.

Photo: Peter Mickelsson.

Box 11.

Bank of Finland objectives and results framework 2012

	Strategic objective	Measure	Objective 2012	Result 12/2011	Result 12/2012
I Service capacity and effectiveness	*1. The Bank of Finland's success within the Eurosystem builds on research and analysis.*	*Governor's assessment of effectiveness of Eurosystem decision making, by meeting*	*4*	*4.0*	*4.1*
		International effectiveness on the IMF's work	*4*	*4.9*	*4.8*
	2. The Bank of Finland exercises influence in domestic economic policymaking by combining macro-economic and financial market expertise.	*Media coverage of forecast report*	*4*	*4.1*	*4.2*
		Media coverage of stability report	*4*	*3.3*	*4.4*
		Stakeholder satisfaction survey	*4*	*4.3*	*–*
	3. The Bank of Finland guarantees that financial market participants operating in Finland have access to internationally competitive central bank services.	*TARGET2-customer satisfaction*	*4*	*4.6*	*4.4*
		Stakeholder rating for influence in financial markets	*4*	*3.8*	*3.9*
		Rating from conference participants	*4*	*4.2*	*4.2*
	4. The Bank of Finland is responsible for maintenance of Finland's currency supply and for the improvement of its quality, efficiency and security.	*Satisfaction of professional cashhandling counterparties*	*4*	*2.9*	*3.0*
		Consumer satisfaction survey on the quality of banknotes	*4*	*3.9*	*3.9*
		Consumer satisfaction with the coverage of the ATM network	*4*	*3.1*	*3.4*
	5. Public confidence in the Bank of Finland and awareness of the activities of the Bank and the Eurosystem is promotes through effective and welltargeted communications.	*Results of VIP image survey*	*Comparison group upper quartile*	*7/31*	*4/33*
		Results of Omnibus survey on the public's awareness of the Bank		*3/12*	*3/12*
II Efficiency of resource usage	*6. The Bank of Finland's financial assets are invested in accordance with international commitments and crisis management require-ments, with a view to allowing for stable profit distribution without jeopardising the Bank's capital adequacy.*	*Yield on financial assets in excess of yield on risk-free investment (5-year average)*	*> or = 0*	*2.25*	*2.58*
		Earnings distributed (euro)	*Stable distribu-tion of earnings*	*EUR 185 million*	*EUR 227 million*
		Balance sheet provisions	*Strengthening balance sheet, avoidance of provisions, with the aim of a sufficiently strong balance sheet under all circumstances*	*EUR 2,471 million*	*EUR 3,120 million*
	7. The Bank of Finland is one of the most efficient central banks in the EU in terms of the staff numbers and operating costs	*Bank's head count*	*417 persons (2009)*	*420 persons*	*406 persons*
		Total person-work-years (PWY) for bank staff (regular and fixed-term, excl. Board)		*423.0*	*412.9*
		Total operating expenditure for all departments	*EUR 55.94 million*	*EUR 52.7 million*	*EUR 52.8 million*

	Strategic objective	Measure	Objective 2012	Result 12/2011	Result 12/2012
III Functionality of internal processes	*8. Process management is introduced to improve the speed and quality of the Bank of Finland's internal processes*	*Process management established and integrated with core processes*	*4*	*3.9*	*3.9*
		Achievement of speed and quality targets set out in objectives and results contracts	*Defined in departmental and process contracts*	*Assessed at departmental and process levels*	*Assessed at departmental and process levels*
	9. The Bank of Finland and the Financial Supervisory Authority enhance their mutual exchange of information and develop their division of responsibilities.	*Assessment by Governor and heads of department*	*Defined on basis of development project outcomes*	*Cooperation fluid*	*Cooperation fluid*
	10. The Bank of Finland's ICT environment facilitates efficient working irrespective of time and place.	*ICT availability*	*4*	*3.7*	*3.7*
	11. The Bank of Finland operates in an environmentally sustainable manner.	*Total CO_2 emissions (amount of energy used) kg/ EUR 1,000 of operating costs*	*Decline in total emissions*	*Total emissions 85.00 kg CO_2/ EUR 1,000 of operating costs*	*Total emissions 82.80 kg CO_2/ EUR 1,000 of operating costs*
		Waste kg/EUR 1,000 of operating costs	*Declining trend*	*Volume of waste 1.96 kg/ EUR 1,000 operating costs*	*Volume of waste 2.06 kg/ EUR 1,000 operating costs*
IV Renewal and working capacity	*12. The expertise of Bank of Finland staff is further enhanced.*	*Number of doctoral degrees (persons)*	*> 32 persons*	*33*	*38*
		Educational level index	*> 5.8*	*5.8*	*5.9*
	13. The Bank of Finland's research is of international standard in core areas.	*Number of articles in refereed journals/researcher work-years*	*1.5*	*3.5*	*2.0*
		Number of researcher work-years	*> 15 PWY*	*6.2 PWY*	*8.5 PWY*
		Evaluation of the influence of the research function	*4*	*Evaluation every 5 year – last assessment conducted in 2009*	*Evaluation every 5 year – last assessment conducted in 2009*
	14. Through cooperation we bring joy and innovation to daily work at the Bank of Finland.	*Job-satisfaction index*	*≥ 3.2*	*3.4*	*Raported every second year*
		Leadership index	*Improving trend*	*3.6*	*3.7*
		Sick leave absence (%)	*< 3.5%*	*2.9%*	*3.0%*

Personnel

At the end of 2012, the Bank of Finland had 406 employees. Of the total staff, 59 % held expert positions. The number of staff in attendance declined over the year by 3.3 %. Since joining the EMU, the Bank's headcount has been reduced by 46%. The downsizing is in keeping with the Bank's strategy, reflecting retirements and a tight recruitment policy. The Bank of Finland's strategic objective is to be one of the most efficient EU central banks.

In 2012, 21 persons retired from the Bank, 15 left on expiry of their fixed-term contract and 8 left to take up employment with other organisations. There were 26 external appointments in all in 2012. The main emphasis, when filling vacancies that have come up in the Bank has been on internal recruitment.

Labour market issues

The Bank's collective civil service agreement concluded in 2012 is valid from 7 March 2012 to 31 March 2014. The general pay rise was 2% in 2012, and there was a sectoral allowance of 0.4%. Structural pay increases of 0.5 % were implemented on 1 January 2012.

In negotiations on the collective civil service agreement of 2012, it was agreed that an evaluation into the functionality of the pay scheme, the ongoing experiment into more flexible working hours (the so-called 'concentrated hours' scheme) and extension of the so-called 'mutual trust' working hours scheme would be undertaken.

Photo: Eija Tuominen.

Taking on social responsibility is important to the staff of the Bank of Finland. A prime example is support of the Zimbabwe Aids Orphans society, including the society's Activity Centre in Harare, run by the society's Zimbabwean partner organisation the Dzikwa Trust, founded 25 years ago. Several past and present members of the Bank and FIN-FSA staff are long-term supporters of the organisation and support individual orphans through a sponsorship programme and by participating in their fundraising events. The sponsors fund the children's schooling and maintenance of the Activity Centre. The Bank of Finland and FIN-FSA' sponsors have made individual trips and a group trip to Harare in 2012 and participated in the organisation's work. In support of the project that is so important to so many members of staff the Bank has shown its support, for example, by offering storage space to the society and donating obsolete IT equipment for Dzikwa Trust use.

Table 5.

Human resource management highlights[1]

	2011	2012
Staff size		
Head count	*420*	*406*
Man years	*446*	*439*
Turnover rate for those leaving the Bank's service	*10%*	*11%*
Turnover rate for those entering the Bank's service	*5%*	*6%*
Internal mobility	*8%*	*11%*
Number of newly retired employees	*10*	*21*
Average effective retirement age	*60 yrs*	*59.6 yrs*
Staff structure		
Average staff age	*46 yrs*	*46,6 yrs*
Proportion of experts and superiors	*66%*	*69%*
Proportion of women	*49%*	*48%*
Salaries and bonuses		
Salaries in relation to market salaries at the Bank of Finland[2]	*99%*	*101%*
Negotiated increases	*2.1%*	*2.9%*
Bonuses as a proportion of payroll	*0.35%*	*0.25%*
Average pay for women / average pay for men	*100%*	*99%*
Competence		
Training costs / payroll	*2.7%*	*3.5%*
Training days / man-year	*3.4*	*4.7*
Education level index[3]	*5.8*	*5.9*
Wellness at work		
Absence rate	*2.9*	*3.0*
Employee satisfaction index	*3.4*	*–*

[1] Figures refer to the Bank of Finland, unless otherwise mentioned. Figures referring to the Financial Supervisory Authority are published in the FIN-FSA Annual Report.

[2] The reference group in the HAY market salary survey is made up of organisations representing the banking and financial sectors, public sector, and industrial and service sectors. The Bank of Finland's remuneration policy is targeted at the median level of the HAY market salary survey for all organisations (basic salary + benefits). The survey also includes FIN-FSA's staff salaries.

[3] Education level index is calculated from the basic level of education of staff. The index varies between 1 and 8.

Box 12.

Development of management skills and well-being in the workplace at the Bank of Finland

The Bank of Finland works at ensuring its personnel's competency and professional competitiveness are maintained and takes care of their well-being in the workplace. Success factors behind this are sound management and leadership, working consistently with the Bank's values.

The quality of management is regularly monitored using a job satisfaction index and a leadership index survey. The results of which have been at expert organisation level or slightly above that in an extensive comparison. Close cooperation with occupational health services is done for example closely monitoring sick leave levels.

Continuous development of management skills

In the period 2007–2011, a long-term coaching programme was undertaken in the Bank in which all managers and senior experts took part. The 360 degree evaluation procedure that belonged to the programme continues to be in use.

In 2012 the Bank of Finland's leadership vision, which included the competency areas that each manager is required to possess, was defined. The leadership vision is based on three themes: professional leadership, results achievement and cooperation skills.

In the spring of 2012 a coaching leadership was initiated with the key objectives of encouraging communication between managers and their team members as well as developing self direction, learning and problem solving skills in the workplace.

In addition to in-house management training, the Bank of Finland also takes advantage of external courses, mainly 'common ESCB management training' focusing on leadership skills.

Well-being-related measures

As a way of promoting well-being at work effort was put into developing working processes and operating procedures based, for example on the results of the job satisfaction survey. The focus of development included a balanced division of tasks and reasonable work levels, concentration on essential matters, improvement of the flow of information and the opportunity to develop professional skills. At office unit level the Inspiroiva työyhteisö project (Inspiring Working Community) was used to help develop mutually beneficial work procedures. In addition, new and flexible working hours solutions were adopted such as 'concentrated working hours', still being applied on a trial basis.

The well-being of the Bank's staff was one of the subject of the Bank of Finland's strategic planning seminar, and based on the outcome of this, a series of lectures was arranged for the personnel on promotion of well-being, workloads and managing the effective restoring of one's energies. Events on the subject of well-being in the workplace will also be arranged in the future.

A survey of the state of well-being in the workplace was decided on in cooperation with the Bank's health care provider and will be organised on an organisational unit basis, meaning that any specific measures can be directed where they are needed.

Table 6.

Budget for the Bank of Finland

	Outturn 2012 EUR m	Budgeted 2013 EUR m
1. Operating expenses and income		
EXPENSES		
Staff expenses	*34.4*	*34.6*
Pension fund contributions	*0.0*	
Staff-related expenses	*3.0*	*3.9*
Other expenses	*22.3*	*25.4*
DEPRECIATION	*7.4*	*7.5*
Total	***67.1***	***71.4***
Banknote acquisition costs	*2.7*	*7.7*
Cash depot system	*0.2*	*0.0*
Banking service expenses	*4.3*	*5.1*
Total operating expenses	***74.2***	***84.2***
INCOME		
Banking service income	*3.0*	*3.0*
Real estate	*9.8*	*9.8*
Other income	*0.1*	*0.1*
Services to FIN-FSA	*2.3*	*3.4*
Capital gains on disposal of fixed assets	*13.4*	
Total income	***28.6***	***16.3***
NET	***45.6***	***68.0***
2. Investment		
Real estate investment	*3.5*	*3.9*
Head office premises	*1.6*	*1.4*
Vantaa premises	*1.6*	*2.1*
Other premises	*0.4*	*0.4*
IT-equipment and software	*4.0*	*6.4*
Money handling machines	*0.2*	*0.0*
Security equipment	*1.0*	*1.2*
Other	*0.0*	*0.3*
Total investment	***8.8***	***11.9***

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

Budget and operative costs

The cost efficiency of the Bank of Finland's operations is promoted by the objectives-driven Budgetary and Staffing Framework, efficient acquisition procedures for goods and services and effective monitoring procedures. The budgetary framework covers planning of direct staff expenses, staff-related expenses, real estate, IT and other costs. The Bank's budgets for the period 2013–2015 were drawn up in autumn 2012 and, of these, the Board of the Bank of Finland has ratified the budget for 2013. The budgets for 2014–2015 are to be ratified at a later date. Efficient tender procedures and framework agreements enable the Bank to manage its operative costs and meet the operative cost objectives set in budgetary frameworks. The Board evaluates budget outturns every quarter, while the superiors monitor their budgetary situation on a real-time basis, through the Bank's reporting system. The Bank of Finland Board also ratifies the budget drawn up for the Financial Supervisory Authority.

Bank of Finland's budget

In 2012, the Bank of Finland's operating expenses totalled EUR 74.2 million (EUR 105.5 million in 2011). No additional pension fund contribution was paid in 2012, which explains the difference in operating expenses from 2011. Budgeted operating income amounted to EUR 28.6 million, of which EUR 13.4 million came from sales of the Bank's premises in Tampere and Kuopio. The Bank of Finland's net operating expenses totalled EUR 45.6 million (Table 6).

Investment expenses totalled EUR 8.8 million in 2012. Investment in IT systems and infrastructure amounted to EUR 4.0 million. Investment expenditure on renovations totalled EUR 3.5 million. Other long-term acquisitions totalled EUR 1.2 million.

Budgeted operating expenses for 2013 amount to EUR 68.0 million. Staff expenses are estimated to remain at the level of the previous year. As for other expenses, other notable items are expenses related to IT systems, real estate and acquisition of purchased services. Banknote procurement carried out in the budgetary period is also a notable cost item. Investment expenditure in 2013 is estimated at EUR 11.9 million. Of this, EUR 6.4 billion relates to the development of IT systems and infrastructure and EUR 3.9 million to premises.

Pension fund's budget

The pension fund's operating expenses for 2012 totalled EUR 27.4 million. Pensions paid (EUR 24.8 million) was the largest cost item. Operating income amounted to EUR 12.8 million (Table 7).

The pension fund's expenses are estimated to increase slightly in the three coming years, which is largely due to growth in pensions paid.

In 2012 the Bank of Finland sold the real estate in Tampere managed by the pension fund.

The pension fund's activities are presented in the fund's own annual report.

Table 7.

Budget for the Bank of Finland's pension fund

	Outturn 2012 EUR m	*Budgeted 2013 EUR m*
1. Operating expenses and income		
EXPENSES		
Staff expenses	0.1	0.2
Pension fund activities expenses	0.6	0.8
Pension fund real estate expenses	0.8	0.3
DEPRECIATION	1.1	0.9
PENSIONS		
Pensions paid	24.8	25.4
Total expenses	**27.4**	**27.6**
INCOME		
Employment pension contribution	10.1	10.2
Pension fund contributions	0.0	
Rents	0.8	0.0
Internal rents	1.9	1.6
Total income	**12.8**	**11.8**
NET	**–14.6**	**–15.8**
2. Investment		
Real estate of the pension fund	0.4	0.0
Total investment	**0.4**	**0.0**

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

Table 8.

Budget for the Financial Supervisory Authority

	Outturn 2012 EUR m	Budgeted 2013 EUR m
1. Operating expenses and income		
EXPENSES		
Staff expenses	17.4	19.4*
Staff-related expenses	0.8	1.0
Other expenses	3.9	3.9
DEPRECIATION	0.3	0.3
SERVICES FROM THE BANK OF FINLAND	2.3	3.4
Total operating expenses	***24.8***	***28.0***
FUNDING OF OPERATIONS		
Supervision fees	24.0	24.0
Processing fees	1.3	1.0
Bank of Finland contribution to funding	1.2	1.4
Surplus/deficit transferred from last year	2.6	1.5
Total income	***29.2***	***28.0***
Surplus transferred to next year	4.4	0.0

**The budget includes a provision of EUR 0.7 million for pension fund contributions.*
Totals/sub-totals may not add up because of rounding.

Financial Supervisory Authority's budget

The Financial Supervisory Authority's operating expenses totalled EUR 24.8 million in 2012 (EUR 26.1 million in 2011). No additional pension fund contribution was paid in 2012. Total income amounted to EUR 29.2 million. Of this, supervision and processing fees accounted for EUR 25.3 million and the Bank of Finland's contribution to funding for EUR 1.2 million. The surplus for the financial year was EUR 4.4 million. The surplus will be taken into account in the following accounting period, when setting the supervision and processing fees. Investment in IT systems totalled EUR 0.4 million (Table 8).

Operating expenses for 2013 are estimated at EUR 28 million. Total income is estimated at EUR 28 million, of which the Bank of Finland's contribution to funding accounts for EUR 1.4 million. Investment expenditure is estimated at EUR 1.2 million.

Financial Supervisory Authority's operations are presented in the authority's own annual report.

Environment

In the year under review, the Bank of Finland ensured that it meets its environmental responsibilities by improving energy consumption and other material efficiencies. The number of the Bank's premises reduced significantly, which was due to the relocation of part of the Financial Supervisory Authority's personnel to the head office premises, and due to the ending of the use of two regional office premises at the end of the year. The main environmental impact of the Bank of Finland's activities arises from heat and electricity consumption.

The Bank monitors the environmental impact of its operations using two environmental performance indicators that are proportionate to operating expenses. In 2012, for every thousand euro of operating expenses, the Bank created 2.06 kg of waste and 82.80 kg of CO2 emissions. In 2011, the equivalent volumes were 1.96 kg of waste and 85 kg of CO2 emissions. The closing down and subsequent emptying of premises increased the volume of waste in the year under review.

Environmental aspects are given due consideration in daily operations by applying the Eco-Management and Audit Scheme (EMAS), which is based on an EU Regulation.

The environmental impact of currency supply

One of the tasks of the currency supply function within the Bank of Finland is the replacement of unfit banknotes with new banknotes or banknotes that are in good condition. The majority of banknotes sorted to unfit are destroyed already in the automatic shredder of banknote sorting machines, after which the Bank of Finland delivers the shredded notes to waste treatment plants for burning as mixed waste. Suspected counterfeits fall into a separate compartment from which they are picked, to be delivered to the police for criminal investigation and more detailed analysis and classification.

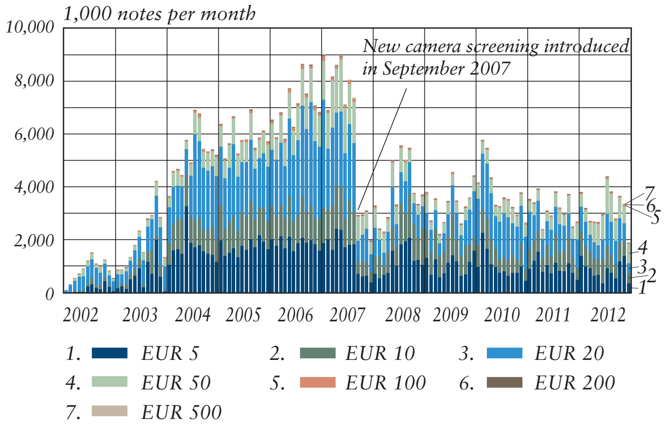
Table 9.

Bank of Finland's environmental performance

	Volume		
	2010	*2011*	*2012*
Electric energy consumption (MW)	*10,798*	*11,537*	*10,875*
Heat energy consumption (MW)	*14,029*	*11,510*	*11,864*
Waste (ton)	*164*	*157*	*169*
Office paper and publications consumption (ton)	*40*	*40*	*45*
CO_2 emission from business trips (ton)	*1,948*	*1,912*	*1,925*
CO_2 emission balance (ton)	*7,420*	*6,829*	*6,780*

Source: Bank of Finland.

