

BANK OF FINLAND
71ST YEAR BOOK

REPORT ON ACTIVITIES IN 1990

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THE GOVERNOR'S REVIEW

The economic climate worsened in the course of 1990, both internationally and in Finland. The profound political and economic changes in eastern Europe initially entailed a slowdown in economic activity in these countries. Higher oil prices caused by the Gulf crisis had a dampening effect on demand in Finnish export markets. The United Kingdom, Sweden and the United States went into recession. German unification provided a spur to economic growth in central Europe, but the huge financing requirements resulting from unification pushed interest rates higher.

The sharp rise in interest rates in Finland in late 1989 curbed the growth of domestic demand and thus set in motion the adjustment of the economy towards better external balance and lower inflation. The widening in the current account deficit in relation to total output came to a halt, and the rate of increase in the consumer price index slowed in the last few months of 1990. As domestic demand slackened and international economic conditions deteriorated, the Finnish economy also entered a recession. Total output did not grow at all in the course of 1990, and the employment situation began to worsen in the final months of the year.

The volume of exports to western countries grew slightly faster in 1990 than in the previous year. On the whole, firms succeeded in maintaining their export market shares better than in the

previous two years when the growth of domestic demand restricted the supply of exports. But as export prices fell and exports to the Soviet Union decreased, export earnings rose only slightly. The profitability of export industries fell considerably as production costs continued to soar.

A positive development was the reduction in the trade deficit. The value of imports decreased despite the weakening in the terms of trade. But as the deficit on the services account and interest payments on foreign debt both increased, the current account deficit remained at a level of nearly 5 per cent of GDP.

Although one of the aims of the comprehensive incomes agreement reached in January was the curbing of wage inflation, this was not achieved. Continuing widespread labour shortages in the early part of the year led to substantial wage drift. The level of earnings rose by 9 per cent in 1990 while labour costs per man-hour surged by as much as 12 per cent. As a result, unit labour costs rose much more in Finland than in competitor countries on average.

Despite the rise in the price of oil, the increase in the consumer price index slowed, mainly because of a fall in dwelling prices and the sluggishness of consumer demand. Towards the end of the year, consumer prices were rising at a slightly slower pace in Finland than the average for those countries whose currencies are included in the currency index.

After the central government sector shifted into surplus in the latter part of the 1980s as a result of the overheating of the economy, it was not possible to tighten fiscal policy to the extent required by the imbalances in the economy. In the budget for 1990, fiscal policy was designed to be neutral. But as central government expenditure increased by more than expected and the growth of tax revenue slowed along with weakening economic conditions, central government finances had an expansionary effect on domestic demand.

Throughout the year, the Bank of Finland's objective was to restrict the growth of demand so as to check inflation and the current account deficit. Under these circumstances it was not possible to ease monetary policy even in the autumn when domestic demand had already slackened noticeably.

In the early part of the year, capital flowed into the country in greater amount than was necessary to finance the current account deficit. Consequently, the foreign exchange reserves increased and the resultant easing in liquidity led to a fall in money market interest rates as summer approached. In the autumn, however, conditions changed as the economic outlook deteriorated. Confidence in the Finnish economy was shaken and interest rates rose markedly, widening the gap in relation to international rates, which were also rising.

Structural problems in the banking sector came increasingly to the fore in 1990. Banks announced big credit losses for 1989. In spring, the squeeze on interest margins caused by loans tied to the base rate became more evident. As bank profitability weakened, the Bank of Finland found it necessary in the autumn to devote more attention to the maintenance of stability in the financial system.

Adjusting to more balanced conditions after a prolonged upswing will be painful. Adding to the difficulties is the prospect of sluggish growth of demand for Finnish exports. Exports to eastern countries are being hampered by the radical changes under way in the Soviet economy and by the termination of bilateral trade with that country. The current account deficit is keeping interest rates high and thereby restricting domestic demand. On the positive side, household savings are rising, inflation is slowing and there is some indication of a turn for the better in the external balance.

Despite the cessation of output growth, economic policy must continue to give priority to improving the external balance and curbing inflation. A shift to an expansive economic policy stance would lead to an increase in foreign debt, thus pushing interest rates higher and accentuating the risk threatening the stability of the financial system.

Measures aimed at achieving better economic balance and structural improvements in the economy are slow to take effect, and there is no single measure that can solve the problems that lie ahead. What is needed is a medium-term strategy embracing all segments of economic policy.

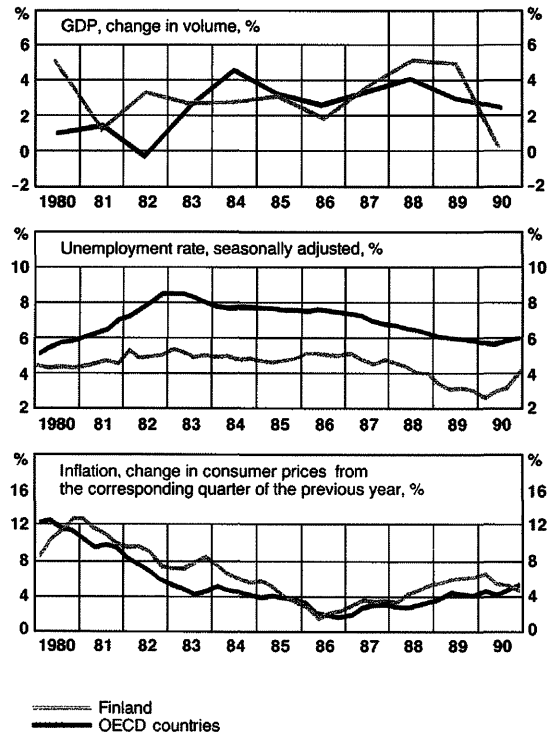
A handwritten signature in black ink, appearing to read "Ryo Sallinen". The signature is written in a cursive, flowing style with a large initial 'R' and 'S'.

ECONOMIC DEVELOPMENTS

Economic growth in the western industrial countries slowed for the second year running. Total output in the OECD area increased by 2.8 per cent in 1990 (Chart 1). Growth decelerated in the course of the year and the annualized rate was less than 2 per cent for the second half of the year. Anti-inflationary monetary policies kept interest rates high and had a dampening effect on investment in particular. The increase in the volume of world trade slowed to 5 per cent, which was 2 percentage points less than in the previous year. The growth of Finland's western export markets also slowed to 5 per cent, partly as result of sluggish growth in countries that account for a substantial share of Finland's exports. At the same time, adjustment problems in the economies of eastern European countries curbed exports to that area.

All in all, the volume of Finnish exports increased by just over 2 per cent. The volume of exports to CMEA countries — mainly the Soviet Union — decreased by some 10 per cent because of, *inter alia*, the reduction in the share of bilateral trade and doubts about its future, as well as uncertainties regarding the exchange rate for the rouble and the collection of export receipts.

Chart 1.
MAIN ECONOMIC INDICATORS IN FINLAND AND
OECD COUNTRIES



The figures used in the Yearbook are based on data available at the end of January 1991.

bles. The volume of exports to western markets grew by nearly 5 per cent, ie the same as market growth for the area (Chart 2). Hence, firms managed to preserve their market shares better than in the previous two years, when rapid growth in domestic demand restricted the supply of exports.

The slowdown in international demand caused a downturn in the prices of most world commodities, and export prices in the forest and metal and engineering industries also fell markedly during the year. Prices of merchandise exports nevertheless remained practically unchanged on average, as compared with 1989. A sharp rise in the import price of oil in the latter half of the year brought to an end a four-year-long period of improvement in the terms of trade; there was a terms-of-trade loss of nearly 3 per cent for the year as a whole.

Higher interest rates, a reduction in internally generated funds and the drying up in the supply of equity capital raised companies' financing costs. Though investment projects started in 1989 kept investment at a high level during the first half of 1990, the sluggish pace at which new investment projects were initiated resulted in a fall of 4 per cent in business fixed investment for 1990 as a whole (Chart 3).

Real disposable household income increased by 1½ per cent. The postponement of tax refunds until 1991 reduced the rise by just over one percentage point. A weakening in households' income expectations, markedly increased household in-

debtedness and high interest rates curbed house purchases and consumer spending. Saving, which had started to recover in 1989, increased further and households' indebtedness decreased slightly.

Some 60 000 new dwellings, construction of which had begun when the economy was booming, were completed in 1990; this was approximately the same amount as in 1989. At the end of 1990, about a quarter of the completions were still unsold. Builders reacted to the softening in the market by reducing housing starts by nearly 30 per cent from the previous year.

In 1989, high interest rates reversed the upward trend in prices of old dwellings. Owing to the depressed state of the housing market, prices continued to decline in 1990. In autumn 1990, prices of old dwellings were on average 7 per cent lower, for the country as a whole, than their peak level in spring 1989. In real terms, prices fell by some 13 per cent over the same period.

The volume of private consumption expenditure increased by just under half a per cent, which was less than the growth of the household sector's purchasing power. Consumer borrowing was subdued, and purchases of consumer durables decreased substantially. The services sector experienced the largest increase in demand; particularly expenditure on travel continued to rise rapidly.

Public sector demand provided the main contribution to the growth of output. Public spending on consumption and investment increased by more than 4 per cent. The public

Chart 2.
FINNISH EXPORT MARKETS AND
EXPORTS TO WESTERN MARKETS

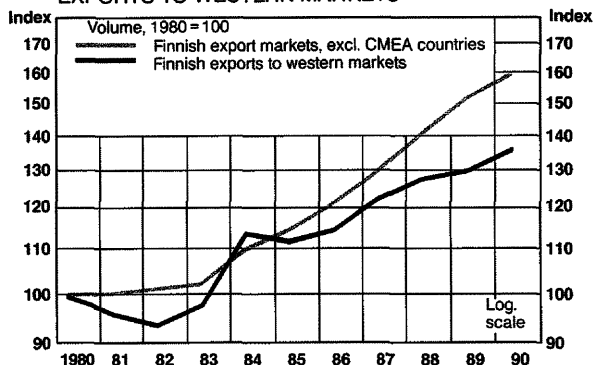
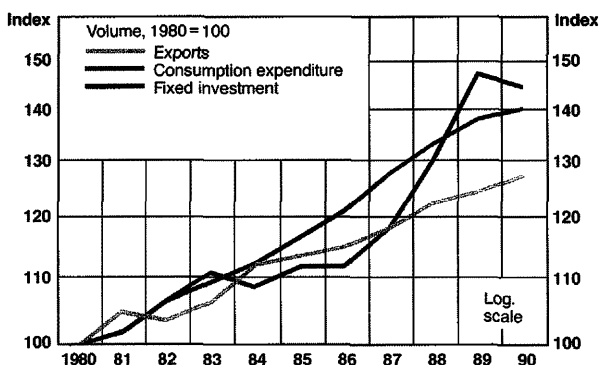


Chart 3.
KEY DEMAND COMPONENTS



sector's transfer payments also continued to grow rapidly in real terms. The growth of tax revenue slowed considerably as a result of the modest — even in nominal terms — increase in private sector demand and changes in the structure of demand. The financial balance of the public sector worsened despite the postponement of tax refunds.

Aggregate domestic demand fell slightly from the previous year. After continuing buoyant until the end of 1989, the growth of demand came to a halt in early 1990. The six-week-long industrial dispute in the banking sector accelerated this development to some extent. Since, moreover, the stimulative effect of exports on growth tapered off almost entirely, domestic demand declined in the latter half of the year.

GDP grew by only somewhat less than half a per cent compared with the previous year, and actually began to fall in the last quarter of 1990. The volume of industrial production declined markedly in the latter half of the year and for the year as a whole was nearly 2 per cent less than in the previous year. The recession also caused a reduction in the volume of output in several of the service industries, but output in the closed sector (including the public sector) as a whole grew by almost 2 per cent.

As domestic demand slackened and capacity constraints eased, the volume of imports started to decline. Imports of goods and services decreased by nearly 2 per cent in volume; imports of goods fell even more, whereas imports of services (eg foreign travel) continued to grow. In markka terms, the import price of oil for the period August-December was 70 per cent higher than prior to the onset of the Gulf crisis in early August. The higher cost of oil raised the value of oil imports by more than FIM 2 billion.

The worsening economic conditions began to show up in the labour market in the latter half of the year. The unemployment rate fell in the first half of the year and the number of unfilled vacancies remained high. From the summer onwards, unemployment started to rise markedly, and by the end of the year the seasonally adjusted number of unemployed job-seekers was more than 5 per cent of the labour force. According to the labour market survey conducted by the Central Statistical Office, the average unemployment rate for the year as a whole was 3.5 per cent, the same as in the previous year.