Chart 18.
Poor-quality euro banknotes discovered in central bank sorting



Source: Bank of Finland.

In 2012, the volume of banknotes sorted by the Bank of Finland remained at the same level as in previous years (354 million banknotes). A total of 38.6 million banknotes were sorted to unfit, ie the rejection level was approximately 11%, on average. The majority of notes that needed to be destroyed were EUR 20 denomination banknotes, which are the most commonly distributed notes via ATMs, and EUR 5, frequently used as change in cash transactions (Chart 18).

The EUR 5 banknote to be issued as part of the new Europa series in 2013 will be clearly more durable and firmer and will not get contaminated as easily as banknotes in the first series. The introduction of the new series is estimated to double the life-span of a banknote, which will also reduce the environmental impact of currency supply, as soon as in 2013. Environmental issues and health hazards have been taken into account also in the design of the new euro banknote series and the aim is to minimise the use of hazardous materials in the production of banknotes. Euro banknotes are harmless in normal use, and the health effects of materials hazardous to health have been tested also in unusual use, to be able to minimise the harmful effects of possible abuse.

As a result of the end of the markka redemption period in 2012, the return of markka banknotes gathered momentum, totalling 0.52 million banknotes (an equivalent of EUR 6.18 million). All markka banknotes returned to and redeemed by the Bank of Finland by the end of February 2012 were finally destroyed in December 2012. Markka coins, in contrast, were sold at nominal value to the Ministry of Finance, and the State will melt the coins so that the metal can be reused in euro coins or for other purposes.

Total risk exposure

Central bank risks arise from monetary policy operations, management of financial assets and operational activities. Against the backdrop of the financial crisis, risks in the Bank of Finland balance sheet have increased, as the volumes of monetary policy operations and purchase programmes have grown. The Bank of Finland manages risks and prepares for realisation of risks, via accumulation of risk buffers, provisions and capital resources, with a view to ensuring that the performance of central banking tasks is not jeopardised under any circumstances. Operational risks are identified in connection with operations planning and managed as part of daily work on a decentralised basis. Operational risks are reported semi-annually to the Bank of Finland's risk committee.

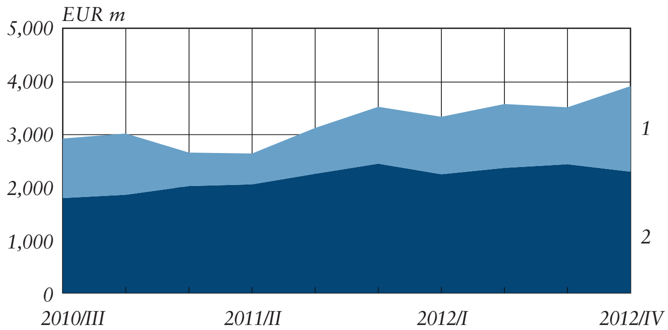
The risks arising from the management of Bank of Finland financial assets and monetary policy operations can be divided into market and credit risks. Market risks include risks stemming from changes in interest rates and exchange rates. For the balance sheet, the most significant risk is caused by exchange rate volatility. Changes in the price of gold are also reflected in market risk, but owing to the large revaluation account the assessment of gold price risk is separated from other risk assessment.[1] Credit risk includes risks related to changes in debtors' creditworthiness or difficulties in servicing payments.

As a rule, the Bank of Finland is responsible for risks involved in the Eurosystem's monetary policy refinancing operations and purchase programmes related to monetary policy according to Bank of Finland's relative share of the ECB's capital (for more information on these operations and purchase programmes, see the section concerning the implementation of monetary policy, p. 21). The Bank of Finland's share in the ECB's capital is approximately 1.8%. For this reason, the total Eurosystem balance sheet needs to be examined in order to identify the impact of the operations on the Bank of Finland's balance sheet. Correspondingly, the Bank of Finland receives a proportion of the income accruing in the performance of monetary policy functions according to its share in the ECB's capital. This monetary income is composed of monetary policy-related interest income, from which monetary policy-related interest expenses are deducted. Monetary income represents an important annual source of income for the Bank of Finland (for monetary income in 2012, see p. 103).

Monetary policy implementation in the Eurosystem is decentralised among national central banks. The European System of Central Banks (ESCB) provides liquidity to financially sound banks against collateral, in accordance with the single monetary

Chart 19.

Development of risks and risk buffers since the third quarter of 2010, excl. gold and gold revaluation account



1. *Provisions and disposable revaluation accounts*
2. *Average loss if the worst 1% occurs*

Source: Bank of Finland.

[1] In the Financial Statements section 'Notes on risk management' (p. 109), risks related to gold are included in the overall assessment.

policy. Collateral assets are marked to market on a daily basis. Moreover, counterparties are required to submit collateral in excess of borrowed amounts. These extra collateral assets protect the central bank in the event of payment defaults. Accordingly, the risks related to secured lending in the single monetary policy environment are limited, although the volumes are large. The significance of collateral was seen for example in 2008, when Lehman Brothers and Icelandic banks collapsed. In 2008, a provision for losses in monetary policy operations was made, in which the Bank of Finland's share totalled EUR 102 million. Realisations of collateral have made it possible to reduce the provision in recent years, of which EUR 6 million is left. Reductions in provisions have increased profits for the last financial years; part of the profits have been distributed to the Finnish State. As collateral realisations are still under way, the final loss will remain considerably lower than the original loss provision.

Consequently, counterparties to refinancing operations are required to provide adequate and separately defined collateral, which protect the central bank against losses. In the Covered Bond Purchase Programmes, the bonds are backed by a separately designated collateral pool, as well as debtor liability. Preparing for risks related to the Securities Markets Programme, in turn, means ensuring that adequate capital buffers in the balance sheet are in place to provide coverage. The size of the operations and purchase programmes at the end of 2012 and the Bank of Finland's share, according to the capital key, of the exposures are presented in table 10. On 21 February 2013, the ECB published details on securities holdings acquired under the Securities Markets Programme, broken down by country of issuer, as at 31 December 2012. The Bank of Finland's share comprises holdings of Irish, Greek, Spanish, Italian and Portuguese government securities at book value of EUR 224 million, 508 million, 721 million, 1,633 million and 356 million, respectively.

Table 10.

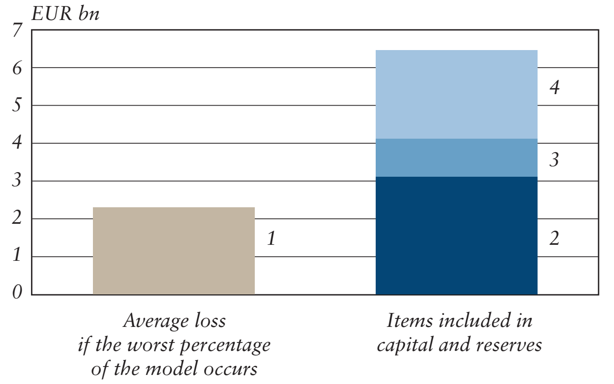
Monetary policy operations at the end of 2012

EUR m	*Monetary policy refinancing operations*	*Covered bond purchase programmes*	*Securities Markets Programme*
Eurosystem	*1,128,794*	*68,483*	*208,700*
Bank of Finland's calculated contribution (1.6–1.8%)	*20,228*	*1,110*	*3,444*

Source: Bank of Finland.

Chart 20.

Bank of Finland's total risk exposure, capital and reserves excl. gold price risk and gold revaluation accounts



1. *Market and credit risk*
2. *Provisions*
3. *Revaluation accounts*
4. *Capital and reserves, excl. provisions and revaluation accounts*

Source: Bank of Finland.

Intra-Eurosystem claims and liabilities

The Bank of Finland's claims on the Eurosystem are mainly reflected as a TARGET balance in the balance sheet. These intra-Eurosystem claims and their changes mirror the deposits of monetary financial institutions (MFIs) with the Bank of Finland. Eurosystem national central banks' claims and liabilities vis-à-vis the ECB are a reflection of the financing position of each country's banks and the transmission of finance from one country to another. From the point of view of the Bank of Finland, no risk is attached to these claims while the Eurosystem operates in its current form.

The ECB's claims on national central banks, in turn, reflect national central banks' lending to financial institutions. The risks in lending related to the single monetary policy are shared, but other lending – eg emergency liquidity assistance – is the responsibility of each national central bank.

In the event of a loss incurred by the ECB, the Governing Council of the ECB may decide that the loss be offset against the ECB's general reserve fund and, if necessary, against monetary income, as stated in Article 33.2 of the Statute of the ECB/ESCB. The monetary income of the relevant financial year allocated to each euro area central bank constitutes the maximum limit for its liability to offset losses that may be recognised by the ECB. In 2003 and 2004, for example, euro appreciation caused exchange rate losses to the ECB, and both the general reserve fund and monetary income were used as described above to cover the losses. If there is a need to increase the capital of the ECB, the EU Council must first adopt a regulation for setting the limits and conditions for such capital increase, on the basis of which the Governing Council of the ECB may decide on an actual increase in the capital.[2]

Total risk exposure in the balance sheet

The interest rate risk inherent in the Bank of Finland's financial assets was reduced during 2012. In contrast, the Eurosystem securities purchase programmes, which ensured the transmission of monetary policy, increased the Bank of Finland's risks amid a weakening of credit ratings. Assessment of the risks overall includes risks related to the Bank's own financial assets and Eurosystem operations.

At the Bank of Finland, risks are identified and assessed using well-established market and credit risk models. The risks involved in investments of financial assets and monetary policy operations are combined for the purpose of conducting the Bank's total risk assessments. Models use standard assumptions and, accordingly, the magnitude of risk assessments may vary depending on chosen assumptions. Of the outcomes of the model, the worst percentage is taken under review.

Although the models are well-established, they fail to fully capture total risk exposure. The Bank therefore supplements its risk assessment by undertaking scenario analyses of financial risks that are possible but unlikely. The balance sheet of the Bank of Finland is able to withstand the realisation of even fairly extreme scenarios.

With all risks in the Bank of Finland's balance sheet – stemming from the management of its own financial assets and the single monetary policy – added up, excluding gold, total risk exposure is estimated at about EUR 2.3 billion in annual terms.[3] All items incorporated in the capital and reserves of the Bank of Finland – including revaluation accounts and provisions – amount to EUR 8 billion. Of this, the Bank of Finland's primary capital and reserve fund accounts for EUR 2.3 billion, provisions (excl. pension provision and provision for ESCB monetary policy risks) account for EUR 3.1 billion and revaluation accounts (excl. revaluation account for gold) EUR 1 billion (Chart 20). Gold price risk, assessed in a similar fashion, is about EUR 0.9 billion in annual terms, compared with the gold revaluation

[2] Council Regulation (EC) 1009/2000 (8 May 2000).

[3] The risk assessment uses the rating agencies' – Standard & Poor's, Moody's and Fitch – assessments of issuers' creditworthiness.

account of EUR 1.6 billion. A more detailed analysis of the structure of the balance sheet is provided in the Financial Statements section.

Central banking entails risks, and losses may be incurred in safeguarding a smooth transmission of financing and the stability and functioning of the financial system in the euro area. This makes it necessary for the Bank of Finland to prepare for risks in its balance sheet by ensuring balance sheet strength, ie a sound relationship between risks and balance sheet items securing against such risks. Maintenance of a strong balance sheet means reducing risks associated with the investment reserves, whenever necessary, and accumulating provisions and capital resources. Risks to the Bank of Finland's balance sheet have increased during the financial crisis. The risk buffers in the balance sheet cover the risks identified in monetary policy operations and the Bank's own investment activities; moreover, the risk buffers have been increased with a view to providing for unforeseen risks.

Financial statements

Balance sheet

EUR million		*31 Dec 2012*	*31 Dec 2011*
ASSETS			
1	***Gold and gold receivables***	***1,988***	***1,918***
2	***Claims on non-euro area residents denominated in foreign currency***	***6,171***	***5,886***
	Receivables from the International Monetary Fund	*2,097*	*1,967*
	Balances with banks and security investments, external loans and other external assets	*4,074*	*3,919*
3	***Claims on euro area residents denominated in foreign currency***	***404***	***628***
4	***Claims on non-euro area residents denominated in euro***	***1,970***	***1,946***
5	***Lending to euro area credit institutions related to monetary policy operations denominated in euro***	***3,681***	***2,311***
	Main refinancing operations	*–*	*10*
	Longer-term refinancing operations	*3,681*	*2,301*
6	***Other claims on euro area credit institutions denominated in euro***	***0***	***40***
7	***Securities of euro area residents denominated in euro***	***11,471***	***13,889***
	Securities held for monetary policy purposes	*4,555*	*4,637*
	Other securities	*6,915*	*9,253*
8	***Intra-Eurosystem claims***	***74,382***	***70,271***
	Participating interest in ECB	*141*	*120*
	Claims equivalent to the transfer of foreign reserves	*722*	*722*
	Net claims related to the allocation of euro banknotes within the Eurosystem	*3,248*	*3,485*
	Other claims within the Eurosystem (net)	*70,270*	*65,944*
9	***Other assets***	***1,115***	***1,171***
	Coins of euro area	*27*	*25*
	Tangible and intangible fixed assets	*155*	*165*
	Other current assets	*607*	*569*
	Other	*326*	*413*
	Total assets	***101,182***	***98,061***

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

EUR million		31 Dec 2012	31 Dec 2011
LIABILITIES			
1	Banknotes in circulation	15,044	14,649
2	Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	73,799	71,697
	Current accounts (covering the minimum reserve system)	31,698	1,657
	Deposit facility	37,101	52,540
	Fixed-term deposits (liquidity-absorbing fine-tuning operations)	5,000	17,500
3	Liabilities to other euro area residents denominated in euro	801	836
4	Liabilities to non-euro area residents denominated in euro	1,004	782
5	Liabilities to euro area residents denominated in foreign currency	0	0
6	Liabilities to non-euro area residents denominated in foreign currency	139	153
7	Counterpart of special drawing rights allocated by the IMF	1,387	1,412
8	Intra-Eurosystem liabilities	–	–
9	Other liabilities	24	178
10	Revaluation accounts	2,609	2,806
11	Provisions	3,708	3,032
12	Capital and reserves	2,332	2,262
	Primary capital	841	841
	Reserve fund	1,491	1,421
13	Profit for the financial year	337	254
	Total liabilities	101,182	98,061

Profit and loss account

	EUR million	1 Jan–31 Dec 2012	1 Jan–31 Dec 2011
1	*Interest income*	1,110	763
2	*Interest expense*	–113	–170
3	NET INTEREST INCOME	998	592
4	*Foreign exchange rate differences*	14	5
5	*Securities price differences*	221	63
	Valuation losses related to currencies and securities	–3	–59
6	*Change in foreign exchange rate and price difference provision*	–232	–9
	NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND RISK PROVISIONS	998	592
7	Fees and commissions income and expense	–1	–0
8	Net result of pooling of monetary income	–343	–75
9	Share in ECB profit	1	3
10	Provision in respect of counterparty risk in monetary policy operations	11	22
11	Other central banking income	133	15
	CENTRAL BANKING PROFIT	800	557
12	*Other income*	47	35
	Operating expenses	–92	–125
13	Staff costs	–52	–51
14	Pension fund contribution	–	–32
15	Administrative expenses	–29	–29
16	Depreciation of fixed assets	–8	–8
17	Banknote procurement costs	–3	–4
18	Other expenses	–1	–1
	OPERATING PROFIT	754	467
	Profit for the pension fund	47	19
19	Income of the pension fund	78	63
20	Expenses of the pension fund	–31	–44
21	*Changes in provisions*	–464	–232
22	PROFIT FOR THE FINANCIAL YEAR	337	254

Appendices to the financial statements

EUR million	*31 Dec 2012*	*31 Dec 2011*
Shares and other interests, nominal value		
Bank for International Settlements (BIS)[1]	*22.4 (1.96%)*	*22.4 (1.96%)*
Shares in housing companies	*2.5*	*2.5*
Other shares and interests	*–*	*–*
Total	***24.9***	***24.9***
Bank of Finland's liability share in the APK fund	***0.3***	***0.2***
Liability arising from pension commitments		
Bank of Finland's pension liability[2]	*577.7*	*543.7*
– of which covered by reserves	*582.2*	*543.9*
Customer service office		
Deposits	*25.1*	*23.8*
Loans	*3.7*	*3.7*

[1] In parentheses, the Bank of Finland's relative holdings of the BIS shares in circulation.
[2] Pension liability includes indexation of pensions and paid-up policies in 2012 and 2013.

The Bank of Finland's real estate

Building	*Address*	*Year of completion*	*Volume m³ (approx.)*
Helsinki	*Rauhankatu 16*	*1883/1961/2006*	*52,100*
	Rauhankatu 19	*1954/1981*	*40,500*
	Snellmaninkatu 6[1]	*1857/1892/2001*	*24,600*
	Snellmaninkatu 2[1]	*1901/2003*	*3,400*
	Ramsinniementie 34	*1920/1983/1998*	*4,800*
Oulu	*Kajaaninkatu 8*	*1973*	*17,200*
Vantaa	*Turvalaaksontie 1*	*1979*	*324,500*
Inari	*Saariseläntie 9*	*1968/1976/1998*	*6,100*

[1] *Transferred to the ownership of the Bank of Finland's pension fund from the beginning of 2002.*

The Board proposes to the Parliamentary Supervisory Council that
EUR 110,490,364.18 of the profit of EUR 337,490,364.18
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 227,000,000.00
be made available for the needs of the State.

Helsinki, 19 February 2013

THE BOARD OF THE BANK OF FINLAND

Erkki Liikanen, Chairman

Pentti Hakkarainen

Seppo Honkapohja

./. Mika Pösö

Accounting conventions

1. General 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.

The Bank of Finland's profit and loss account also comprises incomes and expenses of the Bank's pension fund and of the Financial Supervisory Authority. The pension fund's investment portfolio is valued monthly at the market price of the last day of the month.

2. Revaluation of items denominated in foreign currency and gold

Items denominated in foreign currency and gold are converted into euro at the exchange rate prevailing on the balance sheet date. Foreign currency-denominated items have been revaluated on a currency-by-currency basis. Revaluation differences related to foreign exchange rate movements and securities price movements are treated separately. Unrealised gains are recorded in revaluation accounts. Unrealised losses are taken to the profit and loss account if they exceed previous corresponding unrealised revaluation gains registered in the revaluation accounts. Unrealised losses taken to the profit and loss account are not reversed against any future unrealised gains in subsequent years. In the case of gold, no distinction is made between price and exchange rate differences; rather, a single revaluation is made. Realised gains and losses related to foreign exchange rate movements during the financial year are calculated on the basis of the daily net average cost method. Foreign exchange rates used in the financial statements are presented in the Table.

Currency	*2012*	*2011*
US dollar	*1.3194*	*1.2939*
Japanese yen	*113.6100*	*100.2000*
Australian dollar	*1.2712*	*1.2723*
Norwegian krone	*7.3483*	*7.7540*
Danish krone	*7.4610*	*7.4342*
Swedish krona	*8.5820*	*8.9120*
Swiss franc	*1.2072*	*1.2156*
Pound sterling	*0.8161*	*0.8353*
Canadian dollar	*1.3137*	*1.3215*
Special Drawing Rights (SDR)	*0.8578*	*0.8427*
Gold	*1,261.1790*	*1,216.8640*

3. Valuation and amortisation of securities

Income and expenses are recognised in the period in which they are earned or incurred. Realised income and expenses are entered in the profit and loss account. The difference between the acquisition price and nominal value of securities is entered as income or expense over the maturity of the security. Gains and losses related to securities price movements have been calculated using the average cost method.

Unrealised gains are recorded in revaluation accounts. Unrealised losses are taken to the profit and loss account if they exceed previous corresponding unrealised revaluation gains registered in the revaluation accounts. Unrealised losses taken to the profit and loss account are not reversed against any future unrealised gains in subsequent years. Both euro-denominated and foreign currency-denominated securities are valued on a security-by-security basis. 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.

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

The pension fund's investment portfolio is valued monthly at the market price of the last day of the month, reported by external portfolio managers.

Marketable securities (other than those classified as held-to-maturity) and similar assets are valued either at the mid-market prices or on the basis of the relevant yield curve prevailing on the balance sheet date, on a security-by-security basis. For 2012, mid-market prices on 31 December 2012 were used.

Marketable securities classified as held-to-maturity, non-marketable securities and illiquid equity shares are all valued at amortised cost subject to impairment.

4. Accounting conventions relating to intra-ESCB balances

Intra-Eurosystem balances result from cross-border payments in the EU that are settled in central bank money in euro. These transactions are for the most part initiated by private entities. They are primarily settled in TARGET2 – the Trans-European Automated Real-time Gross settlement Express Transfer system. These transactions give rise to bilateral balances in the TARGET2 accounts of EU central banks. These bilateral balances are then assigned to the ECB on a daily basis, leaving each national central bank (NCB) with a single net bilateral position vis-à-vis the ECB only. Intra-Eurosystem balances of the Bank of Finland vis-à-vis the ECB arising from TARGET2, as well as other intra-Eurosystem balances denominated in euro (eg interim profit distributions to NCBs, monetary income results), are presented on the balance sheet of the Bank of Finland as a single net asset or liability position and disclosed under 'Other claims within the Eurosystem (net)'. Intra-ESCB balances versus non-euro area NCBs not arising from TARGET2 are disclosed either under 'Claims on non-euro area residents denominated in euro' or 'Liabilities to non-euro area residents denominated in euro'.

Intra-Eurosystem balances arising from the Bank of Finland's participating interest in the ECB are reported under 'Participating interest in ECB'.

Intra-Eurosystem balances arising from the allocation of euro banknotes within the Eurosystem are included as a single net asset under 'Net claims related to the allocation of euro banknotes within the Eurosystem' (see 'Banknotes in circulation' in the notes on accounting conventions.

Intra-Eurosystem balances arising from the transfer of foreign reserve assets to the ECB by NCBs joining the Eurosystem are denominated in euro and reported under 'Claims equivalent to the transfer of foreign reserves'.

5. Valuation of fixed assets

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

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

The economic lifetimes of assets are calculated as follows:

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

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

6. Banknotes in circulation

The ECB and the 17 euro area NCBs, which together comprise the Eurosystem, issue euro banknotes.[1] The total value of euro banknotes in circulation is allocated to the NCBs on the last banking day of each month in accordance with the banknote allocation key.[2] The ECB

[1] ECB decision of 13 December 2010 on the issue of euro banknotes (ECB/2010/29), OJ L 35, 9.2.2011, p. 26.

[2] 'Banknote allocation key' means the percentages that result from taking into account the ECB's share in the total euro banknote issue and applying the subscribed capital key to the NCBs' share in that total.

has been allocated a share of 8% of the total value of euro banknotes in circulation, whereas the remaining 92% has been allocated to NCBs according to the banknote allocation key. This is disclosed under the balance sheet liability item 'Banknotes in circulation'. The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of euro banknotes that it actually puts into circulation also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest[3], are disclosed under the sub-item 'Intra-Eurosystem claims/liabilities: Net claim/liability related to the allocation of euro banknotes within the Eurosystem'. In the Bank of Finland's balance sheet, the item is on the asset side.

The monetary income on euro banknotes is allocated 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 every five years and whenever a new Member State joins the European Union.

The income accruing to the ECB on the share of 8% of the total value of euro banknotes in circulation is generally distributed to the NCBs.[4]

7. Changes in accounting conventions

There were no changes in accounting conventions in the financial year 2012.

8. Monetary income

Monetary income accruing to NCBs in the performance of monetary policy functions in the ESCB is calculated and allocated to NCBs in accordance with the ESCB Statute and any decisions by the ECB's Governing Council.

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

[4] ECB decision of 6 November 2005 on the issue of euro banknotes (ECB/2005/11).

Key for subscription of the ECB's capital from 1 January 2011

	ESCB, capital key %	Eurosystem, capital key %
Nationale Bank van België/ Banque Nationale de Belgique	2.4256	3.4666
Deutsche Bundesbank	18.9373	27.06469
Eesti Pank	0.179	0.25582
Banc Ceannais na hÉireann/ Central Bank of Ireland	1.1107	1.58738
Bank of Greece	1.9649	2.80818
Banco de España	8.304	11.86786
Banque de France	14.2212	20.32457
Banca d'Italia	12.4966	17.85981
Central Bank of Cyprus	0.1369	0.19565
Banque centrale du Luxembourg	0.1747	0.24968
Bank Ċentrali ta' Malta/ Central Bank of Malta	0.0632	0.09032
De Nederlandsche Bank	3.9882	5.69983
Oesterreichische Nationalbank	1.9417	2.77503
Banco de Portugal	1.7504	2.50163
Banka Slovenije	0.3288	0.46991
Národná banka Slovenska	0.6934	0.99099
Suomen Pankki – Finlands Bank	1.2539	1.79204
Subtotal Eurosystem	***69.9705***	***100.0000***
Българска народна банкаа (Bulgarian National Bank)	0.8686	
Česká národní banka	1.4472	
Danmarks Nationalbank	1.4835	
Latvijas Banka	0.2837	
Lietuvos bankas	0.4256	
Magyar Nemzeti Bank	1.3856	
Narodowy Bank Polski	4.8954	
Banca Naţională a României	2.4645	
Sveriges riksbank	2.2582	
Bank of England	14.5172	
Subtotal for non-euro area NCBs	***30.0295***	
Total	***100.0000***	

Interim profit distribution

The Governing Council of the ECB has decided that the seigniorage income of the ECB, which arises from the 8% share of euro banknotes allocated to the ECB, and the ECB's (net) income arising from securities purchased under the Securities Markets Programme (SMP) and Outright Monetary Transactions (OMTs) shall be due in full to the NCBs in the same financial year it accrues. Unless otherwise decided by the Governing Council, the ECB distributes this income in January of the following year in the form of an interim distribution of profit[5]. The amount of the ECB's income on euro banknotes in circulation may be reduced in accordance with any decision by the Governing Council in respect of expenses incurred by the ECB in connection with the issue and handling of euro banknotes. Before the end of the year the Governing Council decides whether all or part of the ECB's income arising from SMP and OMTs securities and, if necessary, all or part of the ECB's income on euro banknotes in circulation should be retained to the extent necessary to ensure that the amount of the distributed income does not exceed the ECB's net profit for that year.

The Governing Council may also decide to transfer all or part of the ECB's income arising from SMP and OMTs securities and, if necessary, all or part of the ECB's income on euro banknotes in circulation to a provision for foreign exchange rate, interest rate, credit and gold price risks.

9. 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. The assets of the pension fund are recorded in the Bank of Finland's balance sheet item 'Other assets'.

The ECB guideline on accounting and financial reporting does not regulate accounting for the pension fund. The pension fund's investments are valued at market price, and revaluations are recognised in profit or loss. The fund's financial statements are drafted using market prices prevailing in the last day of the year. The pension fund's real estate is recorded in the balance sheet at value prevailing on transfer date less annual depreciation. If the balance sheet value of real estate has been covered by revaluation, the corresponding depreciation is recorded by reversing the revaluation so that depreciation has no impact on the pension fund's income or expense.

10. Recording of provisions

Provisions can be made in the annual accounts, if they are necessary for safeguarding the real value of Bank's funds or for smoothing out variations in profit and loss arising from changes in exchange rates or market value of securities.

Provisions can be made, as necessary, to cover the Bank's pension liabilities.

11. Off-balance sheet items

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. Forward foreign exchange transactions are taken into account when the net average cost of a currency position is calculated.

[5] ECB decision of 25 November 2010 on the interim distribution of the income of the European Central Bank on euro banknotes in circulation and arising from securities purchased under the Securities Markets Programme (ECB/2010/24), OJ L 6, 11.1.2011, p. 35.

Notes on the balance sheet

Assets

1. Gold and gold receivables

The Bank's holdings of gold total 1,576,476 troy ounces (1 troy ounce = 31.103 g). Gold has been valued at market price. At the beginning of 1999 the Bank of Finland – and the other national central banks (NCBs) participating in the Eurosystem – transferred about 20% of its gold holdings to the ECB.

Gold	*31 Dec 2012*	*31 Dec 2011*
Holdings (troy ounces, million)	*1.6*	*1.6*
Price: EUR per troy ounce	*1,261.2*	*1,216.9*
Market price (EUR m)	*1,988.2*	*1,918.4*
Change in market value (EUR m)	*69.8*	*254.6*

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

The item consists of claims on non-euro area residents denominated in foreign currency and included in the Bank's foreign reserves, and holdings of special drawing rights (SDRs) allocated by the International Monetary Fund (IMF).

2.1 Receivables from the IMF

Breakdown of receivables from the IMF denominated in foreign currency

	31 Dec 2012		*31 Dec 2011*	
	EUR m	*SDR m*	*EUR m*	*SDR m*
Reserve tranche in the IMF	*471.6*	*404.6*	*460.9*	*388.4*
SDRs	*1,311.8*	*1,125.3*	*1,327.6*	*1,118.7*
Other receivables from the IMF	*313.8*	*269.2*	*178.4*	*150.4*
Total	*2,097.3*	*1,799.1*	*1,966.9*	*1,657.4*

EUR/SDR exchange rate in financial years 2011 and 2012

	2012	*2011*
End-March	*0.86*	*0.90*
End-June	*0.83*	*0.90*
End-September	*0.84*	*0.86*
End-December	*0.86*	*0.84*

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 Finnish markka. The IMF has lent this part back to the Bank of Finland. The net effect of the Finnish markka quota on the Bank's balance sheet is zero, since the above-mentioned receivables and the liability are included in the same balance sheet item.

The Bank of Finland's SDR allocation amounts to EUR 1,311.8 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 2,097.3 million.

In summer 2010, the Accounting and Monetary Income Committee (AMICO) of the ESCB made a decision on the treatment of SDR hedging trades which differs from the general currency-specific valuation principle. Sales of SDR component currencies made for hedging against the SDR exchange rate risk are regarded as reductive items in calculating the amount and market valuation of SDR items. Hence, such sales do not decrease the amount of component currencies and do not have an effect on the market valuation of the respective currencies.

2.2 Other claims on non-euro area residents denominated in foreign currency

This item includes balances with banks and security investments, as well as external loans and other external assets, denominated in foreign currency.

Breakdown of claims on non-euro area residents denominated in foreign currency

	31 Dec 2012 EUR m	31 Dec 2011 EUR m	Change EUR m
Deposits	320.1	324.5	–4.4
Coupon papers	3,726.2	3,587.4	138.8
Discount papers	15.2	–	15.2
Other	12.2	7.0	5.2
Total	**4,073.6**	**3,918.9**	**154.7**

Currency breakdown of securities of non-euro area residents denominated in foreign currency

	31 Dec 2012		31 Dec 2011	
Currency	EUR m	%	EUR m	%
Pound sterling	657.4	17.6	517.2	14.4
US dollar	2,557.2	68.3	2,608.8	72.7
Japanese yen	526.8	14.1	461.4	12.9
Total	**3,741.5**	**100.0**	**3,587.4**	**100.0**

Remaining maturity of securities of non-euro area residents denominated in foreign currency

	31 Dec 2012		31 Dec 2011	
Maturity	EUR m	%	EUR m	%
Up to 1 year	762.5	20.4	376.0	10.5
Over 1 year	2,978.9	79.6	3,211.3	89.5
Total	**3,741.5**	**100.0**	**3,587.4**	**100.0**

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.

Breakdown of claims on euro area residents denominated in foreign currency

	31 Dec 2012 EUR m	31 Dec 2011 EUR m	Change EUR m
Deposits	37.9	196.0	–158.1
Coupon papers	376.6	437.8	–61.2
Discount papers	–	–	–
Other	–11.00	–5.7	–5.3
Total	**403.5**	**628.1**	**–224.6**

Currency breakdown of securities of euro area residents denominated in foreign currency

	31 Dec 2012		31 Dec 2011	
Currency	EUR m	%	EUR m	%
Pound sterling	115.1	30.6	131.7	30.1
US dollar	261.5	69.4	293.0	66.9
Japanese yen	–	–	13.1	3.0
Total	**376.6**	**100.0**	**437.8**	**100.0**

Remaining maturity of securities of euro area residents denominated in foreign currency

	31 Dec 2012		31 Dec 2011	
Maturity	EUR m	%	EUR m	%
Up to 1 year	191.5	50.8	213.5	48.8
Over 1 year	185.1	49.2	224.3	51,2
Total	**376.6**	**100.0**	**437.8**	**100.0**

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

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

Claims on non-euro area residents denominated in euro

	31 Dec 2012 EUR m	31 Dec 2011 EUR m	Change EUR m
Deposits	983.9	988.6	–4.7
Coupon papers	956.1	956.9	–0.8
Discount papers	30.0	–	30.0
Other	0.1	0.3	–0.2
Total	**1,970.1**	**1,945.8**	**24.3**

Remaining maturity of securities of non-euro area residents denominated in euro

	31 Dec 2012		31 Dec 2011	
Maturity	EUR m	%	EUR m	%
Up to 1 year	280.0	28.4	219.6	22.9
Over 1 year	706.0	71.6	737.4	77.1
Total	**986.1**	**100,0**	**956.9**	**100,0**

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

This item includes monetary policy instruments used by the Bank of Finland to implement monetary policy as part of the Eurosystem. The item consists of credit (+ interest) to Finnish credit institutions, and the amount recorded is determined by the credit institutions' liquidity needs.

The Eurosystem's total claims on monetary policy operations amount to EUR 1,128,794 million, of which the Bank of Finland holds EUR 3,681 million on its balance sheet. In accordance with Article 32.4 of the ESCB Statute, any risks from monetary policy operations, if they were to materialise, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares. Losses can only materialise if both the counterparty fails and the recovery of funds received from the resolution of the collateral provided by the counterparty is not sufficient. It should be noted that for specific collateral which can be accepted by NCBs at their own discretion, risk sharing has been excluded by the Governing Council of the ECB.

5.1 Main refinancing operations

Main refinancing operations are executed through liquidity providing reverse transactions with a weekly frequency and a maturity of one week, normally by means of standard tenders. Since October 2008, these operations were conducted as fixed rate tender procedures. These operations play a key role in achieving the aims of steering interest rate, managing market liquidity and signalling the monetary policy stance.

5.2 Longer-term refinancing operations

These operations aim to provide counterparties with additional longer-term refinancing. In 2012 operations were conducted with maturities equal to reserve maintenance period and with maturities of three, six, twelve and thirty-six months. The operations were conducted at fixed rate with allotment of the total amount bid.

5.3 Fine-tuning reverse operations

Fine-tuning reverse operations aim to regulate the market liquidity situation and steer interest rates, particularly to smooth the effects on interest rates caused by unexpected market fluctuations. Owing to their nature, they are executed on an ad-hoc basis.

5.4 Structural reverse operations

The Eurosystem conducts structural reverse operations as standard tenders whenever it wishes to adjust its liquidity position vis-à-vis the financial sector.

5.5 Marginal lending facility

Counterparties may use the marginal lending facility to obtain overnight liquidity from NCBs against eligible assets.

5.6 Credits related to margin calls

This item refers to cash paid to counterparties in those instances where the market value of the collateral exceeds an established trigger point implying an excess of collateral with respect to outstanding monetary policy operations.

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

	31 Dec 2012 EUR m	31 Dec 2011 EUR m	Change EUR m
Main refinancing operations	–	10.0	–10.0
Longer-term refinancing operations	3,681.0	2,301.0	1,380.0
Fine-tuning reverse operations	–	–	–
Structural reverse operations	–	–	–
Marginal lending facility	–	–	–
Credits related to margin calls	–	–	–
Total	3,681.0	2,311.0	1,370.0

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. The balance sheet total for this item was EUR 0.2 million in the financial year 2012, compared with EUR 40.3 million in the previous year.

7. Securities of euro area residents denominated in euro

In order to report securities held for monetary policy purpose separately, the item 'Securities of euro area residents denominated in euro' has been divided into two sub-positions: 'Securities held for monetary policy purposes' and 'Other securities'.

7.1 Securities held for monetary policy purposes

As at 31 December 2012 this item consisted of securities acquired by the Bank of Finland within the scope of the covered bond purchase programmes (CBPP and CBPP2) and the Securities Markets Programme (SMP) as well as outright transactions in secondary sovereign bond markets (known as outright monetary transactions, OMTs).

Securities held for monetary policy purposes

	31 Dec 2012 EUR m	31 Dec 2011 EUR m	Change EUR m
First covered bond purchase programme	806.8	947.8	–141.0
Second covered bond purchase programme	301.6	59.3	242.3
Securities Markets Programme	3,447.0	3,629.7	–182.7
Outright Monetary Transactions	–	–	–
Total	4,555.4	4,636.8	–81.4

The purchases under the first covered bond purchase programme were fully implemented by the end of June 2010. The redemptions and accounting amortisation of premium/discounts in 2012 resulted in a net decrease of the reported balance. The purchases under the second covered bond purchase programme were fully implemented by the end of October 2012.

Under the Securities Markets Programme (SMP) established in May 2010 the ECB and the NCBs purchased euro area public and private debt securities in order to address the malfunctioning of certain segments of the euro area debt securities markets and to restore the proper functioning of the monetary policy transmission mechanism. The programme was finalised at the beginning of September 2012. The redemptions and accounting amortisation of premium/discounts in 2012 resulted in a net decrease of the reported balance.

Securities purchased under the Securities Markets Programme and the covered bond purchase programmes are classified as held-to-maturity and reported on an amortised cost basis subject to impairment (see 'Valuation and amortisation of securities' in accounting conventions). Annual impairment tests are conducted on the basis of the information available and recoverable amounts estimated as at the reporting date.

The total Eurosystem NCB's holding of SMP securities amounts to EUR 192,608 million, of which the Bank of Finland holds EUR 3,447.0 million on its balance sheet. In accordance with Article 32.4 of the Statute, any risks from holdings of SMP securities, if they were to materialise, should eventually be shared in full by the Eurosystem NCBs, in proportion to the prevailing ECB capital key shares.

In February 2012, the Eurosystem central banks exchanged their holdings of Greek government bonds purchased under the SMP for new securities issued by the Hellenic Republic. The newly acquired securities have the same characteristics as those purchased under the SMP in terms of their nominal values, coupon rates, interest payment dates and redemption dates. The new securities were not included on the list of eligible securities that were subject to restructuring in the context of the private sector involvement (PSI) initiative.

The Governing Council assesses on a regular basis the financial risks associated with the securities held under the SMP and the two covered bond purchase programmes.

As a result of an impairment test conducted as at 31 December 2012, the Governing Council decided that all future cash flows on these securities are expected to be received.

7.2 Other securities

This item includes coupon bonds and discount papers issued in the euro area.

Breakdown of other securities of euro area residents denominated in euro

	31 Dec 2012 EUR m	31 Dec 2011 EUR m	Change EUR m
Coupon papers	6,756.6	9,068.9	–2,312.3
Discount papers	158.8	183.6	–24.8
Total	6,915.5	9,252.5	–2,337.0

Remaining maturity of other securities of euro area residents denominated in euro

	31 Dec 2012		31 Dec 2011	
Maturity	EUR m	%	EUR m	%
Up to 1 year	1,851.7	26.8	2,219.4	24.0
Over 1 year	5,063.7	73.2	7,033.1	76.0
Total	6,915.5	100,0	9,252.5	100,0

8. Intra-Eurosystem claims

Participating interest in ECB

Pursuant to Article 28 of the ESCB Statute, the NCBs are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the

ESCB Statute and which are subject to adjustment every five years.

The share in the ECB's capital of each NCB participating in the Eurosystem is determined on the basis of a 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 1.2539% since 1 January 2009.

In accordance with the legal acts adopted by the Governing Council on the increase of the subscribed capital of the ECB on 29 December 2010 and the pay-up of the increase via three instalments,[6] the Bank of Finland paid up EUR 20,898,333.34 to the ECB on 27 December 2012, representing the third instalment of its contribution to the increase in the ECB's capital.