Chart 4.
LABOUR COSTS AND PRICE
COMPETITIVENESS IN INDUSTRY

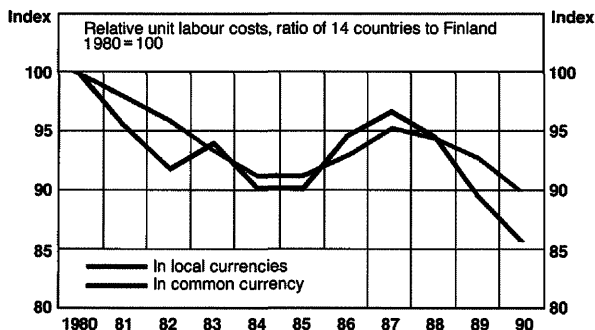
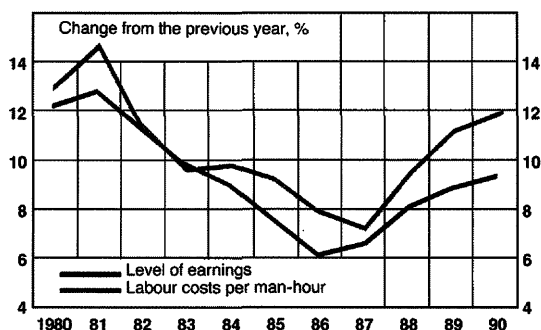
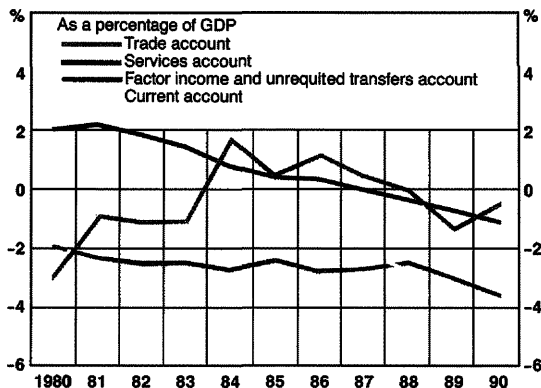


Chart 5.
CURRENT ACCOUNT



Most of the labour market organizations accepted the comprehensive incomes agreement reached in January 1990, which was aimed at curbing the rise in wages, in part so as to safeguard competitiveness. Labour shortages, which were still widespread in the early part of the year, resulted in substantial wage drift, and the level of earnings of wage and salary earners rose by 9 per cent on average compared with the previous year. As working time was shortened and employers' non-wage labour costs increased rapidly, hourly labour costs rose by some 12 per cent. With the onset of recession, the rate of productivity increase slowed and as a result unit labour costs in industry grew clearly faster than in competitor countries (Chart 4).

In November, the labour market organizations agreed on pay increases for the second year of the two-year incomes agreement. The new increases take effect from May 1, 1991 and are expected to boost the level of earnings by about 1½ per cent. The incomes agreement reduced inflation expectations to some extent.

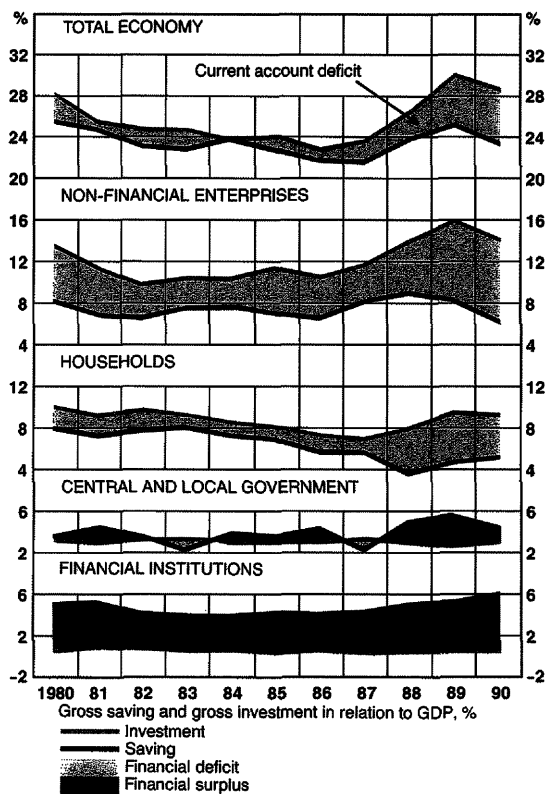
Price inflation eased in the latter half of the year. Contributing to the slowing in the rise in the consumer price index was sluggish demand and a fall in dwelling prices. Prices of oil products, which directly affect the index, rose in the early autumn but fell back again towards the end of the year. The indirect effects of the oil price rise have not yet been reflected in the index, which rose by 4.9 per cent from December 1989 to December 1990. Thus, the 5.7 per cent indexation clause contained in the incomes agreement was not triggered. In December, the twelve-month change in the consumer price index was slightly lower in Finland than the average for the countries whose currencies are included in the currency basket to which the markka is pegged.

The external imbalance of the economy continued to be a serious problem. The trade deficit shrank to FIM 2.1 billion, ie FIM 4 billion less than in 1989. But the deficit on services account increased to FIM 5.2 billion, while that on the factor payments and nonrequited transfers account — comprising mainly interest payments on foreign debt — widened to FIM 18.2 billion. Hence there was a current account deficit of FIM 25.5 billion or still nearly 5 per cent of GDP (Chart 5). As a result, Finland's net foreign debt

increased significantly, amounting to almost FIM 114 billion or 22 per cent of GDP at the end of the year (see section on statistical changes on p. 26).

Companies' debt financing increased further in 1990. Owing to a reduction in internally generated funds, companies increased their borrowing, particularly from abroad. As regards markka borrowing, only the borrowing back of contributions to the labour market pension scheme increased to any significant extent. By contrast, companies' markka borrowing from banks remained at roughly the same level as before. Share issues came to a virtual standstill. The financial balance of the household sector improved in 1990. Increased saving was channelled largely into debt repayment; the growth of deposits was insignificant. As the increase in tax revenue slowed, saving by the public sector decreased markedly, though it still exceeded investment by the sector (Chart 6).

Chart 6.
SECTORAL FINANCIAL BALANCES



Domestic economic performance

	average				
Exports	2.7	2.6	3.7	1.8	2.2
Private investment	3.8	5.0	12.5	14.6	-3.2
Private consumption	3.6	5.7	5.0	3.9	0.4
Total	3.9	5.8	7.6	7.3	-0.8
— of which: public	3.6	4.9	1.8	2.1	4.4
Imports	4.3	9.0	11.1	8.5	-1.7
GDP	3.4	4.0	5.4	5.2	0.3
Earnings	9.3	7.0	9.0	8.9	9.0
Export unit value index	4.9	2.2	5.2	7.5	-1.2
Import unit value index	2.8	-2.0	2.3	3.5	1.7
Terms of trade	2.0	4.2	2.9	3.9	-2.8
Consumer prices	6.9	3.7	5.1	6.6	6.1
— December to December	..	3.7	6.5	6.5	4.9
Unemployment rate, %	4.9	5.1	4.6	3.5	3.5
			FIM billion		
Current account	..	-7.9	-11.6	-23.7	-25.5
— tied currencies	..	2.4	4.2	3.8	3.8
— convertible currencies	..	-10.4	-15.8	-27.5	-29.3
Central government net financing requirement	..	-4.3	0.9	7.9	-0.5

CENTRAL BANK POLICY

MONETARY AND EXCHANGE RATE POLICY

The growth of domestic demand and weakening of the external balance came to a halt in the course of 1990. The Bank of Finland's goal remained to curb demand in order to ease inflationary pressures and limit the current account deficit. Fiscal policy was not restrictive enough with regard to the prevailing demand conditions. When clear signs of slackening demand started to emerge in the autumn, the dampening of inflationary expectations acquired a new urgency. In particular, the occupation of Kuwait and the ensuing rise in the price of oil increased inflationary expectations and added to general uncertainty.

The banks' structural problems and declining profitability came even more sharply into focus during 1990. When profitability deteriorated rapidly in the final months of the year, the Bank of Finland paid increasing attention to the maintenance of stability in the financial markets.

The fall in money market rates reversed in the autumn

At the beginning of 1990, money market interest rates were high and the differential *vis-à-vis* foreign rates was large. This was a result of the defence of the markka the previous autumn, when disturbances had occurred in the foreign

exchange market from time to time (Chart 7). Confidence was restored in the early part of the year, but the industrial dispute in the banking sector curtailed activity in the foreign exchange market and delayed capital imports until later in the spring. Because of the industrial dispute, the key short-term interest rate — three-month HELIBOR — was frozen at 16 per cent from mid-January to the beginning of March. The temporary growth in demand for banknotes, as well as other liquidity needs, were financed by term credits during the dispute; dealings in CDs were discontinued and matured CDs were automatically replaced by term credits.

In January, the foreign exchange reserves returned to the level they were at prior to the events of autumn 1989. There was a surge in capital inflows, induced in part by the large interest rate differential and in part by efforts to avoid the 0.5 per cent tax on foreign loans that was due to come into force at the beginning of February. Capital imports resumed at a fairly high level once the banking sector dispute had ended. As liquidity conditions eased, the level of interest rates fell quickly, and by the end of April the gap between domestic and foreign interest rates had already shrunk to some 2 percentage points, the same as it had been in summer 1989.

The capital inflows kept the Bank of Finland's currency index close to its lower (strong) limit until September, and at times the Bank of

Chart 7.
KEY INTEREST RATES

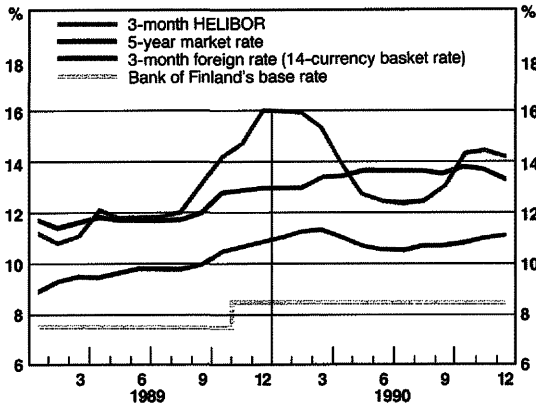


Chart 9.
THE BANK OF FINLAND'S FOREIGN EXCHANGE RESERVES AND FORWARD POSITION

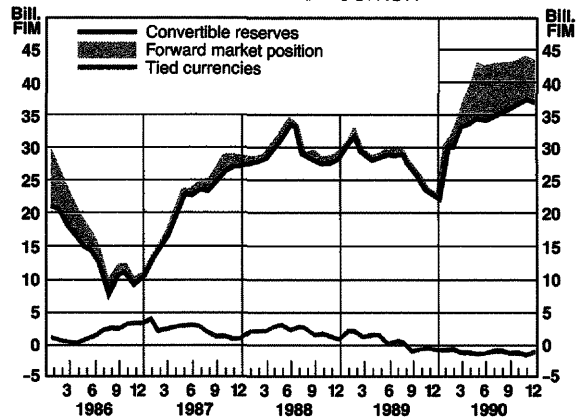
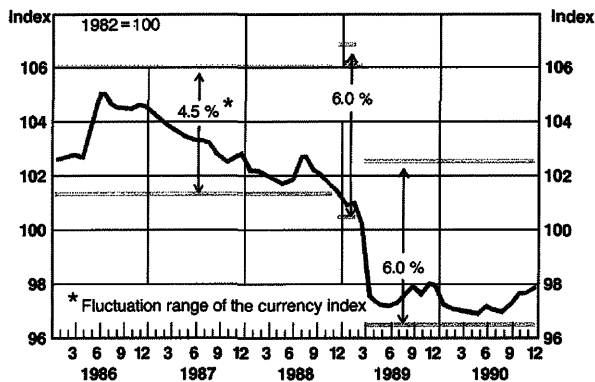


Chart 8.
EXTERNAL VALUE OF THE MARKKA



Finland had to purchase foreign exchange in order to prevent the markka from strengthening even further (Chart 8). Because of the intervention in the foreign exchange market, the convertible foreign exchange reserves rose, reaching a level in excess of FIM 35 billion in the summer. In order to counter the easing effect of capital inflows on liquidity, the Bank of Finland intervened in the forward market as well as in the spot market. Including forward currency claims, the foreign exchange reserves increased substantially in the first half of the year (Chart 9), and stood at FIM 44.2 billion at the end of the year.