[6] Decision ECB/2010/26 of 13 December 2010 on the increase of the European Central Bank's capital, OJ L 11, 15.1.2011, p. 53; Decision ECB/2010/27 of 13 December 2010 on the paying-up of the increase of the European Central Bank's capital by the national central banks of Member States whose currency is the euro, OJ L 11, 15.1.2011, p. 54, Decision ECB/2010/34 of 31 December 2010 on the paying-up of capital, transfer of foreign reserve assets and contributions by Eesti Pank to the European Central Bank's reserves and provisions, OJ L 11, 15.1.2011, p. 58; Agreement of 31 December 2010 between Eesti Pank and the European Central Bank regarding the claim credited to Eesti Pank by the European Central Bank under Article 30.3 of the Statute of the European System of Central Banks and of the European Central Bank, OJ C 12, 15.1.2011, p. 6.

Subscribed and paid-up capital of NCBs:

	Subscribed capital from 29 December 2010	*Paid-up capital until 26 December 2012*	*Paid-up capital from 27 December 2012*
Nationale Bank van België/Banque Nationale de Belgique	261,010,385	220,583,718	261,010,385
Deutsche Bundesbank	2,037,777,027	1,722,155,361	2,037,777,027
Eesti Pank	19,261,568	16,278,234	19,261,568
Banc Ceannais na hÉireann/Central Bank of Ireland	119,518,566	101,006,900	119,518,566
Bank of Greece	211,436,059	178,687,726	211,436,059
Banco de España	893,564,576	755,164,576	893,564,576
Banque de France	1,530,293,899	1,293,273,899	1,530,293,899
Banca d'Italia	1,344,715,688	1,136,439,021	1,344,715,688
Central Bank of Cyprus	14,731,333	12,449,666	14,731,333
Banque centrale du Luxembourg	18,798,860	15,887,193	18,798,860
Bank Ċentrali ta' Malta/Central Bank of Malta	6,800,732	5,747,399	6,800,732
De Nederlandsche Bank	429,156,339	362,686,339	429,156,339
Oesterreichische Nationalbank	208,939,588	176,577,921	208,939,588
Banco de Portugal	188,354,460	159,181,126	188,354,460
Banka Slovenije	35,381,025	29,901,025	35,381,025
Národná banka Slovenska	74,614,364	63,057,697	74,614,364
Suomen Pankki – Finlands Bank	134,927,820	114,029,487	134,927,820
Subtotal for euro area NCBs*	***7,529,282,289***	***6,363,107,289***	***7,529,282,289***
Българска народна банкаа (Bulgarian National Bank)	93,467,027	3,505,014	3,505,014
Česká národní banka	155,728,162	5,839,806	5,839,806
Danmarks Nationalbank	159,634,278	5,986,285	5,986,285
Latvijas Banka	30,527,971	1,144,799	1,144,799
Lietuvos bankas	45,797,337	1,717,400	1,717,400
Magyar Nemzeti Bank	149,099,600	5,591,235	5,591,235
Narodowy Bank Polski	526,776,978	19,754,137	19,754,137
Banca Naţională a României	265,196,278	9,944,860	9,944,860
Sveriges riksbank	242,997,053	9,112,389	9,112,389
Bank of England	1,562,145,431	58,580,454	58,580,454
*Subtotal for non-euro area NCBs**	3,231,370,113	121,176,379	121,176,379
Total*	***10,760,652,403***	***6,484,283,669***	***7,650,458,669***

**Due to rounding, subtotals and totals may not correspond to the sum of all figures.*

Claims equivalent to the transfer of foreign reserves

Item 'Claims equivalent to the transfer of foreign reserves' includes the share of foreign reserve assets, EUR 722.3 million transferred by the Bank of Finland to the ECB when Finland joined the Eurosystem. These claims are denominated in euro at a value fixed at the time of their transfer. 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.

Net claims related to the allocation of euro banknotes within the Eurosystem

Net claim related to the allocation of euro banknotes within the Eurosystem consists of a so-called CSM item (Capital Share Mechanism) relating to the subscription of ECB's capital, less the so-called ECB issue figure. The amount of euro banknotes in circulation under the CSM is adjusted in the balance sheet to correspond to the ECB's capital key. The figure for ECB issue represents the ECB's share (8%) of euro banknotes in circulation. For both figures, the counter entry is recorded under the balance sheet liability item 'Banknotes in circulation'.[7]

The balance sheet item totalled EUR 3,248 million in 2012 (EUR 3,485 million in 2011). The decrease in comparison to 2011 was due to the increase in banknotes put into circulation by the Bank of Finland (5.7%), as well as the rise in banknotes in circulation in the Eurosystem as a whole (3%). The remuneration of these claims is calculated at the latest available marginal rate for the Eurosystem's main refinancing operations.

[7] According to the accounting regime chosen by the Eurosystem on the issue of euro banknotes, a share of 8% of the total value of the euro banknotes in circulation is allocated to the ECB on a monthly basis. The remaining 92% of the value of the euro banknotes in circulation are allocated to the NCBs also on a monthly basis, whereby each NCB shows in its balance sheet a share of the euro banknotes issued corresponding to its paid-up share in the ECB's capital. The difference between the value of the euro banknotes allocated to the NCB according to the aforementioned accounting regime, and the value of euro banknotes put into circulation, is recorded as 'Net claims/liabilities related to the allocation of euro banknotes within the Eurosystem'.

Other claims within the Eurosystem (net) or liability item Other liabilities within the Eurosystem (net)

All components of the intra-Eurosystem positions 'Other claims/liabilities within the Eurosystem (net)' should be shown net in the annual accounts. This means that the balances resulting from 1) Net claims/liabilities arising from balances of TARGET2 accounts and correspondent accounts of NCBs, 2) Claim/liability due to the difference between monetary income to be pooled and redistributed and 3) Other intra-Eurosystem claims/liabilities that may arise, including the interim distribution of ECB income to NCBs should be shown net for disclosure purposes.

Other claims/liabilities within the Eurosystem (net)

	31 Dec 2012 EUR m	*31 Dec 2011 EUR m*	*Change EUR m*
Due to/ from ECB in respect of TARGET2 (including balances held with Eurosystem banks through correspondent accounts)	*70,603.4*	*66,008.1*	*4,595.2*
Net result of pooling of monetary income	*–343,3*	*–75,3*	*–268,0*
Due from ECB in respect of the ECB's interim profit distribution	*10.3*	*11.7*	*–1,4*
Other claims/ (liabilities) within the Eurosystem (net)	*–*	*–*	*–*
Total	***70,270.4***	***65,944.5***	***4,325.9***

The balance of EUR 70,270 million as at 31 December 2012 consisted of three components: 1) the position of the Bank of Finland vis-à-vis the ECB in respect of the transfers issued and received through TARGET2 by the ESCB national central banks, including the ECB, plus the balances held with Eurosystem central banks through correspondent accounts; 2) the position vis-à-vis the ECB in respect of the pooling and allocation of monetary income within the Eurosystem pending settlement; 3) the Bank of Finland's position vis-à-vis the ECB in respect of any amounts receivable or refundable, basically in respect of the seigniorage income relating to euro banknotes issued by the ECB and of the securities acquired by the ECB under the securities markets programme.

The year-end net transfers via TARGET2 had a credit balance of EUR 70,603 million. The remuneration of this position is calculated daily at the marginal interest rate of Eurosystem main refinancing operations.

The position vis-à-vis the ECB in respect of the annual pooling and allocation of monetary income within the Eurosystem national central banks had a debit balance of EUR 343 million at year-end (see 'Net result of pooling of monetary income' in the notes on the profit and loss account).

With respect to 2012, the Governing Council decided to distribute EUR 574.6 million from the ECB's income derived from banknotes in circulation and the ECB's income earned on securities purchased under the securities markets programme (see 'ECB profit distribution' in the notes on accounting conventions). The Bank's share amounted to EUR 10.3 million.

9. Other assets

This item consists of the Bank of Finland's holdings of euro coins, fixed assets (buildings, machinery and equipment) and investment assets (shares and other equity). The item also includes pension fund asset and investment items, valuation results of off-balance sheet items, accruals and other assets.

Tangible fixed assets

Book value	31 Dec 2012 EUR m	31 Dec 2011 EUR m	Change EUR m
Land	8.5	8.8	–0.3
Buildings	129.2	139.5	–10.3
Machinery and equipment	7.8	8.4	–0.6
Art and numismatic collection	0.4	0.4	0.0
Total	**145.9**	**157.1**	**–11.2**

Intangible fixed assets

Book value	31 Dec 2012 EUR m	31 Dec 2011 EUR m	Change EUR m
IT systems	8.7	7.8	0.9
Total	**8.7**	**7.8**	**0.9**

Other holdings and sundry assets	31 Dec 2012 EUR m	31 Dec 2011 EUR m	Change EUR m
Coins of euro area	27.1	24.8	2.3
Shares and other equity	24.9	24.9	–
Pension fund's investments	582.2	543.9	38.3
Accruals	315.9	404.1	–88.2
Other sundry assets	10.5	8.5	2.0
Total	**960.7**	**1,006.2**	**–45.6**

In the table below, land and buildings also include land (EUR 2.8 million) and buildings (EUR 18.5 million) owned by the Bank of Finland's pension fund. These are included in other holdings and sundry assets. Intangible assets also include shares and other equity.

Tangible and intangible assets

EUR m	Land	Buildings	Machinery and equipment	Art and numismatic collection	Intangible assets	Total
Acquisition cost 1 Jan 2012	14.4	303.4	32.4	0.4	54.5	405.1
Additions	–	3.9	1.7	0.0	3.3	8.9
Deductions	3.0	25.4	0.2	–	–	28.6
Acquisition cost 1 Jan 2012	11.3	281.9	33.9	0.4	57.8	385.4
Depreciation during financial year	–	11.9	2.3	–	2.4	16.7
Accumulated depreciation 31 Dec 2012	–	134.3	26.2	–	24.2	184.7
Book value 31 Dec 2012	11.3	147.7	7.8	0.4	33.6	200.8
Book value 31 Dec 2011	14.4	169.8	8.4	0.4	32.7	225.7

Liabilities

1 Banknotes in circulation

This item consists of the Bank of Finland's share, in accordance with the ECB's capital key and adjusted for the share allocated to the ECB, of the total amount of euro banknotes in circulation.

In 2012 the total value of euro banknotes in circulation increased by 3%. According to the allocation key, the Bank of Finland had euro banknotes in circulation worth EUR 15,044 million at the end of the year compared with EUR 14,649 at the end of 2011. The value of the euro banknotes actually issued by the Bank of Finland in 2012 increased by 6% from EUR 11,164 million to EUR 11,796 million. As this was less than the allocated amount, the difference of EUR 3,248 million (EUR 3,484 million in 2011) is shown under asset sub-item 'Net claims related to the allocation of euro banknotes within the Eurosystem'.

Banknotes in circulation	*31 Dec 2012 EUR m*	*31 Dec 2011 EUR m*
EUR 5	*104.4*	*107.1*
EUR 10	*15.3*	*32.9*
EUR 20	*2,468.2*	*2,257.6*
EUR 50	*6,246.4*	*5,500.0*
EUR 100	*–321.5*	*–171.5*
EUR 200	*387.5*	*380.2*
EUR 500	*2,895.7*	*3,058.1*
Total	*11,796.0*	*11,164.3*
ECB issue	*–1,308.3*	*–1,274.0*
CSM figure	*4,556.4*	*4,758.7*
Banknotes in circulation in accordance with the ECB's capital key	***15,044.1***	***14,649.0***

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

This item consists of interest bearing liabilities to credit institutions and includes credit institutions' minimum reserve account balances, the deposit facility and fixed-term deposits. The item results for the Bank of Finland from the performance of monetary policy functions as part of the Eurosystem. The minimum reserve system aims at stabilising money market interest rates and increasing the structural liquidity needs of the banking system. The average of credit institutions' daily minimum reserve account balances must be at least as high as the reserve requirement during a maintenance period.

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

	31 Dec 2012 EUR m	*31 Dec 2011 EUR m*	*Change EUR m*
Current accounts (covering the minimum reserve system)	*31,697.6*	*1,657.2*	*30,040.4*
Deposit facility	*37,101.0*	*52,539.9*	*–15,438.9*
Fixed-term deposits	*5,000.0*	*17,500.00*	*–12,500.0*
Fine-tuning reverse operations	*–*	*–*	*–*
Deposits related to margin calls	*–*	*–*	*–*
Total	***73,798.6***	***71,697.1***	***2,101.5***

2.1 Current accounts (covering the minimum reserve system)

Current accounts contain the credit balances of the transaction accounts of credit institutions that are required to hold minimum reserves. Banks' minimum reserve balances have been remunerated since 1 January 1999 at the prevailing marginal interest rate for the Eurosystem's main refinancing operations.

2.2 Deposit facility

The deposit facility refers to overnight deposits placed by banks that access the Eurosystem's liquidity absorbing standing facility at the prespecified rate.

2.3 Fixed-term deposits

Fixed-term deposits are fine-tuning liquidity absorbing operations that take the form of deposits.

2.4 Fine-tuning reverse operations

Fine-tuning reverse operations are used to offset high liquidity imbalances.

2.5 Deposits related to margin calls

This item refers to deposits made by counterparties in those instances where the market value of the collateral pledged falls short of an established trigger point.

3. Liabilities to other euro area residents denominated in euro

This item consists of euro-denominated liabilities to the public sector and 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 and repurchase agreements with non-euro area counterparties.

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 foreign currency-denominated repurchase agreements entered into for the purpose of managing foreign reserves.

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 smaller than their counteritem on the liabilities side of the balance sheet at the end of 2012. On the liabilities side, the counteritem was SDR 1,189.5 million. In the balance sheet, the item is presented in euro, valued at the rate prevailing on the last day of the year (EUR 1,386.7 million).

8. Intra-Eurosystem liabilities

This item includes the net balances of other central banking accounts and the ECB account relating to TARGET2, if the Bank of Finland has a net liability against the Eurosystem in the period under review. Intra-Eurosystem liabilities and claims have been elaborated on in more detail in the notes on the balance sheet under assets item 'Intra-Eurosystem claims'. At the end of financial year 2012, the Bank of Finland had intra-Eurosystem liabilities relating to the redistribution of monetary income in an amount of EUR 344.9 million.

9. Other liabilities

Other liabilities	*31 Dec 2012 EUR m*	*31 Dec 2011 EUR m*	*Change EUR m*
Finnish markka banknotes in circulation	–	125.4	–125.4
Accruals	16.3	19.1	–2.8
Accounts payable	1.0	0.9	0.1
Other	6.2	32.7	–26.5
Total	***23.5***	***178.1***	***–154.6***

10. Revaluation accounts

The item includes unrealised valuation gains arising from the market valuation of foreign currency-denominated items and securities. The item also includes revaluations of land and buildings and other valuation differences arising from changes in accounting practice in 1999.

Revaluation accounts	*31 Dec 2012 EUR m*	*31 Dec 2011 EUR m*	*Change EUR m*
Gold	1,599.3	1,529.4	69.9
Foreign currencies:			
USD	273.3	332.2	–58.9
GBP	105.3	86.7	18.6
JPY	153.9	224.6	–70.7
SDRs	0.0	14.7	–14.7
Other currencies	0.3	0.3	0.0
Securities	271.1	401.8	–130.6
Other revaluations	205.4	216.6	–11.2
Total	***2,608.6***	***2,806.4***	***–197.8***

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. At the end of 2012 these provisions totalled EUR 3,707.6 million. Provisions consist of a general provision, provision against real value loss, pension liability provision, provision in respect of credit risk in monetary policy operations as well as foreign exchange rate and price difference provision.

The pension liability provision is made to cover Bank of Finland's pension liabilities. The Bank of Finland's pension liabilities total EUR 577.7 million: 100.8% of this amount is covered by the pension provision, ie EUR 582.2 million. The changes in pension provision consist of the pension fund's profit for 2012, EUR 46.6 million, and a reduction of EUR –8.3 million in the revaluation account in 2012.

In accordance with Article 32.4 of the ESCB Statute, the provision against credit risks in monetary policy operations is allocated between the NCBs of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in the year when the defaults have occurred. In accordance with the general accounting principle of prudence, the Governing Council has reviewed the appropriateness of the volume of this provision and decided to reduce the provision by EUR 639 million as at 31 December 2012. The Bank of Finland's share in the provision decrease amounted to EUR 11.4 million, after which the provision totals EUR 5.5 million. At the end of 2011 the provision amounted to EUR 949 million, of which the Bank's share was EUR 16.9 million.

The respective adjustments are reflected in the NCBs' profit and loss accounts. In the case of the Bank of Finland, the resulting income amounted to EUR 11.4 million in 2012 (see 'Provision in respect of credit risk in monetary policy operations' in the notes on the profit and loss account).

Provisions (EUR m)	*Provisions as at 1 Jan 2011*	*Changes in provisions 2011*	*Total provisions 31 Dec 2011*	*Changes in provisions 2012*	*Total provisions 31 Dec 2012*
Foreign exchange rate and price difference provision	*406*	*9*	*415*	*232*	*647*
General provision	*1,095*	*100*	*1,195*	*300*	*1,495*
Provision against real value loss	*748*	*113*	*861*	*117*	*978*
Pension provision	*526*	*19*	*544*	*38*	*582*
Provision in respect of credit risk in monetary policy operat-ions	*39*	*–22*	*17*	*–11*	*6*
Total	*2,814*	*218*	*3,032*	*676*	*3,708*

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.

Capital and reserves (EUR m)	*31 Dec 2012*	*31 Dec 2011*
Primary capital	*840.9*	*840.9*
Reserve fund	*1,491.0*	*1,421.5*
Total	*2,331.9*	*2,262.4*

13. Profit for the financial year

The profit for the financial year 2012 totalled EUR 337.5 million.

Profit for the financial year (EUR m)	*2012*	*2011*
Transferred for the needs of the State	*227.0*	*185.0*
Bank of Finland's share of profit (transferred to reserve fund)	*110.5*	*69.5*
Total	*337.5*	*254.5*

Notes on the profit and loss account

1. Interest income

Interest income from and outside the euro area totalled EUR 1,110.3 million. Of this, EUR 63.6 million consisted of foreign currency-denominated interest income and EUR 1,046.8 million on euro-denominated interest income.

Interest income on ESCB items totalled EUR 561.4 million. Of this, EUR 5.5 million consisted of claims on transfers of foreign reserves 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 capital key and the adjustments, EUR 30.1 million, is entered on a net basis. Interest income on TARGET2 balances totalled EUR 525.9 million.