In August, the Government's budget negotiations and the Gulf crisis caused uncertainty in the money market and short-term rates rose. This time the rise was due entirely to domestic factors; there was no repetition of the kind of currency market movements that had characterized the previous year.

The deterioration in the economic outlook in the autumn led to a renewed rise in the level of interest rates. Although the differential in relation to foreign interest rates increased to about 4 percentage points, there was no significant intervention in the foreign exchange market in the autumn. Capital flows remained more or less in balance and the level of foreign exchange reserves stabilized. In late September, the markka weakened by more than 1 per cent. At the end of the year, the currency index stood at 98.1 compared with 97.9 one year earlier.

The tendency for interest rates to fluctuate in step with important economic news became apparent again in November. As soon as the incomes agreement proposal put forward by the state mediator, Mr Teuvo Kallio, was approved in the middle of the month, interest rates declined, but they soon started to rise again when data showing a faster-than-expected decline in central government revenue was published.

After the banking sector dispute was resolved, money market operations again focused

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

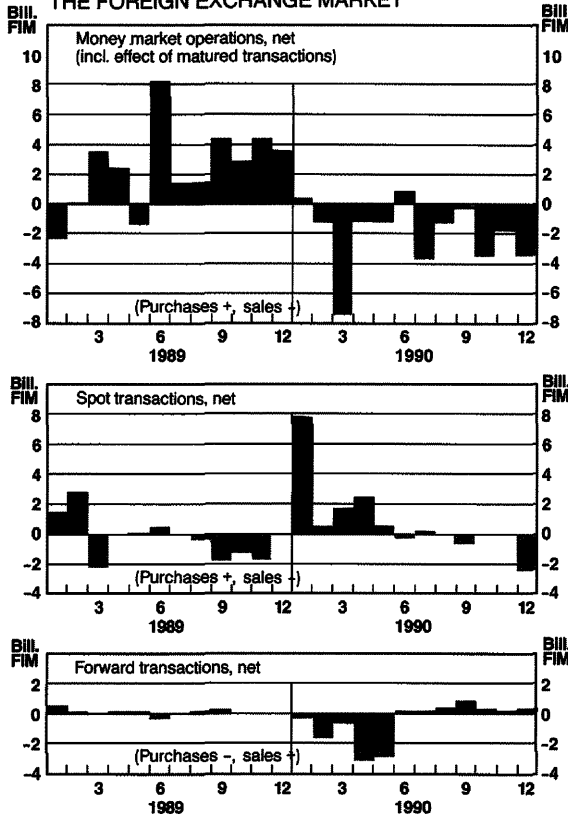


Chart 11.
RATE OF INTEREST ON NEW MARKKA LOANS

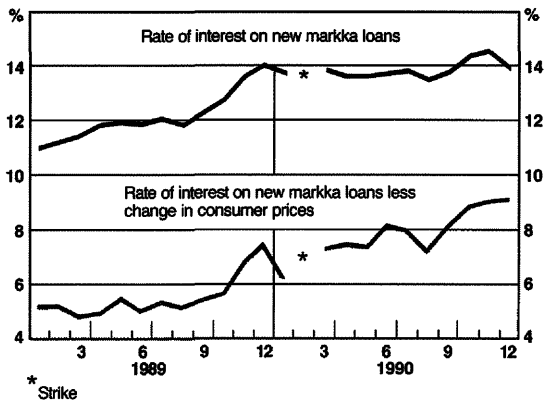
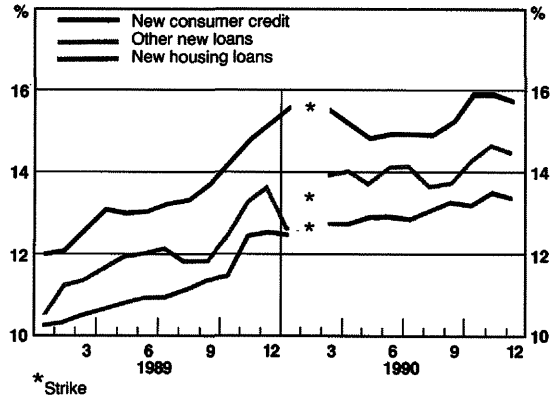


Chart 12.
RATES OF INTEREST ON BANK LOANS
TO HOUSEHOLDS



on dealings in CDs. Largely because of the rise in foreign exchange reserves and the release of cash reserve deposits, the liquidity of the banking system improved. Hence the amount of liquidity provided to the system through the Bank of Finland's purchases of CDs was reduced as compared with the previous year (Chart 10). The Bank's CD claims declined from FIM 33.2 billion to FIM 9.4 billion in the course of the year. At the end of the year, the Bank of Finland held some 13.6 per cent of all outstanding bank CDs.

Long-term market interest rates followed the upward movement in short-term rates in the latter months of 1989. Though short-term rates subsequently fell, long-term rates continued to rise until spring 1990, reflecting the market's long-term expectations (Chart 7). In November and December, long-term market rates declined slightly.

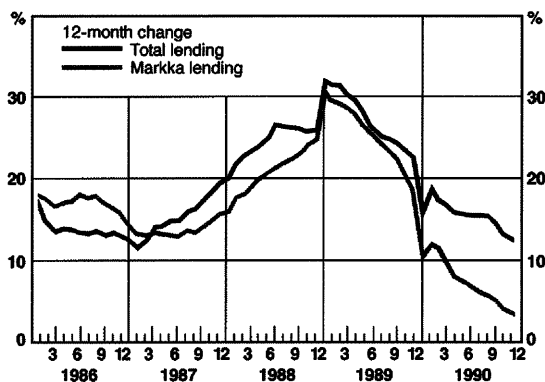
Interest rates on new loans remained at the high level reached at the end of the previous year until the autumn (Chart 11). The decline in short-term market rates in the spring had no significant effect on them. In the autumn, lending rates rose markedly but then fell slightly in December. Rates of interest on new consumer credit moved fairly closely in step with HELIBOR rates, exceeding three-month HELIBOR by just under 1½ percentage points on average (Chart 12).

Growth of lending slows

As a result of high interest rates, growing indebtedness and deteriorating economic prospects, there was a substantial decline in the demand for credit as compared with the previous year. Furthermore, the supply of credit tightened. This was due to the difficulties experienced by banks in their funding, especially in the acquisition of long-term funds. In addition, collateral and other credit requirements were made stricter because of burgeoning credit losses. The growth of banks' markka lending slowed significantly for the second year running and amounted to 3 per cent during 1990 (Chart 13).

Households' demand for credit was curbed mainly by the accumulation of debt in the previous two years, the deterioration in economic conditions and high interest rates. In the final quarter of the year, the total amount of new housing loans raised was 27 per cent lower than in the corresponding period of 1989. Expectations of a recession also reduced firms' desire to invest and their demand for credit. Their credit needs were met mainly by raising foreign currency loans, the outstanding amount of which increased by about 1½ times in the course of the year. The share of foreign currency loans in the business sector's total outstanding loans grew to over 50 per cent by the end of the year.

Chart 13.
BANK LENDING TO THE PUBLIC



Heavy capital inflows

There was a particularly heavy inflow of capital during the first months of the year (Table). Many companies timed their borrowing so as to avoid the credit tax due to come into force at the beginning of February. This restored the foreign exchange reserves in January to roughly the level they had been prior to the disturbances in the foreign exchange market at the end of the previous year.

Most of the capital imported consisted of foreign loans raised by the business sector. Altogether foreign currency loans were raised to a value of FIM 25.6 billion in net terms, some 40 per cent of the total through domestic banks. Foreign investors' markka-denominated investments in Finland were carried out mainly through the forward exchange market. In this connection, the banks' forward cover position amounted to FIM 11.2 billion at the beginning of the year, but it decreased to FIM 3.7 billion in the course of the year.

The ban on sales of new markka bonds to foreigners was lifted in February. By the end of the year, the value of such sales had reached FIM 6.7 billion; however, in the spring a fairly large amount of bonds that had been sold to foreigners in 1985 reached maturity. Overall, the stock of portfolio investment in Finland increased from FIM 82.3 billion to FIM 95.1 billion (see section on statistical changes on p. 26).

As in previous years, new direct investment in Finland was modest. Finnish direct investment abroad amounted to FIM 13.0 billion, compared with FIM 11.8 billion in the previous year. Changes in the method of compiling direct investment statistics resulted in a net foreign debt figure for 1989 some FIM 13 billion higher than previously reported (see p. 26); the revised figure is FIM 99.5 billion. By the end of 1990, the net foreign debt had grown to FIM 113.7 billion.

Base rate unchanged, flexibility sought

The Bank of Finland's base rate was kept unchanged at 8.5 per cent throughout the year. The gap between the base rate and market rates widened in the final months of 1989 and remained large (over 5 percentage points on average) throughout 1990 (Chart 7).

Financing of the current account, FIM billion

		I	II	III	IV	I-IV
Trade account	- 6 134	- 279	-1 092	55	- 784	- 2 100
A. CURRENT ACCOUNT	-23 657	- 5 568	-7 442	-5 209	-7 282	-25 500
B. CAPITAL INFLOWS	17 696	16 414	8 216	7 268	8 694	40 591
Loans						
Raised through banks	10 421	2 061	6 116	993	559	9 729
Raised directly by the public	5 905	10 106	1 243	1 567	3 002	15 918
Financing of foreign trade						
Loans	- 682	338	156	- 494	284	284
Supplier credits	1 152	1 328	1 386	- 442	- 672	1 600
Banks' forward cover	- 7 960	4 443	-3 303	-1 629	-3 228	- 3 717
Direct investment, net	-11 483	- 1 756	-2 445	-2 656	-2 545	- 9 402
Portfolio investment, net	13 869	6 414	2 988	6 831	6 294	22 527
Central government borrowing	- 608	- 310	- 233	- 203	78	- 668
Other items	7 082	- 6 210	2 308	3 301	4 922	4 320
A.+B. CHANGE IN THE FOREIGN EXCHANGE RESERVES	- 5 961	10 847	774	2 059	1 412	15 092
Convertible	- 4 455	11 255	874	2 063	1 240	15 432
Tied	- 1 506	- 408	- 100	- 4	172	- 340

The problems caused by the rigidity of the base rate already came to the fore in autumn 1989 when market rates were rising. Some 60 per cent of outstanding bank loans are still tied to the base rate, and many of these loans carry very low rates in comparison to market rates. During 1990, the share of low-interest, tax-exempt deposits in total bank funding declined. This, coupled with the rise in market rates, led to a weakening in bank profitability.

The banks expected the base rate to be raised, which would have brought it closer to market rates and thus improved bank profitability. An increase would also have made tax-exempt deposits more competitive, which, in turn, would have slowed the structural change that is taking place in the deposit and bond markets. The Board of Management of the Bank of Finland would have been amenable to a rise in the base rate but refrained from making a formal proposal because its acceptance would not have been possible for political reasons.

The problems caused by the rigidity of the base rate were the subject of public debate in the autumn. The Parliamentary Supervisory Board

requested a clarification of alternative arrangements under which base rate changes could be effected more flexibly. The Board of Management submitted its report in November.

Cash reserve system revised, deposits released

A decision regarding the revision of the existing cash reserve agreement was reached in April 1990 after a long period of negotiation. According to the new agreement, the cash reserve base comprises only domestic deposits at the end of each month. In the initial phase, the maximum cash reserve requirement is the same as it was under the previous agreement, ie 8 per cent of the base, but from the beginning of July 1991 it will be 7 per cent.

The interest paid on cash reserve deposits is now tied to HELIBOR instead of the base rate. Under the previous agreement, the rate was 1/4 percentage point below the base rate. Under the new agreement, it is 3 percentage points below three-month HELIBOR, but not less than 8 per cent. The new arrangement came into force at the beginning of May. The average rate applied in

May was 9.7 per cent, ie about 1½ percentage points higher than it had been previously.

The new cash reserve agreement was applied to deposits for the first time at the end of April. It entailed a reduction of some 10 per cent in the cash reserve base and hence deposits totalling some FIM 3 billion were released at the end of May.

The cash reserve requirement was applied at the maximum rate of 8 per cent until the end of October. Towards the end of the year, the banks' profitability problems became even more evident. As the growth of lending had already slowed in the early part of the year and there was not considered to be any danger of a renewed acceleration, the cash reserve requirement was progressively cut to 7 per cent starting from the end of November (Chart 14). This resulted in the release of deposits worth some FIM 2.5 billion in December.