Interest income received outside the euro area (EUR m)	*2012*			*2011*		
	Euro-denominated	*foreign currency-denominated*	*Total*	*Euro-denominated*	*foreign currency-denominated*	*Total*
Gold investments	–	0.8	0.8	–	1.2	1.2
Non-euro area coupon bonds	24.0	45.5	69.5	24.5	65.7	90.2
Non-euro area discount papers	0.1	0.1	0.2	0.1	0.0	0.1
Non-euro area deposits	0.9	1.0	2.0	8.1	1.0	9.0
Other	–	1.7	1.7	–	8.1	8.1
Total	***25.1***	***49.1***	***74.2***	***32.7***	***76.1***	***108.8***

Interest income received from the euro area (EUR m)	*2012*			*2011*		
	Euro-denominated	*foreign currency-denominated*	*Total*	*Euro-denominated*	*foreign currency-denominated*	*Total*
Euro area coupon bonds	204.5	14.4	218.9	223.6	20.6	244.1
Euro area discount papers	3.0	–	3.0	5.8	–	5.8
Euro area deposits	0.0	0.0	0.0	0.5	0.1	0.6
ESCB items	561.4	–	561.4	263.1	–	263.1
Monetary policy items	252.7	–	252.7	139.6	–	139.6
Other	0.0	0.0	0.0	0.0	0.6	0.6
Total	***1,021.7***	***14.4***	***1,036.1***	***632.6***	***21.2***	***653.8***

Total interest income (EUR m)	*2012*			*2011*		
	Euro-denominated	*foreign currency-denominated*	*Total*	*Euro-denominated*	*foreign currency-denominated*	*Total*
Interest income received outside the euro area	25.1	49.1	74.2	32.7	76.1	108.8
Interest income received from the euro area	1,021.7	14.4	1,036.1	632.6	21.2	653.8
Total	***1,046.8***	***63.6***	***1,110.3***	***665.3***	***97.3***	***762.6***

2. Interest expense

Interest expense paid outside the euro area (EUR m)	*2012*			*2011*		
	Euro-denominated	*foreign currency-denominated*	*Total*	*Euro-denominated*	*foreign currency-denominated*	*Total*
Non-euro area deposits	*–0.4*	*–0.4*	*–0.8*	*–6.2*	*–0.4*	*–6.6*
Other	*–*	*–1.7*	*–1.7*	*–*	*–5.4*	*–5.4*
Total	***–0.4***	***–2.1***	***–2.5***	***–6.2***	***–5.8***	***–12.0***

Interest expense paid in the euro area (EUR m)	*2012*			*2011*		
	Euro-denominated	*Foreign currency-denominated*	*Total*	*Euro-denominated*	*Foreign currency-denominated*	*Total*
ESCB items	*–*	*–*	*–*	*–*	*–*	*–*
Monetary policy items	*–107.6*	*–*	*–107.6*	*–155.5*	*–*	*–155.5*
Other	*–1.5*	*–1.0*	*–2.5*	*–1.5*	*–1.1*	*–2.6*
Total	***–109.1***	***–1.0***	***–110.1***	***–157.0***	***–1.1***	***–158.1***

Total interest expense (EUR m)	*2012*			*2011*		
	Euro-denominated	*foreign currency-denominated*	*Total*	*Euro-denominated*	*foreign currency-denominated*	*Total*
Interest expense paid outside the euro area	*–0.4*	*–2.1*	*–2.5*	*–6.2*	*–5.8*	*–12.0*
Interest expense paid in the euro area	*–109.1*	*–1.0*	*–110.1*	*–157.0*	*–1.1*	*–158.1*
Total	***–109.5***	***–3.1***	***–112.6***	***–163.2***	***–6.9***	***–170.1***

Interest expense paid in and outside the euro area totalled EUR 112.6 million. Of this, EUR 22.9 million was paid on minimum reserve deposits, EUR 56.8 million on the deposit facility and EUR 27.9 on fixed-term deposits.

3. Net interest income

Net interest income	*31 Dec 2012 EUR m*	*31 Dec 2011 EUR m*
Interest income		
Financial assets	*296.2*	*359.9*
Monetary policy items	*252.7*	*139.6*
ESCB claims	*561.4*	*263.1*
Total	***1,110.3***	***762.6***
Interest expense		
Financial assets	*–4.9*	*–14.6*
Monetary policy items	*–107.6*	*–155.5*
ESCB liabilities	*–*	*–*
Total	***–112.5***	***–170.1***
NET INTEREST INCOME	*997.8*	*592.5*

4. Foreign exchange rate differences

This item includes realised exchange rate gains and losses as well as valuation losses arising from the sale of currency positions. In 2012 gains related to foreign exchange rate movements amounted to EUR 14.0 million.

5. Securities price differences

This item includes realised gains and losses as well as valuation losses arising from the sale of securities. In the accounts, securities are treated on a security-by-security basis. In 2012 the realised gains related to securities price movements totalled EUR 218.0 million.

6. Change in foreign exchange rate and price difference provisions

Realised net gains arising from foreign exchange rate and price differences, EUR 232.1 million, were used to increase provisions in accordance with the financial reporting policy. All provisions have been specified in the notes on the balance sheet under liabilities.

7. Income and expenses on fees and commissions

The item includes fees and commissions related to investment activities.

8. Net result of pooling of monetary income

Monetary income	*31 Dec 2012 EUR m*	*31 Dec 2011 EUR m*
Net monetary income pooled by the Bank of Finland	*764.3*	*357.2*
Net monetary income allocated to the Bank of Finland	*419.4*	*281.1*
Net monetary income according to the capital allocation key	***–344.9***	***–76.1***
Corrections to monetary income reallocation of previous years	*1.6*	*0.7*

The amount of each Eurosystem NCB's monetary income is determined by measuring the actual annual income that derives from the earmarkable assets held against its liability base. The liability base consists mainly of the following items: banknotes in circulation; liabilities to euro area credit institutions related to monetary policy operations denominated in euro; intra-Eurosystem liabilities of the NCBs arising from the issuance of ECB debt certificates; net intra-Eurosystem liabilities resulting from TARGET2 transactions; 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.

The earmarkable assets consist mainly of the following items: lending to euro area credit institutions related to monetary policy operations denominated in euro; securities held for monetary policy purposes; intra-Eurosystem claims equivalent to the transfer of foreign reserve assets to the ECB; net intra-Eurosystem claims resulting from TARGET2 transactions; net intra-Eurosystem claims related to the allocation of euro banknotes within the Eurosystem; a limited amount of each NCB's gold holdings in proportion to each NCB's capital key share.

Gold is considered to generate no income. Securities held for monetary policy purposes under Decision ECB/2009/16 of 2 July 2009 on the implementation of the covered bond purchase programme and under Decision ECB/2011/17 of 3 November 2011 on the implementation of the second covered bond purchase programme are considered to generate income at the latest available marginal rate for the Eurosystem's main refinancing operations. Where the value of a NCB's earmarkable assets exceeds or falls short of the value of its liability base, the difference shall be offset by applying to the value of the difference the latest available marginal rate for the Eurosystem's main refinancing operations.

The monetary income pooled by the Eurosystem is to be allocated among the NCBs according to the subscribed ECB's capital key. The difference between the monetary income pooled by the Bank of Finland amounting to EUR 764 million and reallocated to the Bank of Finland amounting to EUR 419 million is the net result arising from the calculation of monetary income.

9. Share in ECB profit

The ECB distributed EUR 76 million profit for the financial year 2011, of which the Bank of Finland's share recorded for the financial year 2012 totalled EUR 1.4 million.

10. Provision in respect of credit risk in monetary policy operations

In accordance with the general accounting principle of prudence, the Governing Council deemed it appropriate to establish provisions totalling EUR 5.7 billion against the risks arising from transactions with Eurosystem counterparties during 2008. In accordance to Article 32.4 of the Statute, these risks will be shared among all the NCBs of participating Member States in proportion to their subscribed capital key shares in the ECB prevailing in 2008. As a result, a provision for EUR 102 million equivalent to 1.78603% of the total provision was created.

In the financial statements for 2012, by a decision of the Governing Council, the above-mentioned provision was decreased by EUR 639 million to reflect income from maturing collateral or collateral sales. The Bank of Finland's share in the provision decrease amounted to EUR 11.4 million. The provision totals EUR 5.5 million.

11. Other central banking income

This item includes income on euro banknotes distributed by the ECB in the form of an interim distribution of profit and income on SMP portfolio, EUR 10.3 million. Redemption of Finnish markka banknotes ended during 2012. Unredeemed markka banknotes, EUR 119 million, are included as an exceptional item under other central banking income. The item also includes dividend income, EUR 4.0 million, consisting primarily of shares in the Bank for International Settlements.

12. Other income

This item consists of the Financial Supervisory Authority's supervision and processing fees, EUR 25.3 million, income from real estate, EUR 9.8 million, income from real estate sales as well as commissions and fees.

13. Staff costs

Staff costs	*31 Dec 2012 EUR m*	*31 Dec 2011 EUR m*
Salaries and fees	*41.5*	*40.5*
Employer's payments to the pension fund	*7.6*	*7.5*
Other staff-related costs	*2.6*	*2.7*
Total	***51.7***	***50.7***

Average staff size	*2012 Number of staff*	*2011 Number of staff*
Bank of Finland	*418*	*429*
Financial Supervisory Authority	*208*	*207*
Total	***626***	***636***

Basic salaries paid to the members of the Board	*2012 EUR*
Erkki Liikanen	*259,896*
Pentti Hakkarainen	*234,564*
Seppo Honkapohja	*191,220*
Total	***685,680***

Fringe benefits (meal benefit, company-paid telephone and company car) paid to the members of the Board totalled EUR 38,353.

As of 2005, pension benefits of the members of the Board are determined according to the Bank of Finland's Pension Rule, without special terms and under same terms and conditions as confirmed in the Rule for other personnel. As applicable, the Bank of Finland's Pension Rule is in line with the State Employees' Pension Scheme. A former board member may be paid compensation for income loss if the person may not, because of provisions on the qualifying period, accept employment from elsewhere or if the pension from the Bank of Finland is less than the compensation for income loss. Full compensation for income loss amounts to 60% of salary and is paid for one year, adjusted with the pension paid by the Bank, so that the combined sum of full compensation and pension does not exceed 60% of salary.

14. Pension fund contribution

No contribution was paid to the Bank's pension fund in financial year 2012.

	31 Dec 2012 EUR m	*31 Dec 2011 EUR m*
Pension fund contribution	*–*	*32.0*

15 Administrative expenses

Administrative expenses	*2012 EUR m*	*2011 EUR m*
Supplies and purchases	*0.7*	*0.8*
Machinery and equipment	*3.1*	*3.4*
Real estate	*11.0*	*11.1*
Staff-related expenses	*3.8*	*3.8*
Purchase of services	*8.9*	*8.5*
Other	*2.0*	*1.5*
Total	***29.5***	***29.1***

This item includes rents, meetings and interest group-related costs, expenses arising from the purchase of services and cost of equipment. Expenses involved in training, travel and recruitment of staff are also recorded under this item.

16. Depreciation of fixed assets

Depreciation of tangible fixed assets	*31 Dec 2012 EUR m*	*31 Dec 2011 EUR m*
Land	–	–
Buildings	2.3	2.2
Machinery and equipment	2.3	2.8
Art and numismatic collection	–	–
Total	*4.6*	*5.0*

Depreciation of intangible fixed assets	*31 Dec 2012 EUR m*	*31 Dec 2011 EUR m*
IT systems	3.1	3.1
Total	*3.1*	*3.1*

Depreciations do not include depreciations arising from the revaluation of land and buildings.

17. Banknote procurement cost
Purchase of banknotes amounted to EUR 2.7 million.

18. Other expenses
The bulk of other expenses are related to the use and maintenance of property.

19. Income of the pension fund
This item includes income of the Bank of Finland pension fund's investment activities, EUR 66.3 million. The item also includes the Bank of Finland's and Financial Supervisory Authority's employer contributions as well as employee's share of premium income, EUR 10.2 million.

20. Expenses of the pension fund
This item includes expenses of the Bank of Finland pension fund's investment activities, EUR 0.2 million, pensions paid, EUR 25.1 million, management costs and depreciations of fixed assets managed by the pension fund.

21. Changes in provisions
This item includes the increase of the pension liability provision, EUR 47 million, the increase of the provision against real value loss, EUR 117 million, and the increase of the general provision, EUR 300 million. All provisions have been specified in the notes on the balance sheet under liabilities.

22. Profit for the financial year
The profit for the financial year 2012 totalled EUR 337 million. The Board proposes to the Parliamentary Supervisory Council that EUR 227 million of the profit be made available for the needs of the State.

Off-balance sheet items
This item contains the Bank of Finland's derivative contracts. The bulk of derivative contracts have been made for hedging against exchange rate risk.

Derivative contracts	*31 Dec 2012 EUR m*	*31 Dec 2011 EUR m*
Nominal value of FX futures contracts		
Purchase agreements	–	–
Sales agreements	–	–
Market value of FX-swap contracts	7.7	–6.3
Market value of GIRS contracts	0.1	0.1
Market value of IRS contracts	–	–
Market value of FX forward contracts	–	–
Total	*7.8*	*–6.2*

Five-year review

The following table presents the Bank of Finland's balance sheets and profit and loss accounts for the past five financial years.

BALANCE SHEET (EUR m)	2012	2011	2010	2009	2008
Assets					
Gold and gold receivables	**1,988**	**1,918**	**1,664**	**1,208**	**980**
Claims on non-euro area residents denominated in foreign currency	**6,171**	**5,886**	**5,223**	**6,225**	**4,597**
Receivables from the International Monetary Fund	2,097	1,967	1,815	1,609	356
Balances with banks and security investments, external loans and other external assets	4,074	3,919	3,408	4,617	4,241
Claims on euro area residents denominated in foreign currency	**404**	**628**	**712**	**1,120**	**2,577**
Claims on non-euro area residents denominated in euro	**1,970**	**1,946**	**1,662**	**845**	**581**
Lending to euro area credit institutions related to monetary policy operations denominated in euro	**3,681**	**2,311**	**50**	**2,710**	**2,600**
Main refinancing operations	–	10	0	20	350
Longer-term refinancing operations	3,681	2,301	50	2,690	2,250
Other claims on euro area credit institutions denominated in euro	**0**	**40**	**1**	**126**	**0**
Securities of euro area residents denominated in euro	**11,471**	**13,889**	**11,668**	**8,002**	**7,265**
Securities held for monetary policy purposes	4,555	4,637	2,203	531	–
Other securities	6,915	9,253	9,466	7,471	7,265
Intra-Eurosystem claims	**74,382**	**70,271**	**23,888**	**14,280**	**10,162**
Participating interest in ECB	141	120	99	78	73
Claims equivalent to the transfer of foreign reserves	722	722	722	722	717
Net claims related to the allocation of euro banknotes within the Eurosystem	3,248	3,485	3,414	3,910	4,127
Other claims within the Eurosystem (net)	70,270	65,944	19,653	9,570	5,245
Other assets	**1,115**	**1,171**	**1,090**	**1,130**	**1,254**
Coins of euro area	27	25	22	19	22
Tangible and intangible fixed assets	155	165	171	189	185
Other current assets	607	569	551	528	481
Other	326	413	346	393	566
Total assets	**101,182**	**98,061**	**45,957**	**35,646**	**30,016**

BALANCE SHEET (EUR m)	2012	2011	2010	2009	2008
Liabilities					
Banknotes in circulation	15,044	14,649	13,880	13,330	12,532
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	73,799	71,697	21,696	13,543	8,110
Current accounts (covering the minimum reserve system)	31,698	1,657	9,383	8,085	1,015
Deposit facility	37,101	52,540	9,113	5,458	7,095
Fixed-term deposits (liquidity-absorbing fine-tuning operations)	5,000	17,500	3,200	–	–
Liabilities to other euro area residents denominated in euro	801	836	262	14	3,009
Liabilities to non-euro area residents denominated in euro	1,004	782	1,021	234	37
Liabilities to euro area residents denominated in foreign currency	0	0	0	248	0
Liabilities to non-euro area residents denominated in foreign currency	139	153	23	363	–
Counterpart of special drawing rights allocated by the IMF	1,387	1,412	1,377	1,295	158
Intra-Eurosystem liabilities	–	–	–	–	–
Other liabilities	24	178	151	155	191
Revaluation accounts	2,609	2,806	2,274	1,703	1,622
Provisions	3,708	3,032	2,814	2,325	2,092
Capital and reserves	2,332	2,262	2,175	2,015	1,864
Primary capital	841	841	841	841	841
Reserve fund	1,491	1,421	1,334	1,174	1,023
Profit for the financial year	337	254	283	420	401
Total liabilities	101,182	98,061	45,957	35,646	30,016

PROFIT AND LOSS ACCOUNT (EUR m)	2012	2011	2010	2009	2008
Interest income	1,110	763	597	590	844
Interest expense	–113	–170	–71	–71	–223
Net interest income	**998**	**592**	**526**	**519**	**621**
Foreign exchange rate differences	14	5	221	15	–485
Securities price differences	218	4	69	101	37
Change in foreign exchange rate and price difference provision	–232	–9	–290	–116	448
Net result of financial operations, write-downs and risk provisions	**998**	**592**	**526**	**519**	**621**
Net result of pooling of monetary income	–343	–75	–33	21	26
Share in ECB profit	1	3	26	2	–
Provisions in respect of counterparty risk in monetary policy operations	11	22	32	31	–102
Other central banking income	133	15	9	19	25
Central banking profit	**800**	**557**	**560**	**590**	**569**
Other income	**47**	**35**	**34**	**43**	**41**
Operating expenses	**–93**	**–125**	**–102**	**–112**	**–116**
Staff costs	–52	–51	–51	–53	–46
Pension fund contribution	–	–32	–10	–10	–30
Administrative expenses	–29	–29	–28	–31	–27
Depreciation of fixed assets	–8	–8	–7	–7	–8
Banknote procurement costs	–3	–4	–6	–10	–4
Other expenses	–2	–1	0	–1	–2
Operating profit	**754**	**467**	**491**	**521**	**494**
Profit for the pension fund	**47**	**19**	**24**	**48**	**–22**
Changes in provisions	**–464**	**–232**	**–232**	**–149**	**–71**
Profit for the financial year	**337**	**254**	**283**	**420**	**401**

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

Notes on risk management

Risk management and control of investment of financial assets

Risk management of investment activities by the Bank of Finland has been entrusted jointly to the risk control unit operating under the Administrative department and the Banking Operations department. Risk control of investment activities is the responsibility of the Administration department's risk control unit.

In addition to risk control of investment activities, the risk control unit is responsible for the monitoring of risk positions, pricing of instruments, reporting on risks and returns as well as monitoring and reporting on the Bank's balance sheet risks. The risk control unit also maintains an overall risk management framework and investment benchmark indices and develops risk management methods.

Persons involved in operative investment activities are reported to daily on the risks to investment activities, while the Bank of Finland Board is reported to on the risks on a monthly basis. Reports on developments in investment returns are produced at monthly intervals. Returns are considered quarterly in the markets committee which is chaired by the Board member responsible for investment activities. The Board considers the risks and returns more extensively twice a year. Cases of non-compliance with the limits imposed are reported immediately. An extensive report on total financial risk is submitted to the Board at quarterly intervals.

The Bank of Finland also has a risk committee whose mandate is to conduct independent assessment and control of investment risks and the related risk management. The risk committee does not make decisions on investment activities and risk management, but may submit matters to the Board for information or decision, as necessary. The risk committee is chaired by the Board member responsible for risk control. The risk committee convenes in two compositions. One discusses financial risks and the other operative risks.

Decision-making framework for investment of financial assets and risk management

Decisions on investment of financial assets and the related risk management are taken by the Bank of Finland Board, the markets committee and, to a lesser extent, by investment group and risk group.

The Board is responsible for decisions on the investment activities objectives, investment policy and risk management principles. Such decisions relate, among other things, to the size of own financial assets and foreign reserves, currency distribution of foreign reserves, the size and composition of the liquidity portfolio, strategic allocation of the investment portfolio by investment category, leeway permitted in investment activities by investment category and the level of interest rate and credit risks. The Board also decides on maximum credit risk limits.

Within the limits imposed by the Board, the markets committee makes detailed decisions on the investment of the Bank's financial assets and risk management. Such decisions include criteria for counterparties and issuers and more specific credit risk limits. The chairperson of, and decision-maker in, the markets committee is the Board member responsible for the Bank of Finland's own investments.

The emphasis of work in the investment group and the risk group is on the preparation of matters to be considered by higher decision-making bodies. In addition, the investment group acts as an internal decisionmaker within the Banking Operations department and as a coordinator of matters common to the investment and risk control functions. The Head of Banking Operations chairs the investment group and makes decisions within the group. The Head of risk control unit of the Administration department chairs the risk group and makes decisions within the group.

The Bank of Finland's estimated total risk including gold

The Bank of Finland's total risks are discussed in section 'Total risk exposure' (p. 76–79). The figures presented in that section exclude gold owing to its large revaluation account. When all risks – including gold – are added together, the Bank of Finland's total risks are estimated at about EUR 2.9 billion in annual terms.

Risk measures and breakdowns

Table 1.

Breakdown of debt securities and deposits in the Bank of Finland's financial assets and the Covered Bond Purchase Programmes, by credit rating[1]

Credit rating	31 Dec 2012, %	31 Dec 2011, %
AAA	53.2	66.8
AA+	28.6	12.7
AA	1.8	2.8
AA–	6.9	9.4
A+	0.7	1.8
A	1.4	3.4
A–	1.1	0.7
BBB+	2.6	0.6
BBB	0.5	0.5
BBB–	2.0	0.4
below BBB–	0.5	0.2
No credit rating	0.7	0.6

[1] Covered bonds have been classified according to their own credit rating and not the credit rating of their issuer. The Bank of Japan and the Federal Reserve are dealt with according to the credit rating of the respective state.

Source: Bank of Finland.

Table 2.

Breakdown of debt securities in the Bank of Finland's financial assets and the Covered Bond Purchase Programmes, by home state of the issuer (according to market value of debt security)

Country or region	31 Dec 2012, %	31 Dec 2011, %
Euro area	**58.9**	**66.7**
Germany	22.7	23.2
France	14.1	19.3
The Netherlands	8.6	6.8
Finland	6.1	6.5
Spain	2.3	3.3
Italy	2.0	2.1
Austria	1.7	3.4
Ireland	0.8	0.5
Portugal	0.6	0.4
Greece	0.1	0.2
Luxembourg[1]	0.0	0.0
Belgium[1]	–	0.9
Europe excl. euro area	**11.7**	**8.6**
United Kingdom	5.3	3.8
Sweden	4.2	2.5
Norway	1.1	1.3
Denmark	0.9	1.0
Switzerland	0.2	–
America	**16.6**	**14.1**
United States	15.9	13.0
Canada	0.7	1.1
Asia and Pacific Ocean region	**4.4**	**3.8**
Japan	4.0	3.2
Australia	0.2	0.4
Singapore	0.2	0.1
New Zealand[1]	0.0	0.0
International institutions	**8.4**	**6.8**

[1] 0.0 means less than 0.05,
– means zero.

Source: Bank of Finland.

Table 3.

Sensitivity of the Bank of Finland's financial assets to exchange rate and interest rate changes

EUR m	2012	2011
Change in the value of Bank of Finland's financial assets after appreciation of the euro exchange rate by 15% relative to currencies of foreign reserves as at 31 Dec	–886	–882
Change in the value of Bank of Finland's financial assets after an interest rate rise of 1%, with the amount, composition and modified duration for the financial assets as at 31 Dec	–239	–357

Source: Bank of Finland.

Table 4.

VaR figures for the Bank of Finland's financial assets

VaR figures for market risk (one-month horizon, 95% confidence level)

		2012		
EUR m	Average	Highest	Lowest	31 Dec
Interest rate risk	48	90	21	22
Exchange rate risk	182	261	114	114
Total risk (excl. gold)	206	299	127	127
Total risk (incl. gold)	276	364	191	203
		2011		
EUR m	Average	Highest	Lowest	31 Dec
Interest rate risk	112	195	74	90
Exchange rate risk	209	313	138	178
Total risk (excl. gold)	277	448	177	214
Total risk (incl. gold)	395	627	231	231

VaR figures[1] for credit risk (one-year horizon, confidence levels of 95%, 99% and 99.9%)

		2012		
EUR m	Average	Highest	Lowest	31 Dec
Credit risk (95%)	8	12	5	5
Credit risk (99%)	30	35	25	25
Credit risk (99.9%)	84	95	63	63
		2011		
EUR m	Average	Highest	Lowest	31 Dec
Credit risk (95%)	9	12	5	11
Credit risk (99%)	27	34	21	32
Credit risk (99.9%)	84	105	70	91

[1] *The figures exclude debt securities issued by states in domestic currency.*

Source: Bank of Finland.

Definitions and concepts

Market risk means the risk that the net value of assets declines due to changes in market prices. Market price changes refer to changes in, for example, interest rates, foreign exchange rates or the price of gold, which in turn are referred to as interest rate risk, exchange rate risk and gold price risk.

Credit risk means the risk of economic losses arising from changes in the creditworthiness of a counterparty to a financial transaction or a securities issuer and counterparty or issuer default.

Liquidity risk means the risks that assets cannot be made available when the need arises or their conversion into cash causes additional costs.

Operational risk refers to the risk of extra costs or losses resulting from inadequate or failed internal processes, personnel, systems or external events.

Financial assets comprise the liquidity portfolio, the investment portfolio, gold and net receivables from the International Monetary Fund (IMF). Financial assets exclude securities under the Covered Bond Purchase Programmes. For this part, the definition differs from that in the Annual report 2011.

Liquidity portfolio refers to the part of the Bank of Finland's assets that aims to ensure the Bank's ability to offer liquidity for unexpected policy needs under all circumstances. The liquidity portfolio is denominated in foreign currency.

Investment portfolio refers to the part of the Bank of Finland's assets that aims to secure the value of financial assets and the Bank's ongoing ability to meet with its central bank commitments. The Bank of Finland's investment portfolio includes both foreign currency-denominated and euro-denominated assets.

Foreign reserves consist of unhedged foreign-currency investments and claims. They include the liquidity portfolio, the foreign-currency investment portfolio and net receivables from the IMF.

Cash refers to covered and uncovered short-term bank deposits.

Auditor's 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 2012 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 financial statements have been drawn up in accordance with the principles of 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, 14 March 2013

Esko Kiviranta

Mika Kari

Lenita Toivakka

Eero Prepula
Authorised Public Accountant,
JHTT (Public Administration
Accountant)

Tom Sandell
Authorised Public Accountant,
JHTT (Public Administration
Accountant)

Statement regarding the audit as defined in the Article 27 of the statute of the European System of Central Banks and the European Central Bank

We have audited the accounting records and the financial statements of the Bank of Finland for the year ended 31 December 2012 as defined in the Article 27.1 of the Statute of the European System of Central Banks and the European Central Bank. The financial statements have been prepared in accordance with the Accounting Principles and Methods approved by the Governing Council of the European Central Bank as well as with the Act on the Bank of Finland. The financial statements comprise the balance sheet, the income statement and notes to the financial statements.

The responsibility of the Board

The Board is responsible for the preparation and fair presentation of the financial statements in accordance with the laws and regulations governing the preparation of the financial statements.

Auditor's Responsibility

Our responsibility is to perform an audit in accordance with the International Standards on Auditing and ethical guidance prepared by IFAC (International Federation of Accountants), good auditing practice in Finland as well as the Auditing Act, when applicable, and to express an opinion on these financial statements based on our audit. Good auditing practice requires that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial performance and financial position of the Bank of Finland in accordance with the Accounting Principles and Methods approved by the Governing Council of the European Central Bank.

Helsinki, 28 February 2013
KPMG Oy Ab

Raija-Leena Hankonen
Authorised Public Accountant

Appendices

Monetary policy measures of the Eurosystem in 2012

January–December	In accordance with the decisions of the Governing Council of the ECB, main refinancing operations and longer-term regular and non-standard refinancing operations continued to be conducted as fixed rate tender procedures with full allotment. The interest rate on the special-term refinancing operations with a maturity of one maintenance period was the same as the interest rate on the main refinancing operations. In all other longer-term refinancing operations, the rate applied was fixed at the average of the rates in the main refinancing operations, over the life of the respective operation.
January	In accordance with the decision made at the end of the previous year, the reserve ratio applicable to minimum reserves was reduced from 2% to 1% as of 18 January.
February	On 9 February, the Governing Council of the ECB approved the national eligibility criteria and risk control measures put forward by Banco de España, Central Bank of Ireland, Banca d'Italia, Oesterreichische Nationalbank, Central Bank of Cyprus, Banco de Portugal and Banque de France, under which these central banks may, as a temporary solution, accept additional performing credit claims as collateral for Eurosystem credit operations. On 28 February, the ECB announced its decision to temporarily suspend the eligibility of debt instruments issued or guaranteed by the Hellenic Republic, following a change in the rating of the Hellenic Republic as a result of the activation of the private sector debt exchange. The latter of the two three-year longer-term refinancing operations decided by the Governing Council of the ECB in December in the previous year was conducted on 29 February.
March	The eligibility of debt instruments issued or guaranteed by the Hellenic Republic was restored on 8 March, upon activation of the collateral enhancement scheme agreed by the Heads of State or Government of the euro area and protecting the Eurosystem during the private sector's debt exchange. On 21 March, the Governing Council of the ECB decided that national central banks are not obliged to accept as collateral for Eurosystem credit operations such eligible government-guaranteed bank bonds that are guaranteed by a Member State under a European Union/International Monetary Fund programme.
June	On 6 June, the Governing Council of the ECB decided to continue the fixed-rate tender procedure with full allotment in the regular main refinancing operations and three-month longer-term refinancing operations as well as in the special-term refinancing operations with a maturity of one maintenance period at least until 15 January 2013. Further measures to increase collateral availability were announced on 22 June. These measures concerned eligibility requirements that asset-backed securities must satisfy in order to qualify for use as collateral in Eurosystem credit operations.
July	On 3 July, the Governing Council of the ECB issued a decision according to which banks are not allowed to increase current levels of own-use of government-guaranteed bank bonds, unless the Governing Council of the ECB has approved such increase ex ante and received a funding plan from the bank.

On 5 July, the Governing Council of the ECB decided to decrease the policy rates by 0.25 percentage point with effect from 11 July 2012. Following the decision, the interest rate on the main refinancing operations declined to 0.75% and the interest rates on the marginal lending facility and the deposit facility to 1.50% and 0.00% respectively.

At the same time, collateral management arrangements for additional credit claims proposed by the Bank of Greece, to be temporarily accepted as collateral, were approved together with the extensions of corresponding frameworks for the Central Bank of Cyprus, Banco de Portugal and Banca d'Italia.

Debt instruments issued or guaranteed by the Hellenic Republic became for the time being ineligible for use as collateral, due to the expiration on 25 July of the collateral enhancement scheme agreed by the Heads of State or Government of the euro area and protecting the Eurosystem during the private sector's debt exchange.

August

In its introductory statement on 2 August, the President of the ECB stated that the Eurosystem may undertake further non-standard measures, including outright open market operations, to repair monetary policy transmission.

September

On 6 September, the Governing Council of the ECB decided on the main features of the Eurosystem's Outright Monetary Transactions (OMTs). Such Outright Monetary Transactions may be conducted in secondary sovereign bond markets without setting ex ante quantitative limits on the size of the transactions. A condition for Outright Monetary Transactions is conditionality attached to an appropriate European Financial Stability Facility/European Stability Mechanism (EFSF/ESM) programme. Simultaneously, termination of the Securities Markets Programme (SMP) was announced.

At the same time, the Governing Council of the ECB decided on additional measures to preserve collateral availability. According to the decisions, the application of the minimum credit rating threshold in the collateral eligibility requirements continues to remain suspended in the case of Member States that are under an EU-IMF programme. In addition, the suspension was extended to apply to Member States eligible for the Eurosystem's Outright Monetary Transactions. Moreover, the Governing Council of the ECB decided that marketable debt instruments denominated in US dollar, the pound sterling and the Japanese yen are eligible to be used as collateral in Eurosystem credit operations until further notice.

Extension of a liquidity swap arrangement with the Bank of England up to 30 September 2013 was announced on 12 September.

The Common Eurosystem Pricing Hub (CEPH) commenced operations on 21 September.

December

On 6 December, the Governing Council of the ECB decided to continue the fixed-rate tender procedure with full allotment in the regular main refinancing operations and three-month longer-term refinancing operations as well as in the special-term refinancing operations with a maturity of one maintenance period until 9 July 2013.

On 13 December, a decision was made to continue the US dollar liquidity swap arrangements with the Federal Reserve, the Bank of Japan, the Swiss National Bank and the Bank of Canada as well as the Bank of England until 1 February 2014. Furthermore, in cooperation with the same central banks, it was decided to extend the temporary network of reciprocal swap lines until 1 February 2014. This arrangement enables, if required, provision of credit in currencies other than the US dollar.

At the same time, the Governing Council of the ECB decided to continue, until further notice, to conduct US dollar liquidity-providing operations with maturities of one week and three months.

The eligibility of debt instruments issued or guaranteed by the Hellenic Republic was restored on 19 December, following the positive assessment by the European Commission, the ECB and the International Monetary Fund of the economic adjustment programme for Greece. These collateral assets will, however, be subject to specific haircuts.

On 19 December, the Governing Council of the ECB approved the credit assessment system of Banka Slovenije for use in assessments of credit risk for collateral.

Key measures affecting the financial markets in 2012

Other than monetary policy-related measures by the European System of Central Banks

January The ECB published an opinion on a proposal for a Directive on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and a proposal for a Regulation on prudential requirements for credit institutions and investment firms (Capital Requirements Directive and Regulation, CRD IV).

May The Governing Council of the ECB approved the report covering the year 2011 on central bank compliance with prohibitions on monetary financing and privileged access. The Treaty on the Functioning of the European Union assigns the ECB the task of monitoring EU central banks' compliance with these prohibitions specified in Articles 123 and 124 thereof and the related Regulations.

On 15 May, the Governing Council of the ECB approved a Eurosystem contribution to the European Commission's public consultation on the debt write-down tool (bail-in) in a crisis situation.

Nine central securities depositories (CSDs) signed the T2S Framework Agreement with the Eurosystem on joining the TARGET2-Securities platform.

June The Governing Council of the ECB announced its decision to discontinue the central banks' collateral management project, known as the Collateral Central Bank Management (CCBM2) project, in its current form, as a number of challenges in the field of harmonisation were identified in the project detailing phase.

Fourteen central securities depositories (CSDs) signed the T2S Framework Agreement with the Eurosystem on joining the TARGET2-Securities platform.

July On 5 July, the Governing Council of the ECB approved the Eurosystem reply to the European Commission's public consultation on the Green Paper on shadow banking.

November On 8 November, the Governing Council of the ECB approved the Eurosystem response to the European Commission's public consultation on the regulation of indices. The Commission takes account of the results of the consultation in assessing whether further regulation in the production and governance of indices serving as benchmarks is necessary.

On 15 November, the Governing Council of the ECB approved arrangements for the cooperative oversight of two UK central counterparties, namely ICE Clear Europe's over-the-counter (OTC) credit default swap clearing service ICE Clear Europe CDS and LCH. Clearnet Ltd's OTC interest rate swap clearing service SwapClear. Activities in both cases involve significant cross-border risk implications.

EU regulatory projects and their implementation in Finland

February The European Securities and Markets Authority (ESMA) published Guidelines on risk management in an automated trading environment, with a view to safeguarding the reliable functioning of the markets.

The European Banking Authority (EBA) published Guidelines on the Advanced Measurement Approach (AMA) used in the capital calculation for operational risk and on extensions of AMA's scope of application and model changes.

March The European Commission published a Green Paper on shadow banking giving information on how shadow banking is already and will, in the future, be addressed by existing and proposed EU measures. The aim of the reforms is to address lending by financial institutions other than banks, ie shadow banking.

The European Commission published its proposal for regulation concerning securities settlement and central securities depositories (CSDs).

June The European Commission approved proposals relating to the EU's single rulebook concerning bank recovery and resolution. The rules ensure that authorities will have the tools to address problem situations at an early stage.

The European Commission approved technical standards concerning short selling.

July The European Commission proposed legislation to improve consumer protection in the area of financial services. The proposal seeks to strengthen consumer confidence in the financial sector. The package includes three legislative proposals: 1) a proposal for a Regulation concerning key information documents relating to Packaged Retail Investment Products (PRIPS), 2) a proposal for a revision of the Insurance Mediation Directive (IMD), and 3) a proposal aimed at improving the protection of investors purchasing investment fund shares (this protection currently falls within the sphere of the Directive on Undertakings for Collective Investment in Transferable Securities (UCITS).

The European Commission proposed EU-wide measures to prevent manipulation of benchmarks. The proposal included amendments to draft Regulations and Directives concerning insider dealing and market manipulation and their criminal sanctions.

The European Commission launched a public consultation on a future regulatory framework for investment funds.

September The European Commission submitted its proposal for the establishment of a single supervisory mechanism for euro area banks as part of the ongoing EU banking union project. In addition, the Commission proposed that the European Banking Authority (EBA) develop a single rulebook with an objective of preserving the integrity of the single market and ensuring convergence and consistency of banking supervision across the 27 EU Member States.

The European Commission launched a public consultation on benchmarks and indices.

October The High-level Expert Group on reforming the structure of the EU banking sector submitted its report to Commissioner Michel Barnier on 2 October 2012. The Chairman of the Group was Erkki Liikanen, Governor of the Bank of Finland. The report includes recommendations aimed at establishing a safe, stable and efficient banking system serving the needs of citizens, the EU economy and the internal market. The Group recommends measures in five sub-areas:

- Mandatory separation of proprietary trading and other high-risk trading activities from other activities within banking groups.
- An acceptable recovery and resolution plan that banks are required to submit may call for a wider separation of trading activities from deposit banking.
- Changes that the use of bail-in instruments as resolution tools may require.
- A review of capital requirements on trading assets and housing and real estate related loans.
- A strengthening of the governance and control of banks.

The European Commission launched a public consultation on a possible recovery and resolution framework for financial institutions other than banks.

The European Commission published rules enabling the European Securities and Markets Authority (ESMA) to impose fines on credit rating agencies.

At its quarterly meeting, the European Systemic Risk Board issued the following recommendations: 1) supervisors should verify via follow-up that banks do not excessively renew non-performing loans and fail to report the related risks (forbearance), 2) Member States and banks should move forward with banks' balance sheet repair and 3) authorities should assess the risks arising from banks' overly rapid balance sheet reduction (deleveraging).

December The EU Council reached agreement on the establishment of a Single Supervisory Mechanism (SSM) for the prudential supervision of credit institutions. The SSM is composed of the ECB and competent national authorities. The ECB will be responsible for the overall functioning of the Single Supervisory Mechanism. Member States outside the euro area may participate in the SSM, if they wish to do so, by entering into close cooperation arrangements.

Other issues

January The European Systemic Risk Board (ESRB) published a recommendation concerning the definition, tasks and mandate of national macroprudential authorities.

The European Systemic Risk Board (ESRB) published a recommendation concerning US dollar funding of credit institutions.

The Ministry of Finance set up a working group with responsibility for presenting the necessary action for the creation of a national framework for macroprudential supervision of financial markets.

Staff teams from the European Commission, the ECB and the IMF visited Ireland for the regular quarterly review of the Irish government's economic programme.

February Euro area Ministers of Finance reached agreement on a second economic adjustment programme for Greece. The new programme, amounting to EUR 130 billion, is aimed at reducing the Greek debt ratio to 120.5%. The programme is due to continue until 2014.

The Ministers of Finance of Finland and Greece signed an agreement between Finland and Greece on a collateral arrangement. The signing of the collateral arrangement was a condition for Finland's participation in the second bailout package for Greece.

Staff teams from the European Commission, the ECB and the IMF visited Portugal for the third quarterly review of the Portuguese government's economic programme.

March A working group set up by the Ministry of Finance to consider a national capital markets strategy submitted its final report, suggesting a number of various measures to boost growth and employment. The assignment of the working group was to formulate a national capital markets strategy for Finland.

April The Government submitted a proposal to Parliament for a comprehensive reform of the Finnish securities markets legislation. The revision of the securities markets acts seeks to accomplish four key changes: clearer laws, an easing of administrative burdens, more effective insider supervision and stricter sanctions for market abuse as well as safer securities ownership.

Staff teams from the European Commission, the ECB and the IMF visited Ireland for the regular quarterly review of the Irish government's economic programme.

June The Finnish Parliament approved the Treaty establishing the European Stability Mechanism (ESM). This mechanism is established as the euro area Member States' permanent crisis management tool. The ESM is an international financial institution whose activity is based on capital paid or, if necessary, payable by the Member States.

Staff teams from the European Commission, the ECB and the IMF visited Portugal for the fourth quarterly review of the Portuguese government's economic programme.

July The Finnish Parliament approved Finland's participation in the Spanish government financial assistance programme for restructuring the country's banking system. The programme is scheduled to last 18 months, amounting to a maximum of EUR 100 billion. As a condition for Finland's participation, an agreement was reached on a collateral arrangement under which the Spanish deposit guarantee fund provides Finland with collateral to limit Finnish taxpayers' risks in financing the programme to stabilise the Spanish banking system.

Staff teams from the European Commission, the ECB and the IMF visited Ireland for the regular quarterly review of the Irish government's economic programme.

September Staff teams from the European Commission, the ECB and the IMF visited Portugal for the fifth quarterly review of the Portuguese government's economic programme.

October The Ministry of Justice commenced work to clarify the organisation of a positive credit register.