Reserve deposits were released not only as a result of the reduction in the basic cash reserve requirement but also because of the refunding of supplementary cash reserves and the contraction in the cash reserve base. The supplementary cash reserve deposits, which had been collected on the basis of the growth of bank lending in 1989, were refunded to the banks in six equal instalments at the end of each month over the period July-December 1990. The reserves refunded amounted to FIM 3 billion in all.

In the course of the year, a total of FIM 8 billion worth of cash reserve deposits was released. This helped to reduce the banks' dependence on the short-term money market for funding.

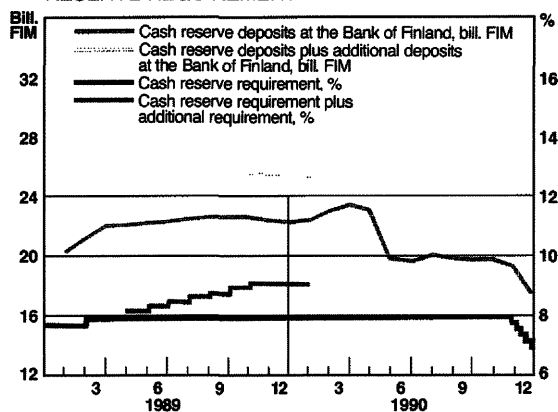
Changes in the arrangement for money market operations

In 1989, the Bank of Finland revised the call money facility by significantly raising the cost of using call money credit on a continuing basis. The change was designed to make the facility more specifically a source of temporary funding for the banks. The rate of interest on call money credit was raised to 15 per cent and in the autumn a rule was introduced according to which a bank was to be charged twice the normal rate for call money if the 5-day moving average of its daily position became negative.

Experience with the revised facility shows that it operates as intended, ie that it raises short-term rates substantially whenever the Bank of Finland has to tighten liquidity in order to support the markka. A rapid rise in interest rates as liquidity is squeezed also reduces the incentive to speculate.

In December 1990, the Bank of Finland decided to extend the scope of its money market dealings with the banks to include repurchase agreements (repos) from the beginning of 1991. A repo is a transaction whereby a security is sold on the condition that it is repurchased at a given date in the future. The seller obtains financing for the period between the sale and repurchase, while the buyer makes an investment for the corresponding period. The new type of transaction complements the Bank's existing open market operations, which have until now focused on outright deals in CDs. The purpose of introducing repos is to reduce the central bank's credit risk in its money market operations and to expand the range of available instruments. With effect from the beginning of 1991, the instruments approved for repo transactions comprise markka-denominated securities issued by the central government as well as CDs and bonds issued by banks entitled to central bank financing.

Chart 14.
BANKS' CASH RESERVE DEPOSITS AND CASH RESERVE REQUIREMENT



FINANCIAL MARKETS

Stock market activity continues to decline

Activity in the capital markets focused on the debt market in 1990. Listed companies did not make a single rights issue during the year. The decline in share prices, which had begun in April 1989, continued virtually without interruption throughout 1990. This was largely due to the high level of interest rates and unfavourable expectations concerning the state of the economy. The substantial fall in share values significantly weakened the profitability of several financial institutions and companies with share investments. Several listed companies were the objects of public offers to buy, the purpose of which was the removal of these companies from the stock exchange list. Turnover in shares decreased despite major acquisitions and public offers (Chart 15).

Activity in the bond market was brisk in 1990. The sale abroad of new markka-denominated bonds was permitted from the beginning of February. New debt financing raised through markka bond issues totalled some FIM 29 billion, which was FIM 8 billion more than in 1989 (Chart 16). It is estimated that one quarter of these bonds were sold abroad. One of the factors favouring bond financing was the fact that long-term interest

rates were appreciably lower than short-term rates throughout the year. Another factor was the reduction in government bond issues, particularly tax-exempt bonds, which improved the prospects for issues by the private sector.

The tax on foreign currency credits raised by Finnish companies abroad came into force on February 1, 1990. The volume of foreign currency bonds issued by Finnish borrowers increased particularly in January in anticipation of the tax and because of the high level of domestic interest rates. All in all, foreign currency bonds were issued to the value of some FIM 38 billion in 1990, ie about FIM 12 billion more than in 1989.

Banks' difficulties continue

Both the benefits and drawbacks of financial market deregulation were highlighted in 1990. The rise in interest rates curbed banks' markka lending and thus contributed towards better balance in the economy. At the same time, a greater proportion of loans than before was tied to market interest rates. However, because of high interest rates and the slowing of economic growth, the banks' financial position worsened. In the autumn, the Bank of Finland was obliged to take action to maintain the stability of the financial markets.

Chart 15.
ACQUISITION OF RISK CAPITAL BY LISTED COMPANIES AND SHARE TURNOVER

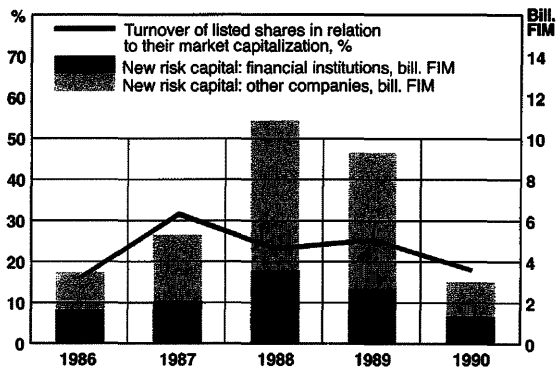
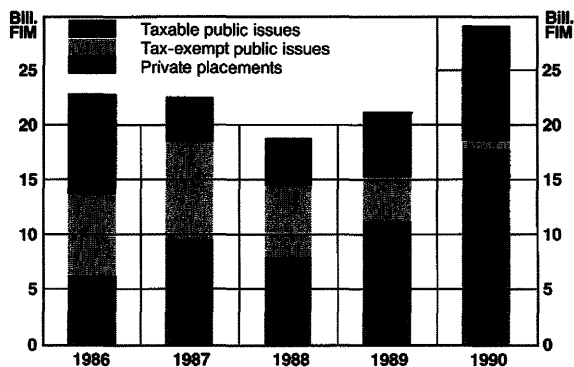


Chart 16.
MARKKA-DENOMINATED BOND ISSUES



The main reasons for the poor profitability and difficulties of the banks were the slow level of net interest income, the sharp fall in share prices and the realization of credit risks. These factors were reflected in the banks' poor results for securities trading, large deductions for the fall in the value of equity portfolios, the excessive growth of costs relative to earnings and the large amount of credit losses. The banks attempted to adapt to the situation by scaling down their branch networks and otherwise rationalizing operations.

Increasing competition in the financial markets together with the poor profitability in the banking sector have also increased the need for tighter monitoring of the banks' risk-taking and capital adequacy by the central bank, which is responsible for the stability of the markets. For this reason, the Bank of Finland has for some years now been closely monitoring the interest rate risks, credit risks and exchange rate risks of, in particular, banks that are entitled to central bank financing. In addition, the Bank of Finland has paid increasing attention to the risks inherent in the investments of banks and banking groups. Whenever necessary, discussions have taken place with the banks regarding their investment and financing activities. Monitoring has been facilitated by increased cooperation with the Banking Supervision Office and the Ministry of Finance.

Banks adjust to the deregulation of financial markets

As late as 1989, two-thirds of all new loans were still tied to the Bank of Finland's base rate, but in 1990 the use of the base rate as a reference rate for new loans was largely discontinued. At the same time, HELIBOR rates became the most widely used reference rates for new markka loans (Chart 17). However, linkage to the base rate continues in respect of the administered interest subsidy and 'ceiling-rate' loans.¹ The use of long-term reference rates became more wide-

¹ 'Ceiling-rate loans' are loans on which the maximum rate of interest payable is fixed by law or on the basis of some other regulation and which do not include a direct interest subsidy component, eg certain housing loans.

Chart 17.
INTEREST RATE LINKAGES OF BANKS' NEW MARKKA LOANS

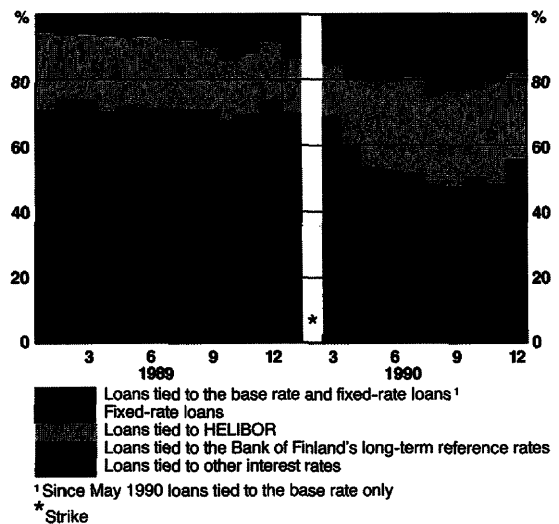
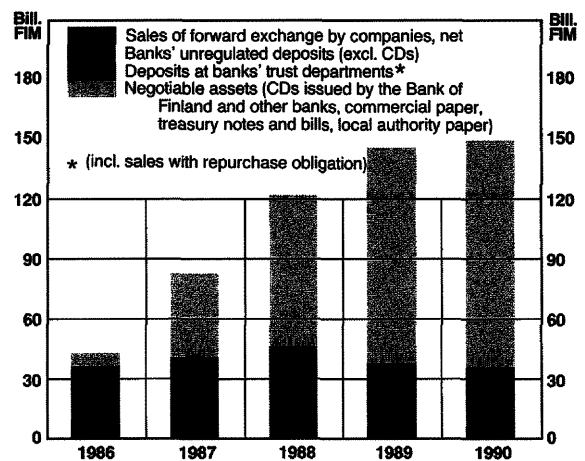


Chart 18.
MONEY MARKET VOLUMES



spread, especially with regard to housing loans. The use of the banks' own reference rates, eg prime rates, also increased. The declining importance of lending tied to the base rate is associated with banks' expectations and views concerning future interest rate linkages of markka funding.

When the final tax at source on private persons' interest income from deposits and bonds entered into force on January 1, 1991, taxable bank deposits became, at least initially, more attractive to depositors than tax-exempt, fixed-term deposits tied to the base rate. With the introduction of the source tax and the termination of tax exemption of deposits at the latest by the end of 1992, all deposit income will be subject to interest rate competition.

The base rate will, for some years to come, remain as a reference rate for outstanding loans granted in the period of interest rate regulation. These loans thus constitute a structural interest rate risk to the banks, the effects of which will be exacerbated both by the increasingly competitive environment in which banks operate and the difficulty of raising rates on loans that are tied to the base rate. The latter problem is the result of disputes that have arisen in connection with the interpretation of the interest rate terms of loan agreements.

The change in the financial markets was also reflected in the money market, where activity levelled off after years of continued rapid growth (Chart 18) despite the relatively large increase in CD issues by local banks. Contributing to this development was the reduction in the amount of cash reserve deposits collected from the banks by the Bank of Finland. This improved bank liquidity and reduced the central bank's need to operate in the CD market.

The most significant development in bank funding compared to previous years was the ending of the downward trend in the share of markka deposits (Chart 19). However, the share of funding at market-based rates continued to rise as an increasingly large proportion of total deposits also bore market rates of interest. These developments were partly the result of heightened interest rate competition and the provision of a wider range of taxable deposit accounts as banks prepared for the introduction of the source tax on interest income. In autumn 1990, the share of

Chart 19.
STRUCTURE OF BANK FUNDING

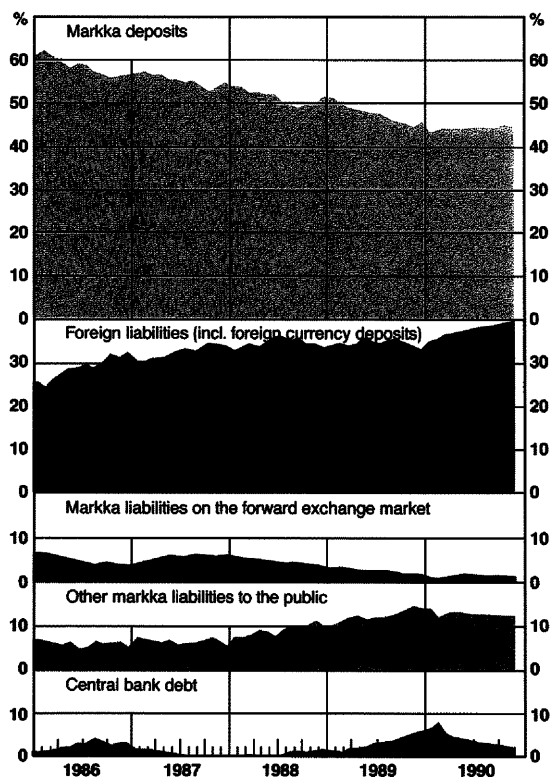
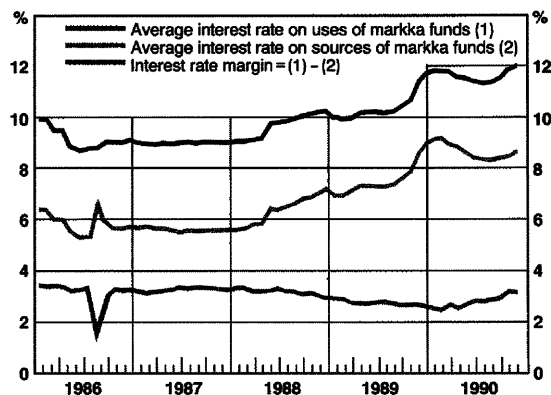


Chart 20.
AVERAGE INTEREST RATE ON USES OF MARKKA FUNDS, AVERAGE INTEREST RATE ON SOURCES OF MARKKA FUNDS AND THE INTEREST RATE MARGIN



total deposits accounted for by tax-exempt deposits tied to the base rate was, however, still about 75 per cent.

The spread between the interest rates on banks' uses and sources of markka funds began to grow in the first half of 1990, after having declined for many years (Chart 20). This was largely due to the revision of the cash reserve facility and the fall in market interest rates. In addition, wider use of market-based rates in lending raised the average lending rate and reduced the banks' interest rate risks. Even so, the spread was smaller in 1990 than it had been in 1987 and 1988 following the deregulation of lending rates. Though banks were free to set their lending rates at that time, deposit rates were still largely controlled within the framework of the tax relief arrangement.

Exchange control almost entirely dismantled

As from the beginning of February 1990, the Bank of Finland removed the controls on the sale abroad of new markka-denominated bonds with maturities of over one year, with the exception of those issued by housing and real estate companies. Similarly, foreigners were granted permission to issue markka-denominated bonds in Finland.

Since the beginning of March, finance companies have, on application, been entitled to raise foreign loans and act as intermediaries in such loan transactions within the limits laid down in the foreign exchange regulations. At the beginning of July, foreign investment by private persons was freed from control in accordance with a decision in principle made in summer 1989. In the same context, municipalities and enterprises other than insurance companies, finance companies, mortgage banks, credit companies and banks were accorded the right to freely raise foreign loans of over one year's maturity for financing their own operations. Foreign investments by these entities were also deregulated.

The sale to nonresidents of derivative instruments based on Finnish shares and warrants carrying the right to restricted shares was permitted with effect from the beginning of September. However, because of restrictions on foreign ownership, restricted shares as such may not be

transferred to foreign residents. In the same context, residents were permitted to buy and sell derivative instruments based on foreign shares.

Under an amendment to the Foreign Exchange Act which entered into force at the beginning of 1991, all foreign exchange activities are allowed unless specifically prescribed as being subject to permission by the Bank of Finland. Currency exchange will henceforth be regulated largely on the basis of general business legislation and special legislation governing financial institutions and the foreign exchange regulations. Thus Finland's exchange control regime, adopted under exceptional conditions about half a century ago, has been almost completely dismantled.

The most significant change in the Bank of Finland's new foreign exchange regulations that came into force at the beginning of 1991 is the rescinding of the restrictions on short-term capital movements. A commercial background is no longer required for such movements, and money market instruments as well as all types of markka-denominated bonds may be sold abroad without restriction. Exchange control now affects only foreign loans raised by private persons and other comparable entities. In addition, the foreign activities of financial institutions are still regulated by means of licences to operate as an authorized bank or to engage in foreign exchange activity.

Operating guidelines prepared for money market participants

At the beginning of the year, the Banking Supervision Office began drafting guidelines for money market participants concerning the application of the Securities Market Act. In the spring, the Bank of Finland and the Banking Supervision Office launched negotiations aimed at developing a system for supervising money market activities. It was agreed in the negotiations that the Bank of Finland would be responsible for the supervision of the interbank market.

In the autumn, the Bank of Finland entered into negotiations with the banks entitled to central bank financing aimed at reaching an agreement on a set of guidelines governing operations in the money market. The final drafting and signing of the agreement was deferred until 1991.

Operating environment of the financial markets revamped

In the course of 1990, Parliament had to consider a number of major bills affecting the operating environment of the financial markets. Both the contents of these bills and other legislative undertakings in progress were significantly affected by the process of deregulating financial services, ie banking, securities business and insurance, and capital movements under way in the EC countries. The discussions currently being conducted in connection with the European Economic Area (EEA) have speeded up the process of harmonizing domestic legislation with EC regulations.

One of the key reforms as regards tax legislation governing the financial markets was the passing of the source tax law, even though Parliament only approved it for one year. With effect from the beginning of 1991, a 10 per cent final tax at source was introduced in the taxation of interest income from deposits and bonds. The tax applies only to deposits and bonds where the recipient of interest income is a physical person or the domestic estate of a deceased person. The tax is levied only on interest earnings; underlying assets are not subject to wealth tax nor is it necessary to declare assets or earnings in tax returns. Interest payments to and from abroad are not subject to the tax. The tax is collected by the deposit-taking bank or the issuer of the bond, and it does not apply to interest income from deposits and bonds that is exempt from taxation under tax relief laws. The source tax is considered to be a step towards the neutralization and harmonization of capital income taxation, but its enactment has not solved all the related problems. The Bank of Finland nevertheless believes the source tax will act as a spur to interest rate competition between banks and promote greater efficiency in the financial markets.

After being many years in preparation, legislation covering deposit banks was enacted in late 1990 and took effect on January 1, 1991. The new Deposit Bank Act applies to all deposit banks and provides them with a common legal framework within which to pursue banking business. Depending on the type of bank, each bank is also covered by one of the following laws: the Commercial Bank Act, the Savings Bank Act, the

Cooperative Bank Act or the Postipankki Act. The major change in the Deposit Bank Act relates to capital adequacy requirements. These largely conform with EC regulations, which, in turn, are based on the recommendations of the Bank for International Settlements (BIS). The law allows the deposit banks five years in which to comply with the new capital adequacy requirements. However, banks which carry on international banking activities must meet the new requirements by January 1, 1993 at the latest.

With effect from January 1, 1991, foreign financial institutions became entitled to open branches in Finland for the purpose of carrying on banking business in this country. Previously such activity was possible only by way of subsidiary and associate banks. Under the law, foreign-owned subsidiary banks already located in Finland may continue their operations as branches with the permission of the Ministry of Finance. The operations of branches are governed by the Deposit Bank Act unless otherwise prescribed. The basic principle applied is that a branch of a foreign credit institution has the same rights and obligations as a Finnish deposit bank. The Bank of Finland considered the allowing of branch banking to be both appropriate and timely. The Bank also felt that the right to set up a branch in Finland should be extended to foreign nonbank financial institutions in connection with the reform of legislation governing other financial institutions.

The preparation of legislation covering credit institutions other than deposit banks also progressed in 1990. The Bank of Finland was represented on the committee considering legislation on the financial services industry. The committee's report, published in October, proposed the enactment of a law on the provision of financial services that would apply to, *inter alia*, credit card and hire purchase financing as well as factoring and forfaiting.² It would not apply to the financial services provided by deposit banks. Engaging in the business of providing financial services would be subject to licence, and credit institutions would generally be required to have

² Forfaiting is a form of export finance in which a firm sells its export receivables to a bank.

at least FIM 25 million in share or other equity capital. This amount corresponds to the minimum capital requirement laid down in the EC's second banking directive. The capital adequacy of credit institutions would be determined in the same way as for deposit banks. Foreign credit institutions would be able to open branches in Finland for the purpose of carrying on financing activities, subject to the approval of the Ministry of Finance.

In autumn 1990, a Government bill on the establishment of a book entry system was presented to Parliament. The aim of the system is to completely eliminate the use of physical certificates and to replace them by computerized entries in securities accounts. The inclusion of shares of listed companies in the system is compulsory; for other securities, inclusion is voluntary and subject to the approval of the Securities Association. Securities accounts are kept in securities registers. Registrars may be duly licensed banks or broking firms, or the Bank of Finland. In the latter part of the year, a working group was set up to prepare a proposal for a statutory securities clearing system; the Bank of Finland took part in the work of the group.

The Helsinki Money Market Center's preparations for the introduction of clearing and settlement systems for handling money market transactions proceeded according to plan. The Center will commence operations in summer 1991.

Legislation covering the securities markets also came under scrutiny in 1990. The securities trade committee published its report concerning investor protection in the securities markets in autumn 1989. It proposed that the Securities Market Act be extended to include provisions on, *inter alia*, financial statement data, semi-annual reports, bidding procedures for shares and the setting up of a securities market board, which would function as a protector of legal rights. The securities trade committee likewise recommended that the Securities Market Act and the Broking Firms Act be extended to cover portfolio management and investment advice. The Bank of

Finland considered the committee's recommendations on increased public disclosure and protection of minority shareholders and investors' legal rights to be well founded but called for more detailed and precise drafting of the proposals concerning investment services and bidding.

The Bank of Finland is also represented on the committee set up by the Ministry of Justice in September 1990 to prepare the reform of legislation governing the securities markets on the basis of the recommendations of the securities trade committee and the pressures for harmonization created by European integration.

Work on a thorough revision of the Unit Trust Act got under way in early 1990. The working group set up for this purpose recommended the enactment of a new law in which the provisions of the EC directives concerning collective investment undertakings would be taken into account. The new law would give unit trusts expanded investment opportunities, greater freedom in the distribution of profits and the right to sell units to foreigners. The working group, which included a representative of the Bank of Finland, also recommended the speedy resolution of issues relating to the taxation of unitholders of unit trusts. In its statement, the Bank of Finland noted that it considered it important that Finnish unit trusts be allowed to sell trust units to foreigners. The Bank further expressed the view that foreigners should also be accorded the right to establish management companies in Finland, the unit trusts of which would be able to purchase restricted as well as nonrestricted shares.

Two other committees also started work in 1990, one dealing with cooperation and joint ownership between banks and insurance companies and the other with the development of legislation on credit and monetary institutions.

The Bank of Finland was represented in the working group on interest subsidies, which commenced its activities during the year and published an interim report on the revision of interest rates on outstanding interest subsidy and ceiling rate loans.

OTHER OFFICIAL ACTIVITIES

ARRANGEMENTS WITH PAYMENTS AGREEMENT COUNTRIES

At the beginning of 1990, Finland participated in clearing payment arrangements with Bulgaria, the Soviet Union and the German Democratic Republic, but by the end of the year these arrangements had effectively been terminated. In May, Finland suspended the effecting of payments for Finnish exports through the Bulgarian clearing account because of Bulgaria's failure to fulfil its payment obligations. Towards the end of the year, the two countries agreed that, until Bulgaria had settled its outstanding debt, which stood at FIM 75 million at the end of 1990, only payments from Finland to Bulgaria would be effected through the clearing account. In practice, Bulgaria now pays for its imports from Finland in convertible currency, despite the fact that the clearing arrangement is still formally in force.

Owing to the unification of the two Germanies, Finland and the German Democratic Republic agreed to discontinue their clearing payment arrangement as of the end of June 1990.

The changeover to the use of convertible currencies in trade between Finland and the Soviet Union only became certain in December, after a confused situation lasting throughout the autumn. Adding to the uncertainty regarding trade prospects were the difficulties encountered by the

Soviet Union in the production and export of oil, the payments arrears of Soviet enterprises and the change in the Soviet exchange rate system towards the end of the year, whereby a commercial exchange rate for the rouble was introduced.

The Finnish-Soviet clearing account showed a deficit balance for Finland throughout the year, and amounted to SUR 147 million (FIM 957 million) at the end of 1990. The Soviet Union repaid SUR 125 million of its outstanding liability that had been transferred from the clearing account to a special interest-bearing account in 1987, so that the balance in the special account amounted to SUR 60 million (FIM 390 million) at the end of the year. Thus the Bank of Finland's net liability was SUR 87 million (FIM 566 million) at the end of 1990. The final situation as regards clearing will become known in the early part of 1991 when all payments in connection with the clearing system have been settled.