Staff teams from the European Commission, the ECB and the IMF visited Ireland for the regular quarterly review of the Irish government's economic programme.

Staff teams from the European Commission, the ECB and the IMF visited Spain to undertake their first review of the financial assistance programme for Spain.

November The Bank of Finland expressed concern about citizens' right to basic banking services, such as a basic payment account and account facilities. The handling of personal banking affairs has increasingly migrated to electronic and online services. The use of cash and services at bank branches has declined, and banks are providing less of these services. Although, taken as a whole, the availability of banking services is at a good level, not all bank customers, such as senior citizens or special groups, are able to make full use of electronic services. The availability of cash and banking services constitutes an essential element of a well-functioning financial system.

At the beginning of November, a working group set up by the Ministry of Finance for the purpose of presenting the necessary measures for the establishment of a national system for macroprudential supervision of financial markets submitted its proposal for new tools for the Finnish authorities to stave off systemic risks. The working group suggested that the Financial Supervisory Authority (FIN-FSA) could restrict the maximum size of new housing loans relative to the value of the housing property to be acquired and used as collateral for the housing loan. The working group also submitted its proposal for the imposition of a countercyclical capital buffer requirement in Finland, as required under the Capital Requirements Directive.

The Government proposed that a bank tax amounting to 0.125% of banks' risk-weighted assets according to their capital adequacy calculations would be collected from deposit banks in 2013–2015.

Staff teams from the European Commission, the ECB and the IMF visited Portugal for the sixth quarterly review of the Portuguese government's economic programme.

December The Finnish Parliament approved the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (EMU), concluded in March 2012. An act bringing the Treaty into force partially implemented the Directive on requirements for budgetary frameworks of the EU Member States.

Main opinions issued by the Bank of Finland 2012

Opinions concerning legislation on and development of the financial markets

Opinion	*Subject*	*Date*
To the Basel Committee on Banking Supervision	Joint opinion by the Bank of Finland and the Financial Supervisory Authority on a proposal for the identification and regulation of global systemically important banks	1 Aug
To Euroclear Finland	Amendments to the rules of Euroclear Finland and the decisions by the managing director	26 Apr
To the Financial Supervisory Authority	Amendment of the Financial Supervisory Authority's Standard RA4.8 on the Common Reporting Framework (COREP)	28 Feb
	Reform of financial reporting by credit institutions, investment firms and fund management companies	16 Mar
	Code of conduct for the provision of payment services	25 Apr
	Financial Supervisory Authority's draft recommendation on sound internal governance of pension insurance companies	27 Apr
	Regulations and guidelines on the marketing of financial services and products	12 Dec
To the Ministry of Justice	New Cooperatives Act	8 Feb
Statistics Finland	Principles for the development of government statistics in 2012–2016	10 Oct
To the Ministry of Finance	Application by European Central Counterparty Limited for authorisation to operate as a foreign clearing corporation as referred to in the Securities Markets Act	27 Mar
	Proposal by a working group tasked with reforming the Statistics Act	30 Apr
	Draft Government Bill to Parliament for an Act amending the Act on the Financial Supervisory Authority	25 May
	Application submitted by Euroclear Finland on 21 May 2012 for amendment of the company's rules	4 Jul
	Potential extension of the validity of the Act on restricting the use of the index clause	8 Aug
	Proposal for a Government Decree amending the Government Decree on the disclosure obligation of service providers relating to tied long-term saving	14 Aug
	Confirmation of the sum of contributions to the Investors' Compensation Fund in 2012	4 Sep
	Final report by the working group on macroprudential supervision	7 Dec

Bank of Finland's publications in 2012

Periodical publications	
Euro & talous	Five issues (in Finnish).
Bank of Finland Bulletin	Five issues.
Research Newsletter	Three issues of the online research bulletin in Finland (in Finnish and English).
Annual report	Published separately in Finnish, Swedish and English.
Research publications	
Scientific monographs	*E:43 Hanna Freystätter* Essays on small open economy macroeconomics. Dissertation.
	E:44 Vesa Ronkainen Stochastic modelling of financing longevity risk in pension insurance. Dissertation.
	E:45 Matti Hellqvist and Tatu Laine (eds.) Diagnostics for the financial markets – computational studies of payment system. Simulator Seminar Proceedings 2009–2011.
	E:46 Tuuli Koivu Monetary Policy in Transition – Essays on Monetary Policy Transmission Mechanism in China. Dissertation.
	E:47 Katja Taipalus Detecting asset price bubbles with time-series methods. Dissertation.
	E:48 Risto Herrala Essays on the limits of borrowing. Dissertation.
Discussion Papers	37 online studies and reports in the areas of macroeconomics and financial markets were published in English.
Studies and reports	17 online studies and reports were published in the *BoF Online series*.
	Two issues of the *Financial Market Report* were published online (in Finnish and English).
	Business Finance Survey was published online (in Finnish).

Statistical publications

Financial Markets, a monthly online publication (in Finnish, Swedish and English).

Finland's balance of payments, a monthly online publication (in Finnish, Swedish and English).

Finland's balance of payments, annual review, published online in September (in Finnish and English).

Finnish bond issues, published online in May (in Finnish, Swedish and English).

Monetary and banking statistics, a monthly online publication (in Finnish, Swedish and English).

Financial statistics, annual review, published online in February (in Finnish, Swedish and English).

International Reserves and Foreign Currency Liquidity, a monthly publication (in English).

Studies published by the Institute for Economies in Transition

Research publications

31 online studies were published in the *BOFIT Discussion Papers* series (in English).

5 publications appeared in the *BOFIT Online series* (in Finnish or in English).

Monitoring publications

BOFIT Viikkokatsaus, a weekly online publication (in Finnish).

BOFIT Weekly, a weekly online publication (in English).

BOFIT Venäjä-ennuste, a bi-annual online publication (in Finnish).

BOFIT Forecast for Russia, a bi-annual online publication (in English).

BOFIT Kiina-ennuste, a bi-annual online publication (in Finnish).

BOFIT Forecast for China, a bi-annual online publication (in English).

Orders and subscriptions

A comprehensive list of publications is available on the Bank of Finland's website http://www.suomenpankki.fi/en/julkaisut/Pages/default.aspx.

The Bank of Finland website offers a service where these publications can be subscribed to free of charge.

The subscriber will be alerted by email of the release of the desired publication. Online subscriptions can be made at the Bank of Finland's website:
Bank of Finland > Publications > Order and subscribe to electronic publications and reports.

The Bank's publications Euro & talous (in Finnish) and Bank of Finland Bulletin as well as the Bank's annual report also appear in print. Online subscriptions to the printed copies can be made at the Bank of Finland's website:
Bank of Finland > Publications > Order and subscribe to printed publications.
Back copies of printed publications can also be ordered from the same website address.

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

ASSETS		*Jan*	*Feb*	*Mar*
1	***Gold and gold receivables***	**1,918**	**1,918**	**1,918**
2	***Claims on non-euro area residents denominated in foreign currency***	**6,052**	**6,074**	**6,140**
2.1	*Receivables from the IMF*	1,977	1,977	2,010
2.2	*Balances with banks and security investments, external loans and other external assets*	4,075	4,097	4,131
3	***Claims on euro area residents denominated in foreign currency***	**484**	**476**	**466**
4	***Claims on non-euro area residents denominated in euro***	**2,069**	**1,444**	**2,890**
4.1	*Balances with bank, security investments and loans*	2,069	1,444	2,890
4.2	*Claims arising from the credit facility under ERM II*	–	–	–
5	***Lending to euro area credit institutions related to monetary policy operations denominated in euro***	**2,311**	**2,311**	**3,681**
5.1	*Main refinancing operations*	–	10	–
5.2	*Longer-term refinancing operations*	2,311	2,301	3,681
5.3	*Fine-tuning reverse operations*	–	–	–
5.4	*Structural reverse operations*	–	–	–
5.5	*Marginal lending facility*	–	–	–
5.6	*Credits related to margin calls*	–	–	–
6	***Other claims on euro area credit institutions denominated in euro***	**0**	**0**	**0**
7	***Securities of euro area residents denominated in euro***	**13,925**	**14,216**	**13,993**
7.1	*Securities held for monetary policy purposes*	4,783	4,779	4,662
7.2	*Other euro-denominated securities*	9,142	9,437	9,437
8	***General government debt denominated in euro***	**–**	**–**	**–**
9	***Intra-Eurosystem claims***	**58,076**	**49,653**	**77,241**
9.1	*Participating interest in ECB*	120	120	120
9.2	*Claims equivalent to the transfer of foreign reserves*	722	722	722
9.3	*Claims related to the issuance of ECB debt certificates*	–	–	–
9.4	*Claims related to TARGET and correspondent accounts (net)*	53,748	45,458	73,144
9.5	*Other intra-Eurosystem claims (net)*	3,485	3,352	3,255
10	***Other assets***	**1,076**	**1,104**	**1,127**
Total assets		**85,911**	**77,196**	**107,457**

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

Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1,960	**1,960**	**1,965**	**1,965**	**1,965**	**2,171**	**2,171**	**2,171**	**1,988**
6,243	**6,051**	**6,496**	**6,340**	**6,814**	**6,478**	**6,454**	**6,344**	**6,171**
2,049	2,049	2,125	2,125	2,176	2,141	2,141	2,134	2,097
4,194	4,001	4,371	4,216	4,638	4,337	4,313	4,210	4,074
458	**438**	**340**	**329**	**395**	**304**	**267**	**494**	**404**
2,609	**2,220**	**2,170**	**2,086**	**2,236**	**1,873**	**2,133**	**1,414**	**1,970**
2,609	2,220	2,170	2,086	2,236	1,873	2,133	1,414	1,970
–	–	–	–	–	–	–	–	–
3,681	**3,681**	**3,691**	**3,681**	**3,681**	**3,681**	**3,681**	**3,681**	**3,681**
–	–	10	–	–	–	–	–	–
3,681	3,681	3,681	3,681	3,681	3,681	3,681	3,681	3,681
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
0	**0**	**34**	**0**	**0**	**0**	**0**	**11**	**0**
13,840	**14,309**	**13,846**	**14,049**	**13,705**	**13,209**	**11,740**	**11,393**	**11,471**
4,722	4,728	4,625	4,596	4,576	4,617	4,589	4,559	4,555
9,118	9,581	9,222	9,453	9,129	8,592	7,151	6,835	6,915
–	–	–	–	–	–	–	–	–
67,057	**62,898**	**76,695**	**63,271**	**66,737**	**74,548**	**65,135**	**55,818**	**74,382**
120	120	120	120	120	120	120	120	141
722	722	722	722	722	722	722	722	722
–	–	–	–	–	–	–	–	–
62,959	58,825	72,474	59,050	62,481	70,402	60,989	51,812	70,603
3,255	3,230	3,378	3,378	3,414	3,304	3,304	3,163	2,915
1,115	**1,112**	**1,198**	**1,072**	**1,098**	**1,165**	**1,041**	**1,058**	**1,115**
96,963	**92,668**	**106,435**	**92,794**	**96,632**	**103,429**	**92,624**	**82,385**	**101,182**

Table 1.
(cont.)

LIABILITIES		*Jan*	*Feb*	*Mar*
1	***Banknotes in circulation***	***14,457***	***14,341***	***14,341***
2	***Liabilities to euro area credit institutions related to monetary policy operations denominated in euro***	***59,708***	***51,437***	***80,307***
2.1	*Current accounts (covering the minimum reserve system)*	*1,707*	*1,896*	*916*
2.2	*Deposit facility*	*34,253*	*30,130*	*56,611*
2.3	*Fixed-term deposits*	*23,747*	*19,411*	*22,780*
2.4	*Fine-tuning reverse operations*	–	–	–
2.5	*Deposits related to margin calls*	–	–	–
3	***Other liabilities to euro area credit institutions denominated in euro***	–	–	–
4	***Liabilities to other euro area residents denominated in euro***	***864***	***849***	***849***
4.1	*General government*	–	–	–
4.2	*Other liabilities*	*864*	*849*	*849*
5	***Liabilities to non-euro area residents denominated in euro***	***692***	***318***	***1,586***
6	***Liabilities to euro area residents denominated in foreign currency***	***0***	***0***	***–1***
7	***Liabilities to non-euro area residents denominated in foreign currency***	***154***	***155***	***155***
7.1	*Deposits, balances and other liabilities*	*154*	*155*	*155*
7.2	*Liabilities arising from the credit facility under ERM II*	–	–	–
8	***Counterpart of special drawing rights allocated by the IMF***	***1,412***	***1,412***	***1,412***
9	***Intra-Eurosystem liabilities***	***76***	–	–
9.1	*Liabilities related to promissory notes backing the issuance of ECB debt certificates*	–	–	–
9.2	*Liabilities related to TARGET and correspondent accounts (net)*	–	–	–
9.3	*Other intra-Eurosystem liabilities (net)*	*76*	–	–
10	***Other liabilities***	***710***	***824***	***947***
11	***Revaluation account***	***2,806***	***2,806***	***2,806***
12	***Capital and reserves***	***5,053***	***5,053***	***5,053***
12.1	*Primary capital*	*841*	*841*	*841*
12.2	*Reserve fund*	*1,421*	*1,421*	*1,421*
12.3	*Pension provisions*	*525*	*525*	*525*
12.4	*Other provisions*	*2,266*	*2,266*	*2,266*
Total liabilities		***85,911***	***77,196***	***107,457***

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

Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
14,404	14,428	14,733	14,792	14,778	14,713	14,727	14,667	15,044
70,147	65,921	79,464	65,883	69,345	76,209	65,554	55,315	73,799
794	1,118	728	19,925	23,601	26,963	31,840	24,095	31,698
46,068	46,657	54,930	30,020	25,737	25,313	16,005	10,800	37,101
23,285	18,146	23,806	15,939	20,006	23,933	17,709	20,420	5,000
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
849	849	842	842	828	815	815	818	801
–	–	–	–	–	–	–	–	–
849	849	842	842	828	815	815	818	801
1,065	1,118	777	801	853	668	498	328	1,004
0	58	0	0	0	0	0	119	0
383	106	172	0	231	150	85	85	139
383	106	172	0	231	150	85	85	139
–	–	–	–	–	–	–	–	–
1,381	1,381	1,434	1,434	1,434	1,419	1,419	1,419	1,387
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
526	600	744	772	895	1,042	1,112	1,220	361
2,658	2,658	2,905	2,905	2,905	3,049	3,049	3,049	2,609
5,549	5,549	5,364	5,364	5,364	5,364	5,364	5,364	6,040
841	841	841	841	841	841	841	841	841
1,491	1,491	1,491	1,491	1,491	1,491	1,491	1,491	1,491
544	544	544	544	544	544	544	544	582
2,488	2,488	2,488	2,488	2,488	2,488	2,488	2,488	3,125
96,963	92,668	106,435	92,794	96,632	103,429	92,624	82,385	101,182

Table 2.

Key interest rates of the Eurosystem

Fixed rate tenders Interest rate on main refinancing operations			*Variable rate tenders Minimum bid rate*		
Decision date	**Effective**	**%**	**Decision date**	**Effective**	**%**
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
8 Oct 2008	15 Oct 2008	3.75	6 Mar 2003	7 Mar 2003	2.50
6 Nov 2008	12 Nov 2008	3.25	5 Jun 2003	6 Jun 2003	2.00
4 Dec 2008	10 Dec 2008	2.50	1 Dec 2005	6 Dec 2005	2.25
15 Jan 2009	21 Jan 2009	2.00	2 Mar 2006	8 Mar 2006	2.50
5 Mar 2009	11 Mar 2009	1.50	8 jun 2006	15 Jun 2006	2.75
2 Apr 2009	8 Apr 2009	1.25	3 Aug 2006	9 Aug 2006	3.00
7 May 2009	13 May 2009	1.00	5 Oct 2006	11 Nov 2006	3.25
7 Apr 2011	13 Apr 2011	1.25	7 Dec 2006	13 Dec 2006	3.50
7 Jul 2011	13 Jul 2011	1.50	8 Mar 2007	14 Mar 2007	3.75
3 Nov 2011	9 Nov 2011	1.25	7 Jun 2007	13 Jun 2007	4.00
8 Dec 2011	14 Dec 2011	1.00	3 Jul 2008	9 Jul 2008	4.25
5 Jul 2012	11 Jul 2012	0.75			

Standing facilities

Decision date	*Effective*	*Interest rate deposit facility* %	*Interest rate on marginal lending facility* %
22 Dec 1998	1 Jan 1999	2.00	4.50
22 Dec 1998	4 Jan 1999	2.75	3.25
21 Jan 1999	22 Jan 1999	2.00	4.50
8 Apr 1999	9 Apr 1999	1.50	3.50
4 Nov 1999	5 Nov 1999	2.00	4.00
3 Feb 2000	4 Feb 2000	2.25	4.25
16 Mar 2000	17 Mar 2000	2.50	4.50
27 Apr 2000	28 Apr 2000	2.75	4.75
8 Jun 2000	9 Jun 2000	3.25	5.25
31 Aug 2000	1 Sep 2000	3.50	5.50
5 Oct 2000	6 Oct 2000	3.75	5.75
10 May 2001	11 May 2001	3.50	5.50
30 Aug 2001	31 Aug 2001	3.25	5.25
17 Sep 2001	18 Sep 2001	2.75	4.75
8 Nov 2001	9 Nov 2001	2.25	4.25
5 Dec 2002	6 Dec 2002	1.75	3.75
6 Mar 2003	7 Mar 2003	1.50	3.50
5 Jun 2003	6 Jun 2003	1.00	3.00
1 Dec 2005	6 Dec 2005	1.25	3.25
2 Mar 2006	8 Mar 2006	1.50	3.50
8 Jun 2006	15 Jun 2006	1.75	3.75
3 Aug 2006	9 Aug 2006	2.00	4.00
5 Oct 2006	11 Oct 2006	2.25	4.25
7 Dec 2006	13 Dec 2006	2.50	4.50
8 Mar 2007	14 Mar 2007	2.75	4.75
7 Jun 2007	13 Jun 2007	3.00	5.00
3 Jul 2008	9 Jul 2008	3.25	5.25
8 Oct 2008	8 Oct 2008	2.75	4.75
8 Oct 2008	9 Oct 2008	3.25	4.25
6 Nov 2008	12 Nov 2008	2.75	3.75
4 Dec 2008	10 Dec 2008	2.00	3.00
15 Jan 2009	21 Jan 2009	1.00	3.00
5 Mar 2009	11 Mar 2009	0.50	2.50
2 Apr 2009	8 Apr 2009	0.25	2.25
7 May 2009	13 May 2009	0.25	1.75
7 Apr 2011	13 Apr 2011	0.50	2.00
7 Jul 2011	13 Jul 2011	0.75	2.25
3 Nov 2011	9 Nov 2011	0.50	2.00
8 Dec 2011	14 Dec 2011	0.25	1.75
5 Jul 2012	11 Jul 2012	0,00	1.50

Source: European Central Bank.

Table 3.

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

Reserve base as of:	Total	Liabilities to which a 1% 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
2011						
Dec	18,970.0	9,790.9	687.7	2,781.2	1,303.5	4,406.8
2012						
Jan	19,111.4	9,901.1	684.7	2,784.2	1,343.8	4,397.7
Feb	19,090.1	9,870.4	700.9	2,768.7	1,356.6	4,393.6
Mar	19,178.8	9,981.7	725.5	2,758.8	1,336.0	4,376.8
Apr	19,172.3	10,013.4	726.5	2,736.0	1,349.9	4,346.5
May	19,253.6	10,031.6	716.1	2,736.6	1,406.7	4,362.6
Jun	19,077.1	10,059.8	701.3	2,708.9	1,284.8	4,322.3
Jul	19,077.4	10,025.9	724.6	2,655.6	1,332.9	4,338.4
Aug	18,943.3	9,977.3	714.4	2,643.9	1,287.7	4,320.1
Sep	18,893.9	9,992.3	690.9	2,632.8	1,300.1	4,277.9
Oct	18,807.8	9,973.0	675.6	2,607.6	1,304.6	4,247.0
Nov	18,752.3	9,923.7	667.7	2,603.1	1,315.7	4,242.1
Dec	18,565.1	9,972.1	637.5	2,583.9	1,163.1	4,208.4

* Until October 2011 the reserve ratio was 2%.
Source: European Central Bank.