INTERNATIONAL ORGANIZATIONS

International Monetary Fund (IMF)

The International Monetary Fund continued its customary surveillance of the economic policies of member countries and the international monetary system and made assessments of the world eco-

conomic outlook. The Fund responded to the events in the Gulf by temporarily increasing the flexibility of members' access to its credit facilities.

It was decided to augment the Fund's resources after unanimous agreement had been reached on the terms of the Ninth General Review of Quotas. Under the resolution adopted by the Fund's Board of Governors in the summer, quotas will be increased by 50 per cent once the proposed increase has been ratified by member countries. The aim is that the necessary ratification be obtained by the end of 1991.

In accordance with the proposal approved by Parliament, the Bank of Finland will pay the increase in Finland's quota on behalf of the Finnish government. As a result, Finland's quota will rise from SDR 574.9 million to SDR 861.8 million, equivalent to just over FIM 4.4 billion.

The Interim Committee of the International Monetary Fund met in Washington, DC, in May and September. At the spring meeting, negotiations were concluded on the review of quotas. The autumn meeting, which was held in connection with the traditional joint annual meetings of the Fund and the World Bank, dealt with, among other things, the consequences of the Gulf crisis. Mr Rolf Kullberg, who is the Chairman of the Board of Management of the Bank of Finland and member of the Fund's Executive Board, will continue to represent the Nordic countries on the Interim Committee until autumn 1991.

In keeping with the agreed rotation principle applied in electing the joint representative of the Nordic countries, Finland held the position of Executive Director during the year under review. Mr Markus Fogelholm, head of department of the Bank of Finland, will continue serving in this position until autumn 1991. The rotation arrangement requires the Bank of Finland to prepare the Nordic countries' joint statements of opinion for presentation in the Fund.

In May, a team of IMF officials visited Helsinki and carried out a review of the state of the Finnish economy and the economic policies pursued. They drew special attention to the relatively rapid growth of public expenditure. The visit was part of the full Article IV consultations, which are conducted every other year.

Finland also contributed to the financing of the Enhanced Structural Adjustment Facility

(ESAF), which operates under the aegis of the IMF and is used to provide assistance to low-income developing countries. A sum of FIM 46 million was allocated for this purpose from budgeted development cooperation funds and was the final instalment of the total assistance of FIM 122 million committed by Finland. These funds enable ESAF financing to be made available at low, concessional terms.

Bank for International Settlements (BIS)

During the year under review, the Bank for International Settlements paid special attention to financial arrangements related to European integration. The regular monthly meetings served as a forum for the exchange of current information on markets and discussions on the stability of the money and foreign exchange markets. Central bank governors from the Nordic and EFTA countries discussed topical matters of common concern.

Integration

The process of economic integration in Western Europe gained new momentum in the course of the year. In the spring, the European Free Trade Association (EFTA) and the European Community (EC) decided to embark on negotiations on the formation of a European Economic Area (EEA). Finland's negotiating objectives were based on the Government's report to the Parliament on matters pertaining to integration. In the course of the negotiations it proved possible to revise and in some cases remove certain requests for special treatment that had originally been made by the EFTA countries. However, an agreement to establish the EEA was not concluded by the end of the year, the deadline originally set.

Bank of Finland representatives participated with other officials in the preparatory work concerning the EEA carried out within EFTA and jointly between EFTA and the EC and dealing with the liberalization of capital movements, financial services and ownership rights. Adjustment to key EC regulations was not found to present a problem

as regards matters pertaining to the Bank of Finland's scope of authority.

In Finland, the progress of integration in Western Europe and related negotiations are overseen by a consultative committee. The Bank of Finland is represented on the committee by Mr Rolf Kullberg, Chairman of the Board of Management; Mr Markku Puntila, Member of the Board of Management, serves as deputy member. (Mr Pentti Uusivirta, Member of the Board of Management, was deputy member until his retirement.)

The practical work in connection with preparations for Finland's EEA negotiations is directed by a monitoring committee set up by the Ministry of Foreign Affairs. The committee also monitors internal developments in the European market and the effects of integration on Finland. Mr Esko Ollila, Member of the Board of Management, represented the Bank on the committee. (Mr Pentti Uusivirta served in this capacity until the spring.) Mr Matti Vanhala, Director, was the Bank's deputy member. The Bank is also represented on various subcommittees dealing with matters that touch upon the Bank's scope of activities, such as capital movements, financial services, foreign ownership, cooperation in economic and monetary policy and cooperation in the compilation of statistics.

Other international cooperation

As in previous years, the Nordic Financial Commission (NFU) prepared joint Nordic statements on issues dealt with at the IMF. It also considered ways of increasing the influence of the Nordic countries within the IMF and the role the NFU should play in this context. In addition, the NFU monitored developments in Nordic financial markets, particularly from the point of view of European integration. Mr Matti Vanhala, Director of the Bank of Finland, continued to serve as chairman of the Commission.

The Bank of Finland participated in the activities of the Organization for Economic Cooperation and Development (OECD), mainly through its involvement in the work of the Committee on Capital Movements and Invisible Transactions, the Committee on Financial Markets, the Economic Policy Committee and their various

working parties. Owing to the dismantling of exchange control, Finland was able to reduce the number of its reservations to the OECD's Codes of Liberalization of Capital Movements and Trade in Financial Services from twenty to seven. By lifting the ban on the sale abroad of markka-denominated bonds, Finland was able to cease invoking the derogation clause of the code of capital movements in respect of such sales.

As in previous years, the OECD's Economic Policy Committee focused its attention on two areas: on the one hand, issues concerning overall economic development and the coordination of economic policies and, on the other hand, the economies and economic policies of individual member countries from a microeconomic perspective. The Bank of Finland also participated in OECD meetings of experts dealing with the economic situation in Eastern Europe.

Negotiations aimed at worldwide trade liberalization continued within the framework of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). However, no agreement was reached by the end of 1990, which was the original deadline set for the talks. Representatives of the Bank of Finland participated in the preparatory work of groups of experts in Finland. Mr Esko Ollila, Member of the Board of Management, represented the Bank on the GATT trade negotiations committee; Mr Matti Vanhala, Director, served as deputy member. (Mr Pentti Uusivirta represented the Bank during the early part of the year.)

The Bank of Finland took part in negotiations concerning the Finnish-Soviet bilateral payments system and issues related to financing and in the activities of the Commission for Economic Cooperation, which deals with matters between Finland and the CMEA countries. As in previous years, the Bank of Finland participated as an observer in the session of the Council of the International Bank for Economic Cooperation (MBES) and the Council of the International Investment Bank (MIB).

MANAGEMENT OF THE FOREIGN EXCHANGE RESERVES

There were no changes in 1990 in the principles applied in investing the foreign exchange reserves.

However, the related risk management and investment techniques were upgraded and refined. Among other things, the Bank of Finland made greater use of repurchase agreements (repos) in order to protect the reserves from bank risks. Otherwise, the Bank of Finland's convertible reserves were, as before, invested mainly in government securities, foreign currency deposits, gold and special drawing rights in accordance with the highest safety and liquidity requirements. The most important investment currencies were the US dollar, the Deutsche mark, the Japanese yen, the pound sterling, the Dutch guilder and the French franc. The gold reserves remained approximately unchanged.

The main items of the convertible reserves at the end of 1989 and 1990 and changes in the course of the year are shown below:

	FIM million		
	Reserves	Change	Reserves
	Dec. 31, 1989		Dec. 31, 1990
Gold	2 179	1	2 180
Special drawing rights	966	-175	791
IMF reserve tranche	950	-167	783
Convertible currencies, net	18 780	14 671	33 451
Total	22 875	14 330	37 205

COMPILATION OF BALANCE OF PAYMENTS STATISTICS REVISED

Deregulation has brought significant changes in the central bank's monitoring of financial markets. In the compilation of balance of payments statistics, the Bank is increasingly making use of data derived from surveys rather than data collected on the basis of permits. In the same context, the presentation of the balance of payments statistics is being changed so as to better correspond to IMF recommendations.

In the year under review, the necessary revisions were completed with respect to securities trade and direct investment. Securities trade data are no longer broken down into primary and secondary market transactions. As a result, newly issued bonds are now included in portfolio investment rather than loans in balance of payments statistics. Because of the changes made in 1990, data on stocks of direct investment assets and liabilities are now based on companies' financial statements.

Owing to the changes in recording direct investment statistics, Finland's revised net foreign debt for 1989 is FIM 13 billion — 2½ per cent of GDP — higher than previously reported.

For the first time, data were also available on the reinvestment of earnings related to direct investment. As agreed with the Central Statistical Office, this data will be included in the compilation of current account statistics in summer 1991.

MAINTENANCE OF THE CURRENCY SUPPLY

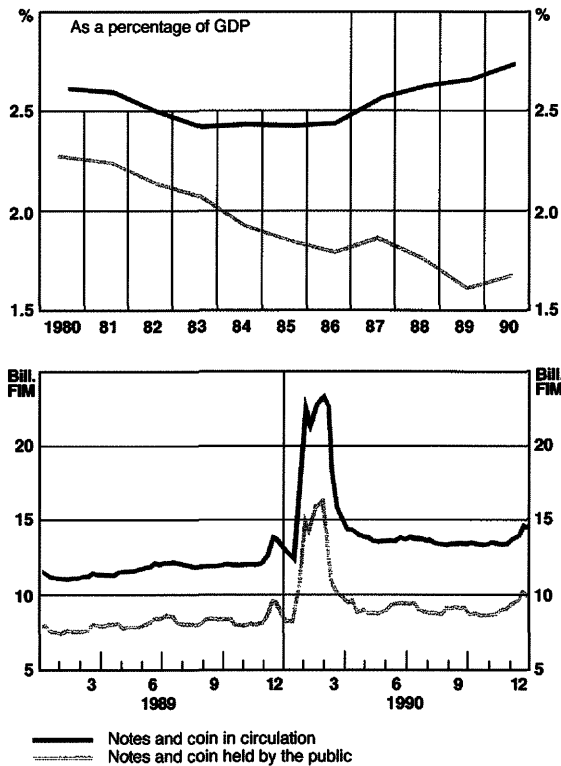
Owing to the industrial dispute in the banking sector, exceptional conditions prevailed for nearly two months with respect to currency circulation. The Bank Employers' Association began a lockout on February 1, 1990, and the Bank Employees' Union went on strike on February 15. The lockout and strike ended on March 4, 1990. During the dispute, the amount of notes and coin in circulation nearly doubled, peaking at FIM 22.4 billion on March 5, 1990 (Chart 21). By May, the amount of currency in circulation had almost returned to its normal level. The task of maintaining the currency supply during the dispute was facilitated by the fact that Postipankki remained outside the dispute.

The first phase of the introduction of a new series of coins began on November 1, 1990, when new 10 and 50 penni coins were put into circulation. The aim is to replace the old 10 and 50 penni coins as quickly as possible so as to minimize the confusion that arises among the public from the use of coins of like denomination but different size. Orders were placed with the mint for 70 million 50 penni and 220 million 10 penni coins. The quantities initially struck were greater than usual, and this will be the case again in 1991. It is estimated that the old coins will be almost completely replaced by new ones within six months.

In the second phase, due to take place in late 1993, the current 1 and 5 markka coins will be replaced and, according to preliminary plans, a new 10 markka coin put into circulation.

The amount of currency in circulation grew somewhat faster than GDP in 1990 (Chart 21). This was due mainly to the increase in cash held in banks' tills, but the amount of currency held by the

Chart 21.
NOTES AND COIN IN CIRCULATION



public also increased slightly. Banks' till-money holdings grew vigorously throughout the 1980s, largely as a result of the rapid increase in the number of cash dispensers and automated teller machines (ATMs) in operation. However, the rate of increase slowed in 1990 when only 200 new machines were put into operation, compared to an annual average of 500 to 600 for the period 1986—1989. Withdrawals from ATMs have increased some 50 per cent annually.

The arrangement whereby the Bank of Finland grants till-money credits to the deposit banks was changed at the end of November so that credit is now extended for a month at a time on the basis of actual till-money holdings in the previous month. In the same context, the base amounts, the part of their till-money holdings which banks must finance themselves, were raised in proportion to the increase in notes and coin held by the public. The aggregate base amount is now FIM 1 234 million. The amount of till-money credits grew by 51 per cent in the course of the year, and the average amount of credit extended daily was FIM 4 276 million.

The automation of banknote handling continued with the installation of new, highly efficient sorting machines in the Turku, Tampere and Kuopio branches; the Oulu branch will receive a new sorting machine in mid-1991. Among other things, the machines offer a very effective means of checking the authenticity of banknotes. However, only a small number of counterfeit notes was detected during the year.

OTHER ACTIVITIES

RESEARCH AND ECONOMIC ANALYSIS

In 1990, research and analysis carried out at the Bank of Finland focused more sharply than before on financial markets analysis supporting the preparation of central bank policy. Emphasis was placed on issues concerning the management of imbalances in the financial and foreign exchange markets, both from the point of view of the central bank's policy instruments and the functioning and stability of the entire financial system. Increased attention was paid to the internationalization and integration of markets. However, a substantial amount of macroeconomic analysis continued to be done on questions concerning the economy and economic policy in general. Studies were also carried out on issues pertaining to saving, payment instruments, taxation of capital income and economic conditions in Eastern Europe.

As in previous years, monetary policy decision-making was based on extensive monitoring and forecasting of developments in the total economy and the financial markets, as well as on estimations of the implications of various alternative scenarios for economic development. The need for considering alternative scenarios was underlined by the unexpected changes that have occurred in the international economy and the presence of major uncertainties.

A study of the Bank of Finland's monitoring and data collection procedures was carried out during the year under review. It provided a basis for clarifying monitoring responsibilities and improving the coordination of data collection. The data and monitoring systems dating from the period of regulation are now being reduced and replaced by systems focusing on market operations and risks.

INFORMATION AND PUBLICATIONS

The use of electronic information systems was further extended and upgraded. The aim is that information on decisions made by the Bank of Finland and other matters affecting the markets be made available simultaneously to all market participants. Electronic information systems were used for the transmission of data on liquidity conditions in the market; daily data on banks' till-money credits were added to the information flow in 1990.

The Bank's monthly English language publication *Bank of Finland Bulletin* as well as the *Yearbook* and *Finnish Bond Issues* were published again in 1990. Six publications appeared in Series A, one in Series B and three in Series D¹. In

¹ A list of Bank of Finland publications in 1990 is included in the Appendices.

addition, 28 papers appeared in the Discussion Papers series, which includes research and analytical work done by the various departments of the Bank.

ADMINISTRATION AND STAFF

Preparations were made in the course of 1990 for the conversion of the Bank of Finland Security Printing House into a limited company. The new company, called Setec Oy, commenced operations at the beginning of 1991. The reorganization did not affect the ownership of the printing house, as the Bank of Finland owns the entire share capital of the new company.

At the beginning of 1991, the Bank severed its ties with the research foundation SITRA (Finnish National Fund for Research and Development), which, since its inception in 1967, has functioned under the auspices of the Bank as a "non-independent" foundation. Henceforth, SITRA will be the responsibility of Parliament and will operate as a foundation within the ambit of the Ministry of Finance. The Parliamentary Bank Supervisors comprise the foundation's supervisory board and, together with the foundation's board of directors and commissioner, handle its administration.

There were no other major administrative or organizational changes in the course of the year. At the end of 1990, staff at the head office numbered 755 and that at the branch offices 187. A total of 53 persons were on leave of absence for various reasons; an equivalent number were employed on fixed-term contracts. The number of persons employed at the head office increased by 51, mainly because of transfers of personnel from the Security Printing House. Branch office staff decreased by 16. The Security Printing House

employed 327 staff, which was 45 less than in 1989; 11 were employed on fixed-term contracts.

In addition to the development of professional skills and expertise, staff training again focused on information technology. Expenditure on training accounted for 3.2 per cent of the Bank's total wage and salary bill.

DATA PROCESSING

In 1990, one of the main areas of emphasis as regards information systems was the development of systems supporting banking operations. The Bank of Finland's systems for obtaining information on international markets and for processing the banks' cheque accounts at the Bank were revamped; implementation of the latter was postponed until 1991. The planning of a system for handling the Bank's market intervention operations was completed; implementation will begin in 1991. In addition, choice criteria and operational standards were specified for the systems used for investing the central bank's foreign exchange reserves.

Part of the revision of the compilation of balance of payments statistics, ie a system for processing replies to the survey on foreign direct investment in Finland, was completed in 1990. A number of new surveys were introduced in connection with the system for monitoring banks.

The medium-term objectives for the publishing systems were made compatible with the current microcomputer system, and the testing of new hardware and software got under way.

In the course of the year, some 140 personal workstations were acquired, bringing the total to nearly 700. The training of Bank staff in information technology required some 900 days.

FINANCIAL STATEMENTS

BALANCE SHEET, FIM

ASSETS

Gold and foreign currency claims (1)				
Gold	2 179 696 424.90		2 179 497 897.31	
Special drawing rights	790 581 329.78		966 387 806.71	
IMF reserve tranche	782 810 125.17		949 501 591.96	
Convertible currencies	33 478 346 774.33		18 821 500 461.08	
Tied currencies	75 235 382.68	37 306 670 036.86	92 492 011.45	23 009 379 768.51
Other foreign claims (1)				
Markka subscription to Finland's quota in the IMF	2 198 316 577.83		2 102 573 520.04	
Term credit	375 824 172.00	2 574 140 749.83	1 197 737 360.00	3 300 310 880.04
Claims on financial institutions (2)				
Call money credits	—		38 162 785.67	
Certificates of deposit	9 410 772 579.49		33 229 760 350.69	
Till-money credits	3 426 520 000.00		3 310 176 000.00	
Bonds	2 115 105 000.00		2 237 915 000.00	
Other claims on financial institutions	237 900 000.00	15 190 297 579.49	237 901 100.00	39 053 915 236.36
Claims on the public sector (3)				
Bonds	83 200.00		7 950 552.00	
Total coinage	1 313 622 764.20	1 313 705 964.20	1 129 130 499.20	1 137 081 051.20
Claims on corporations (4)				
Financing of exports	—		1 481 148.17	
Financing of domestic deliveries (KTR)	1 222 916 303.75		1 696 996 133.50	
Bonds: KTR credits	254 141 463.50		301 644 970.30	
Bonds: Other	8 300 000.00		20 849 999.70	
Other claims on corporations	193 065 193.15	1 678 422 960.40	185 975 269.35	2 206 947 521.02
Other assets (5)				
Accrued items	769 820 377.78		464 292 455.52	
Other assets	130 666 583.86	900 486 961.64	107 179 679.38	571 472 134.90
TOTAL		58 963 724 252.42		69 279 106 592.03

LIABILITIES

Foreign currency liabilities (1)				
Convertible currencies	26 685 708.71		41 576 055.71	
Tied currencies	956 606 469.74	983 292 178.45	655 783 284.66	697 359 340.37
Other foreign liabilities (1)				
IMF markka accounts	2 198 398 487.67		2 102 609 774.38	
Allocations of special drawing rights	739 914 714.30	2 938 313 201.97	757 524 087.20	2 860 133 861.58
Notes and coin in circulation (6)				
Notes	13 398 829 555.00		12 072 975 487.00	
Coin	1 155 954 340.40	14 554 783 895.40	1 056 316 652.00	13 129 292 139.00
Liabilities to financial institutions (7)				
Call money deposits	418 349 943.24		568 989 979.45	
Cash reserve deposits	17 400 529 860.00		25 506 035 002.00	
Capital import deposits	—		190 000 000.00	
Other liabilities to financial institutions	36 310 327.72	17 855 190 130.96	37 977 417.15	26 303 002 398.60
Liabilities to the public sector (8)				
Cheque accounts	816 005.79		87 760.68	
Cash fund deposits	—		3 770 000 000.00	
Counter-cyclical deposits	1 317 137 042.19		1 319 199 138.62	
Export deposits	—		234 936 785.00	
Other liabilities to the public sector	2 946 503.54	1 320 899 551.52	923 526.45	5 325 147 210.75
Liabilities to corporations (9)				
Deposits for investment and ship purchase	9 925 070 331.63		10 227 518 474.87	
Capital import deposits	—	9 925 070 331.63	582 522 901.80	10 810 041 376.67
Other liabilities (10)				
Accrued items	1 718 383 375.12		1 241 198 968.97	
Other liabilities	56 069 750.20	1 774 453 125.32	52 990 872.20	1 294 189 841.17
Valuation account and reserves (11)				
		3 447 604 797.61		2 695 823 384.33
SITRA's capital				
		400 000 000.00		400 000 000.00
Capital accounts (12)				
Primary capital	5 000 000 000.00		5 000 000 000.00	
Reserve fund	764 117 039.56		436 171 721.74	
Net earnings	—	5 764 117 039.56	327 945 317.82	5 764 117 039.56
TOTAL		58 963 724 252.42		69 279 106 592.03

PROFIT AND LOSS ACCOUNT, FIM

INTEREST INCOME				
Domestic (1)				
Call money credits	36 156 399.45		57 595 448.58	
Certificates of deposit	2 716 275 769.53		1 905 018 286.23	
Fixed-term loans	656 175 438.20		27 515 137.03	
Crop failure loans	—		57 897 144.96	
Financing of domestic deliveries (KTR)	160 372 243.68		178 716 605.21	
Bonds	197 345 668.31		197 974 379.83	
Other claims	38 652 329.95	3 804 977 849.12	45 995 144.51	2 470 712 146.35
Foreign (2)				
IMF	123 027 251.78		123 984 699.36	
Securities	1 726 690 427.59		1 474 136 187.47	
Other currency claims	936 409 046.35	2 786 126 725.72	692 054 712.82	2 290 175 599.65
Total interest income		6 591 104 574.84		4 760 887 746.00
INTEREST EXPENSE				
Domestic (3)				
Call money deposits	- 31 677 071.64		- 16 141 966.88	
Certificates of deposit	- 34 433 756.20		- 44 489 192.71	
Term deposits	- 260 367 509.60		—	
Cash reserve deposits	- 2 042 937 258.94		- 1 626 223 706.19	
Forward exchange dealings	- 246 231 166.02		- 3 009 226.24	
Cash fund deposits	- 37 280 821.92		- 46 558 904.11	
Pension fund deposits	- 354 201 612.06		—	
Counter-cyclical deposits	- 79 114 003.43		- 64 715 934.06	
Investment deposits	- 609 094 689.03		- 439 765 714.94	
Capital import deposits	- 27 403 841.25		- 58 162 261.44	
Other liabilities	- 66 173 232.54	- 3 788 914 962.63	- 66 682 269.25	- 2 365 749 175.82
Foreign				
IMF	- 67 044 210.89		- 64 138 869.86	
Other liabilities	- 32 110 473.02	- 99 154 683.91	- 9 378 540.88	- 73 517 410.74
Total interest expense		- 3 888 069 646.54		- 2 439 266 586.56
INTEREST MARGIN (4)		2 703 034 928.30		2 321 621 159.44
OTHER INCOME (5)				
Commissions and fees	5 944 761.50		3 799 575.24	
Other	51 701 889.20	57 646 650.70	144 548 189.83	148 347 765.07
OTHER EXPENSE (6)				
Salaries	- 152 348 781.98		- 134 273 855.83	
Social security costs	- 58 018 389.00		- 54 172 981.86	
Banknote printing	- 45 794 771.04		- 39 536 017.75	
Depreciation	- 71 101 913.95		- 87 459 315.05	
Other expense	- 79 122 854.59	- 406 386 710.56	- 63 550 437.96	- 378 992 608.45
PROFIT BEFORE VALUATION ADJUSTMENTS AND RESERVES		2 354 294 868.44		2 090 976 316.00
Valuation gain/loss on foreign securities (7)		- 239 709 855.44		- 277 956 226.00
Exchange rate gain/loss (8)		- 1 308 245 860.34		- 1 200 154 250.21
Increase in pension reserve (9)		- 400 000 000.00		- 150 000 000.00
Increase in reserves in accordance with § 30 of the Regulations (9)		- 406 339 152.66		- 134 920 522.03
PROFIT FOR THE ACCOUNTING YEAR (10)		—		+ 327 945 317.82

APPENDICES TO THE FINANCIAL STATEMENTS

Note Issue, FIM

Right of note issue	37 306 670 036.86	23 010 387 816.16
Used right of note issue	14 893 667 766.83	13 392 218 071.18
Unused right of note issue	22 413 002 270.03	9 618 169 744.98

Markka/foreign currency forward contracts, FIM (middle rate as of Dec, 31)

Forward purchase contracts	6 123 290 000.00	—
Forward sales contracts	—	202 950 000.00

Foreign currency/foreign currency forward contracts, FIM (middle rate of currency purchased as of Dec, 31)

3 050 319 156.00	—
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Shares and other interests, FIM (nominal value)

Bank for International Settlements	42 385 297.30	43 394 032.97
Helsinki Money Market Center Ltd.	19 500 000.00	10 400 000.00
Real estate shares	2 309 920.00	2 309 920.00
Shares in housing companies	1 122 983.00	401 000.00
Other shares and interests	877 700.00	853 300.00
Total	66 195 900.30	57 358 252.97

Guarantees, FIM

11 942 425.18	15 506 904.02
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Liability arising from pension commitments, million FIM

The Bank of Finland's pension liability	1 500	1 233
—of which covered out of reserves	850	450
Security Printing House pension liability	208	185
Total liabilities	1 708	1 418

The Bank of Finland's real estate

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

Helsinki, February 8, 1991

THE BOARD OF MANAGEMENT OF THE BANK OF FINLAND

Rolf Kullberg,
Chairman

Ele Alenius

Esko Ollila

Markku Puntila

NOTES TO THE FINANCIAL STATEMENTS

General accounting principles applied

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

Foreign currency claims and liabilities have been translated into markkaa at the middle exchange rates as at December 31, 1990. The middle exchange rate is the average of the buying and selling rates quoted by the Bank of Finland. All changes in the value of claims and liabilities resulting from changes in exchange rates have been entered in the profit and loss account under exchange rate gain/loss.