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

Reserve base as of:	Total	Liabilities to which a 1% 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
2011						
Dec	360,549	251,193	20,164	9,296	28,502	51,395
2012						
Jan	352,058	240,676	19,082	10,665	27,378	54,257
Feb	340,056	225,316	18,262	12,155	29,419	54,904
Mar	373,755	254,915	16,519	12,114	34,106	56,100
Apr	362,785	240,820	17,059	12,265	33,315	59,326
May	360,315	236,596	17,233	12,370	32,103	62,014
Jun	390,852	266,670	18,148	11,952	31,725	62,357
Jul	386,274	259,194	19,677	12,870	31,313	63,220
Aug	380,685	251,569	18,891	14,225	33,502	62,497
Sep	396,485	262,688	18,523	14,235	38,030	63,010
Oct	385,077	255,920	17,783	14,322	33,817	63,234
Nov	357,090	231,144	17,132	14,529	30,738	63,549
Dec	371,916	246,485	16,934	14,407	30,607	63,483

* Until October 2011 the reserve ratio was 2%.
Source: Bank of Finland.

Table 4.

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
2011					
Dec	207.7	212.2	4.5	0.0	1.25
2012					
Jan	207.0	212.3	5.3	0.0	1.00
Feb	103.3	108.1	4.7	0.0	1.00
Mar	104.3	108.9	4.6	0.0	1.00
Apr	105.4	109.6	4.3	0.0	1.00
May	105.2	110.5	5.3	0.0	1.00
Jun	106.6	110.8	4.2	0.0	1.00
Jul	106.9	111.5	4.6	0.0	1.00
Aug	107.0	510.2	403.2	0.0	0.75
Sep	107.1	540.0	432.9	0.0	0.75
Oct	107.0	538.1	431.1	0.0	0.75
Nov	106.4	529.2	422.7	0.0	0.75
Dec	106.4	509.9	403.5	0.0	0.75
2013					
Jan	106.0	489.0	383.0	0.0	0.75

Source: European Central Bank.

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
2011					
Dec	4,807.0	4,815.7	8.6	0.0	1.00
2012					
Jan	2,487.9	2,504.8	16.9	0.0	1.00
Feb	2,683.2	2,700.0	16.8	0.0	1.00
Mar	2,567.2	2,580.4	13.2	0.0	1.00
Apr	2,405.6	2,419.1	13.5	0.0	1.00
May	2,684.2	2,697.2	12.9	0.0	1.00
Jun	2,549.1	3,292.6	743.5	0.0	1.00
Jul	2,508.6	22,229.4	19,720.8	0.0	0.75
Aug	2,818.5	23,278.3	20,459.9	0.0	0.75
Sep	2,759.0	26,621.4	23,862.4	0.0	0.75
Oct	2,675.0	30,642.2	27,967.2	0.0	0.75
Nov	2,782.5	27,564.0	24,781.5	0.0	0.75
Dec	2,707.4	27,837.5	25,130.1	0.0	0.75
2013					
Jan	2,453.2	25,573.7	23,120.6	0.0	0.75

Source: Bank of Finland.

Table 5.

Euro area monetary aggregate M3 and corresponding items of Finnish monetary financial institutions[1]

	Euro area monetary aggregate M3			*Liabilities of Finnish monetary financial instituotions included in euro area M3[2]*		
	Stock[3], EUR bn	*12-month change [3,4], %*	*3-month mov avg of 12-month change [3,4], %*	*Stock, EUR bn*	*12-month change [3], %*	*3-month mov avg of 12-month change [3], %*
	1	2	3	4	5	6
2008	9,405.1	7.6	7.1	129.2	4.8	5.7
2009	9,355.2	–0.3	–0.1	127.6	–1.9	–2.1
2010	9,293.7	1.1	1.3	137.3	5.2	4.3
2011	9,500.2	1.6	1.7	143.6	6.0	6.5
2012	9,773.3	3.5	3.6	140.3	0.5	1.0
2012						
Jan	9,508.5	2.0	2.0	137.4	6.0	6.5
Feb	9,545.3	2.5	2.4	136.6	7.5	7.1
Mar	9,590.8	2.8	2.5	137.6	7.8	7.1
Apr	9,549.5	2.3	2.7	136.8	6.1	7.0
May	9,615.7	2.9	2.7	138.2	7.2	6.7
Jun	9,629.4	2.9	3.1	139.8	6.8	6.7
Jul	9,700.1	3.5	3.1	139.4	6.1	5.1
Aug	9,703.8	2.7	3.0	138.3	2.5	3.7
Sep	9,699.6	2.7	3.1	142.3	2.4	2.1
Oct	9,775.6	3.9	3.4	140.5	1.4	1.6
Nov	9,785.1	3.7	3.7	139.0	1.1	1.0
Dec	9,773.3	3.5	3.6	140.3	0.5	1.0

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

Table 6.

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
2008	3.87	4.276	4.484	4.644	4.727	4.774	4.826	3.877	4.297
2009	0.71	0.888	1.057	1.218	1.429	1.529	1.610	2.701	3.735
2010	0.44	0.570	0.663	0.813	1.083	1.223	1.352	1.781	3.003
2011	0.87	1.178	1.260	1.393	1.638	1.826	2.009	2.083	2.997
2012	0.23	0.325	0.431	0.571	0.824	0.973	1.108	0.875	1.886
2012									
Jan	0.38	0.836	1.029	1.222	1.505	1.685	1.837	1.192	2.278
Feb	0.37	0.626	0.833	1.048	1.345	1.529	1.678	1.451	2.340
Mar	0.36	0.467	0.653	0.858	1.164	1.347	1.499	1.367	2.304
Apr	0.35	0.409	0.552	0.744	1.040	1.215	1.368	1.245	2.152
May	0.34	0.394	0.499	0.685	0.970	1.122	1.266	0.949	1.816
Jun	0.33	0.380	0.481	0.659	0.935	1.082	1.219	0.905	1.760
Jul	0.18	0.219	0.324	0.497	0.779	0.928	1.061	0.641	1.549
Aug	0.11	0.132	0.205	0.332	0.606	0.744	0.877	0.531	1.544
Sep	0.10	0.119	0.170	0.246	0.484	0.618	0.740	0.640	1.816
Oct	0.09	0.111	0.153	0.208	0.412	0.533	0.650	0.615	1.785
Nov	0.08	0.109	0.145	0.192	0.360	0.475	0.588	0.501	1.671
Dec	0.07	0.111	0.147	0.186	0.323	0.435	0.549	0.415	1.594

Sources: European Central Bank, Reuters and Bloomberg.

Table 7.

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

	Narrow indicator[1]	*Narrow euro area indicator*[1]	*Broad indicator*[1]	*Effective exchange rate of the euro, narrow group of countries*[1]
	January–March 1999 = 100			
	1	*2*	*3*	*4*
2008	*114.5*	*107.0*	*107.3*	*120.7*
2009	*115.8*	*107.6*	*108.8*	*120.6*
2010	*107.6*	*103.6*	*104.3*	*111.9*
2011	*106.7*	*103.0*	*104.0*	*111.2*
2012	*100.5*	*100.1*	*100.8*	*105.3*
2012				
Jan	*101.4*	*100.5*	*101.4*	*105.7*
Feb	*102.6*	*101.1*	*101.8*	*107.2*
Mar	*103.2*	*101.4*	*102.0*	*107.8*
Apr	*102.6*	*101.1*	*101.7*	*107.4*
May	*100.9*	*100.3*	*101.1*	*105.3*
Jun	*99.7*	*99.7*	*100.6*	*104.2*
Jul	*97.6*	*98.6*	*99.4*	*102.2*
Aug	*97.3*	*98.4*	*99.1*	*102.3*
Sep	*99.5*	*99.5*	*100.4*	*104.5*
Oct	*100.5*	*100.0*	*100.8*	*105.4*
Nov	*100.0*	*99.8*	*100.5*	*104.8*
Dec	*101.7*	*100.7*	*101.4*	*106.7*

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

Table 8.

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

	Euro area	*Finland*
	1	*2*
2008	*3.3*	*3.9*
2009	*0.3*	*1.6*
2010	*1.6*	*1.7*
2011	*2.7*	*3.3*
2012	*2.5*	*3.2*
2012		
Jan	*2.7*	*3.0*
Feb	*2.7*	*3.0*
Mar	*2.7*	*2.9*
Apr	*2.6*	*3.0*
May	*2.4*	*3.1*
Jun	*2.4*	*2.9*
Jul	*2.4*	*3.1*
Aug	*2.6*	*3.3*
Sep	*2.6*	*3.4*
Oct	*2.5*	*3.5*
Nov	*2.2*	*3.2*
Dec	*2.2*	*3.5*

Sources: Eurostat and Statistics Finland.

Table 9.

Key euro exchange rates, currency-value of one euro

	US dollar			*Japanese yen*		
	Low	*Average*	*High*	*Low*	*Average*	*High*
	1	2	3	4	5	6
2008	1.2460	1.4708	1.5990	115.75	152.45	169.75
2009	1.2555	1.3948	1.5120	113.65	130.34	138.09
2010	1.1942	1.3257	1.4563	106.19	116.24	134.23
2011	1.2889	1.3920	1.4882	100.20	110.96	122.80
2012	1.2089	1.2848	1.3454	94.63	102.49	113.87
2012						
Jan	1.2669	1.2905	1.3176	97.25	99.33	101.98
Feb	1.2982	1.3224	1.3454	99.66	103.77	108.39
Mar	1.3057	1.3201	1.3356	105.95	108.88	111.11
Apr	1.3024	1.3162	1.3319	105.18	107.00	109.95
May	1.2403	1.2789	1.3132	97.66	101.97	105.49
Jun	1.2322	1.2526	1.2704	96.25	99.26	101.46
Jul	1.2089	1.2288	1.2593	94.63	97.07	100.51
Aug	1.2245	1.2400	1.2611	95.85	97.58	98.96
Sep	1.2568	1.2856	1.3095	98.43	100.49	102.64
Oct	1.2877	1.2974	1.3120	100.42	102.47	104.27
Nov	1.2694	1.2828	1.2994	100.44	103.94	107.37
Dec	1.2905	1.3119	1.3302	106.19	109.71	113.87

	Pound sterling			*Swedish krona*		
	Low	*Average*	*High*	*Low*	*Average*	*High*
	7	8	9	10	11	12
2008	0.74130	0.79628	0.9786	9.2790	9.6152	11.2305
2009	0.84255	0.89094	0.9610	10.0778	10.6191	11.7135
2010	0.81040	0.85784	0.9114	8.9630	9.5373	10.2723
2011	0.83155	0.86788	0.9050	8.7090	9.0298	9.3127
2012	0.77835	0.81087	0.8482	8.2077	8.7041	9.1356
2012						
Jan	0.82400	0.83210	0.83800	8.7605	8.8503	8.9283
Feb	0.82765	0.83696	0.84815	8.7814	8.8196	8.8896
Mar	0.82845	0.83448	0.83920	8.8135	8.8873	8.9312
Apr	0.81295	0.82188	0.83255	8.7938	8.8650	8.9185
May	0.79775	0.80371	0.81205	8.8713	8.9924	9.1356
Jun	0.79885	0.80579	0.81190	8.7728	8.8743	9.0165
Jul	0.77835	0.78827	0.80410	8.3488	8.5451	8.7440
Aug	0.78195	0.78884	0.79525	8.2077	8.2805	8.3478
Sep	0.79035	0.79821	0.80745	8.4075	8.4929	8.6243
Oct	0.79830	0.80665	0.81450	8.4731	8.6145	8.6883
Nov	0.79655	0.80389	0.81080	8.5105	8.6076	8.6625
Dec	0.80440	0.81237	0.81990	8.5615	8.6512	8.7743

Source: European Central Bank.

Table 10.

Other euro exchange rates, currency-value of one euro, average

	Czech koruna	Danish krone	Hungarian forinti	Lithuanian litas	Latvian lats	Polish zloty
	1	2	3	4	5	6
2008	24.946	7.456	251.512	3.453	0.703	3.512
2009	26.435	7.446	280.327	3.453	0.706	4.328
2010	25.284	7.447	275.480	3.453	0.709	3.995
2011	24.590	7.451	279.373	3.453	0.706	4.121
2012	25.149	7.444	289.249	3.453	0.697	4.185
2012						
Jan	25.531	7.435	307.329	3.453	0.699	4.376
Feb	25.042	7.434	290.676	3.453	0.699	4.183
Mar	24.676	7.435	292.256	3.453	0.698	4.137
Apr	24.809	7.439	294.806	3.453	0.699	4.178
May	25.313	7.433	293.672	3.453	0.698	4.294
Jun	25.640	7.433	293.569	3.453	0.697	4.297
Jul	25.447	7.438	286.283	3.453	0.696	4.184
Aug	25.021	7.445	278.934	3.453	0.696	4.093
Sep	24.752	7.454	284.217	3.453	0.696	4.135
Oct	24.939	7.458	282.086	3.453	0.696	4.107
Nov	25.365	7.459	282.259	3.453	0.696	4.132
Dec	25.214	7.460	285.791	3.453	0.696	4.096

	Swiss franc	Norweigian krone	Bulgarian lev	Croatian kuna	Romanian leu	Russian rouble
	7	8	9	10	11	12
2008	1.587	8.224	1.956	7.224	3.683	36.421
2009	1.510	8.728	1.956	7.340	4.240	44.138
2010	1.380	8.004	1.956	7.289	4.212	40.263
2011	1.233	7.793	1.956	7.439	4.239	40.885
2012	1.205	7.475	1.956	7.522	4.459	39.926
2012						
Jan	1.211	7.675	1.956	7.554	4.342	40.439
Feb	1.207	7.552	1.956	7.582	4.351	39.423
Mar	1.206	7.531	1.956	7.536	4.367	38.780
Apr	1.202	7.570	1.956	7.499	4.379	38.809
May	1.201	7.566	1.956	7.538	4.441	39.559
Jun	1.201	7.540	1.956	7.543	4.463	41.177
Jul	1.201	7.458	1.956	7.501	4.555	39.947
Aug	1.201	7.324	1.956	7.485	4.518	39.633
Sep	1.209	7.394	1.956	7.429	4.502	40.401
Oct	1.210	7.408	1.956	7.514	4.562	40.356
Nov	1.205	7.337	1.956	7.541	4.527	40.250
Dec	1.209	7.350	1.956	7.533	4.490	40.311

Table 10.
(cont.)

	Turkish lira	Australian dollar	Canadian dollar	Chinese yuan renminbi	Hong Kong dollar	Indonesian rupiah	South Korean won
	13	14	15	16	17	18	19
2008	1.906	1.742	1.559	10.224	11.454	14165.164	1606.087
2009	2.163	1.773	1.585	9.528	10.811	14443.740	1772.904
2010	1.997	1.442	1.365	8.971	10.299	12041.705	1531.821
2011	2.338	1.348	1.376	8.996	10.836	12206.510	1541.234
2012	2.314	1.241	1.284	8.105	9.966	12045.733	1447.691
2012							
Jan	2.376	1.240	1.307	8.146	10.019	11709.247	1474.964
Feb	2.326	1.233	1.319	8.331	10.255	11913.823	1485.579
Mar	2.363	1.254	1.312	8.333	10.247	12082.498	1487.833
Apr	2.352	1.272	1.307	8.292	10.216	12068.693	1495.396
May	2.315	1.283	1.292	8.081	9.929	11913.513	1481.365
Jun	2.284	1.255	1.287	7.968	9.719	11830.220	1458.606
Jul	2.228	1.193	1.246	7.829	9.531	11605.160	1404.112
Aug	2.229	1.184	1.231	7.886	9.618	11777.549	1403.926
Sep	2.318	1.237	1.258	8.127	9.969	12287.929	1444.654
Oct	2.338	1.260	1.280	8.139	10.057	12457.297	1435.369
Nov	2.301	1.233	1.279	8.000	9.942	12343.831	1395.132
Dec	2.344	1.253	1.298	8.181	10.168	12643.367	1411.410

	Malaysian ringgit	New Zealand dollar	Philippine peso	Singapore dollar	Thai baht	South African rand	IMF SDRs
	20	21	22	23	24	25	26
2008	4.889	2.077	65.172	2.076	48.475	12.059	0.930
2009	4.908	2.212	66.338	2.024	47.804	11.674	0.904
2010	4.267	1.838	59.739	1.806	42.014	9.698	0.869
2011	4.256	1.760	60.260	1.749	42.429	10.097	0.882
2012	3.967	1.587	54.246	1.605	39.928	10.551	0.839
2012							
Jan	4.015	1.613	56.208	1.651	40.718	10.340	0.841
Feb	3.998	1.585	56.419	1.658	40.614	10.129	0.853
Mar	4.023	1.610	56.634	1.662	40.557	10.047	0.857
Apr	4.028	1.609	56.145	1.646	40.639	10.306	0.853
May	3.969	1.654	54.908	1.615	40.077	10.441	0.837
Jun	3.984	1.606	53.510	1.602	39.640	10.505	0.827
Jul	3.891	1.539	51.452	1.549	38.873	10.138	0.815
Aug	3.864	1.531	52.173	1.548	38.974	10.259	0.820
Sep	3.960	1.572	53.629	1.584	39.842	10.651	0.837
Oct	3.965	1.582	53.691	1.588	39.811	11.222	0.842
Nov	3.923	1.566	52.716	1.570	39.391	11.299	0.838
Dec	4.008	1.578	53.796	1.601	40.187	11.318	0.852

Sources: European Central Bank and Bank of Finland.

Table 11.

Irrevocable euro conversion rates as from 1 Jan 1999

Country	Currency	Units of currency per euro	Euro since	Country	Currency	Units of currency per euro	Euro since
Austria	schilling	13.7603	1 Jan 1999	Netherlands	guilder	2.20371	1 Jan 1999
Belgium	franc	40.3399	1 Jan 1999	Portugal	escudo	200.482	1 Jan 1999
Germany	mark	1.95583	1 Jan 1999	Creece	drakma	340.750	1 Jan 2001
Spain	peseta	166.386	1 Jan 1999	Slovenia	tolar	239.640	1 Jan 2007
Finland	markka	5.94573	1 Jan 1999	Cyprus	pound	0.585274	1 Jan 2008
France	franc	6.55957	1 Jan 1999	Malta	lira	0.429300	1 Jan 2008
Ireland	pound	0.787564	1 Jan 1999	Slovakia	koruna	30.1260	1 Jan 2009
Italy	lira	1936.27	1 Jan 1999	Estonia	kroon	15.6466	1 Jan 2011
Luxembourg	franc	40.3399	1 Jan 1999				

Source: European Union.

Table 12.

Exchange rate mechanism ERM II

Currency	Central rate EUR 1 =	Fluctuation band, %	Upper rate*	Lower rate*	Valid from
	1	2	3	4	5
Danish krone	7.46038	± 2.25	7.62824	7.29252	4 Jan 1999
Lithuanian litas	3.45280	± 15	3.97072	2.93488	28 Jun 2004
Latvian lats	0.702804	± 15	0.808225	0.597383	2 May 2005

* Intervention at the margin, is in principle, automatic and unlimited.
Source: European Central Bank.

Table 13.

Banknotes sorted at the Bank of Finland, number in millions

Euro banknotes	2007	2008	2009	2010	2011	2012
500 euro	1.7	2.4	2.1	1.9	1.8	1.8
200 euro	1.2	1.3	1.3	1.2	1.1	1.0
100 euro	5.7	6.8	6.5	6.8	6.9	6.9
50 euro	83.9	86.6	84.5	84.3	86.9	79.4
20 euro	191.3	188.4	177.5	176.3	168.2	149.0
10 euro	32.0	40.0	42.4	40.9	39.6	37.9
5 euro	39.0	49.2	52.8	48.3	47.1	46.3
Total	**354.7**	**374.7**	**366.9**	**359.6**	**351.6**	**322.3**

Source: Bank of Finland.

Organisation of the Bank of Finland

1 February 2013

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The Financial Supervisory Authority, headed by Anneli Tuominen, operates in association with the Bank of Finland.