Financial information on the Bank of Finland Security Printing House and SITRA (Finnish National Fund for Research and Development) is not included in the Bank of Finland's financial statements. These organizations publish separate reports on their activities.

Notes to the balance sheet

1 Gold and foreign currency items

As in previous years, gold has been entered at the value of FIM 35/g in the balance sheet. At the end of the year, the Bank's holdings of gold totalled 62 277 kilos, with a market value of FIM 2 820 million.

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

The SDR-denominated reserve tranche and the markka subscription together form Finland's

quota in the IMF. The counterpart of the markka subscription is included in the IMF markka accounts under foreign liabilities. The markka subscription and the corresponding markka accounts are linked to the exchange rate of the special drawing right (SDR) in accordance with the practice applied by the IMF.

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

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

Tied currencies include the balance on the clearing account with Bulgaria. The fixed-term claim corresponds to a special interest-bearing account arrangement agreed with the Bank for Foreign Economic Affairs of the USSR. The value of the loan has been hedged against exchange rate changes by tying it to a basket of convertible currencies. At the beginning of the year, the balance on the account stood at SUR 235 million, of which the Soviet Union repaid SUR 175 million in the course of the year.

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

Tied foreign currency liabilities consist of the balance on the clearing account with the Soviet Union. In 1989, this item also included the balance on the clearing account with the German Democratic Republic.

2 Claims on financial institutions

Call money credits comprise the debit balances on cheque accounts held by banking institutions entitled to central bank financing. At the end of the accounting year, there were no credits outstanding.

Certificates of deposit are market-priced securities issued by banks. They have been valued at acquisition cost. This item also includes interest of FIM 180 million accrued on certificates of deposit.

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

free. The credit facility was modified in November so that till-money credits are now granted for one month at a time on the basis of actual till-money holdings in the previous month.

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

3 Claims on the public sector

Bonds comprise securities issued by the central government and local authorities; they are valued at nominal value.

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

4 Claims on corporations

The export financing arrangement was terminated in 1990.

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

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

5 Other assets

Accrued items are mainly interest receivables. Other assets include FIM 111 million in staff housing loans. The interest rate applied to housing loans is equivalent to the base rate.

6 Notes and coin in circulation

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

7 Liabilities to financial institutions

Call money deposits comprise the credit balances on cheque accounts held by banking institutions entitled to central bank financing. The rate of interest on call money deposits was 4 per cent.

At the end of the year, cash reserve deposits amounted to 7 per cent of the cash reserve base.

According to the new cash reserve agreement concluded between the Bank of Finland and the banks in April, the maximum cash reserve requirement is 8 per cent of the cash reserve base. As from May 1990, the interest rate on cash reserve deposits is equivalent to 3-month HELIBOR less 3 percentage points, not, however, less than 8 per cent; previously the rate was equivalent to the base rate less 0.25 percentage point.

8 Liabilities to the public sector

In 1989, cash fund deposits consisted of cash deposits made by the central government. At the beginning of February 1990, they were transferred to the item 'pension fund deposits'. This balance sheet item also includes pension fund deposits made by municipalities.

The pension fund deposits were progressively run down from the beginning of July. The interest rate on the central government's pension fund deposits was 9.5 per cent and that on the municipalities' pension fund deposits 10 per cent.

Counter-cyclical deposits are deposits collected by provincial tax boards from business enterprises. Interest is paid on the deposits at a rate equivalent to the base rate less 2.5 percentage points.

The item 'export deposits' in the balance sheet for 1989 consisted of deposits collected by the National Board of Customs from exporters of pulp and woodfree printing paper; they were returned in 1990.

9 Liabilities to corporations

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

The item 'capital import deposits' in the balance sheet for 1989 consisted of cash reserve deposits made by companies in respect of short-term capital raised abroad; they were released in 1990.

10 Other liabilities

Accrued items consist mainly of accrued interest payable.

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

11 Valuation account and reserves

This balance sheet item consists of the following items:

	Dec. 31, 1990
	FIM million
Valuation account and reserves proper	2 731
Reserve for covering pension liabilities	850
Valuation differences	-135
Total	3 448

The valuation account and reserves proper include reserves which have been made for the purpose of safeguarding the real value of the capital accounts and for covering the risk associated with claims, liabilities and forward contracts denominated in foreign currency. In the financial statements for 1990, these reserves were increased by FIM 406 million.

In the financial statements for 1990, FIM 400 million was transferred to the reserves to partially cover the Bank's pension liabilities. Thus the pension reserve grew to FIM 850 million. The Bank of Finland's pension liabilities total FIM 1 500 million; 57 per cent of this amount is covered by the reserve.

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

12 Capital accounts

Changes in the capital accounts are shown in the following table:

	Dec. 31, 1990	Dec. 31, 1989	Change
	FIM million		
Primary capital	5 000	5 000	—
Reserve fund	764	436	+328
Net earnings for the accounting year	0	328	-328
Total	5 764	5 764	0

Notes to the profit and loss account

The Bank of Finland's net earnings before transfers to reserves were FIM 806 million; this sum was transferred in full to the reserves.

Domestic interest income grew notably, which was mainly attributable to the increase in interest income on certificates of deposit and term credits.

Domestic interest expense also increased. This was mainly due to the increase in interest paid on cash reserve deposits. Interest paid on the central government's and municipalities' pension fund deposits is a new interest expense item.

The interest margin grew by FIM 381 million.

Net earnings for the accounting year were reduced by valuation and exchange rate losses on foreign securities.

1 Domestic interest income

Domestic interest income increased by FIM 1 334 million on the previous year. The increase was mainly due to the increase in interest income on certificates of deposit and term credits. Interest income on certificates of deposit amounted to FIM 2 716 million, and the average return on the Bank's holdings of certificates of deposit during the year was about 13 per cent. Interest income on term credits totalled FIM 656 million.

2 Foreign interest income

In 1990, foreign interest income amounted to FIM 2 786 million. This represented an increase of FIM 496 million on the previous year.

3 Domestic interest expense

Interest expense on domestic liabilities grew by FIM 1 423 million. Interest paid on cash reserve deposits was FIM 417 million higher than in 1989. Interest paid on term deposits amounted to FIM 260 million. Interest paid on the central government's and municipalities' pension funds totalled FIM 354 million; this was a new item.

4 Interest margin

The interest margin amounted to FIM 2 703 million.

5 Other income

Other income totalled FIM 57 million. The item includes FIM 34 million in rental income and FIM 6 million in dividends from the Bank for International Settlements.

6 Other expense

Social security costs include FIM 47 million in pension payments.

In keeping with the Regulations for the Bank of Finland, fixed assets and long-term expenditure are entered as expense under depreciation in the year they were incurred to the Bank. Thus depreciation includes all acquisitions of fixed assets and other long-term expenses for the accounting year. Of depreciation, FIM 19 million was for buildings, FIM 37 million for machinery and equipment and FIM 9 million for an increase in the share capital of Helsinki Money Market Center Ltd.

7 Valuation gain/loss on foreign securities

Valuation gain/loss on foreign securities includes exchange rate gains and losses realized on sales of securities and differences between the lower of acquisition cost and market value of securities in the portfolio. If the foreign securities portfolio had been valued at the market values as of December 31, 1990, exchange rate losses on securities would have amounted to FIM 72 million.

8 Exchange rate gain/loss

Exchange rate gain/loss includes all net changes in the value of claims and liabilities resulting from exchange rate changes as well as net earnings from foreign exchange dealings. The Bank recorded an exchange rate loss of FIM 1 308 million. This was mainly due to the fall in the value of the US dollar, which is the key reserve currency.

9 Changes in reserves

In order to safeguard the real value of the capital accounts, the Bank appropriated FIM 406 million to its reserves, in accordance with § 30 of the Regulations for the Bank of Finland. FIM 400 million was appropriated to reserves to cover pension liabilities.

10 Profit for the accounting year

The profit for the accounting year completely covered the appropriations to reserves.

AUDITORS' REPORT

We, the Auditors elected by Parliament, have audited the accounts, including the financial statements, and the management of the Bank of Finland for 1990 on February 11–14, 1991 to the extent required by good auditing practice.

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

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

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

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

Helsinki, February 14, 1991

AUDITORS OF THE BANK OF FINLAND

Markus Aaltonen

Pentti Kettunen

Kalevi Mattila

Esko Seppänen

Ben Zyskowicz

./ . Kalervo Virtanen
Authorized Public Accountant

APPENDICES

MONETARY AND FOREIGN EXCHANGE POLICY MEASURES IN 1990

January

Prime rates

The Bank of Finland complemented its recommendations to banks on reference rates by permitting them to apply their own prime rates in all lending and deposit-taking with effect from January 1, 1990.

Money market operations

As from January 1, 1990, only CDs issued by banks which meet the following requirements were accepted for use in money market dealings: the bank's capital exceeds the minimum amount set annually by the Bank of Finland, the bank meets the minimum capital adequacy requirements set by the BIS and operates as market maker in the CD market. These banks may at the same time act as the Bank of Finland's market counterparties and may be granted access to call money credit. As a rule, a one-year transition was to be applied in the introduction of the new requirements for banks which were already entitled to call money credit and in whose CDs the Bank of Finland already dealt.

Cash reserve requirement

The Bank of Finland adjusted the cash reserve requirement for certain banks. Together with the current 8 per cent ratio, the banks' average deposit requirement remained at about 9.1 per cent of the cash reserve base in December.

The collection of additional deposits under the supplementary cash reserve agreement was to be discontinued if bank lending did not accelerate sharply in January-February 1990. The non-interest-bearing additional deposits collected on the basis of the lending growth figures at the end of December 1989 were to remain at the Bank of Finland and be refunded at the latest in July-December 1990 in six equal instalments at the end of each month.

February

Exchange control

The Bank of Finland allowed the sale abroad of new markka-denominated bonds of over one year's maturity with effect from February 1, 1990, with the exception of bonds issued by housing companies and real estate companies. The ban on cross-border sales remained in force for bonds issued prior to that date. Effective the same date, nonresidents were allowed to issue markka-denominated bonds in Finland.

As from the beginning of February, the Bank of Finland exempted Finnish companies' share issues abroad from the requirement of prior authorization. As from that date, the Bank of Finland no longer required quotation by the Helsinki Stock Exchange or the OTC market as a condition for the issue of foreign securities in Finland. Similarly, it was no longer necessary for nonresidents to effect their purchases of Finnish securities through the Helsinki Stock Exchange or the OTC market.

March	<p>Exchange control</p> <p>The Bank of Finland decided that, with effect from March 1, finance companies could, upon application, be granted the right to act as an intermediary in foreign loan transactions and raise foreign loans on their own account within the limits set by their foreign exchange positions. Previously, only deposit banks had been accorded this right.</p>
April	<p>Cash reserve agreement</p> <p>The Bank of Finland and the deposit banks signed a new cash reserve agreement. Under the agreement, the cash reserve base comprises the domestic deposits of the public and the rate of interest payable on cash reserve deposits is three-month HELIBOR less 3 percentage points, not, however, less than 8 per cent. The new cash reserve base was applied for the first time to the cash reserve base in April and interest was paid at the new rate from May 1.</p>
May	<p>Cash reserve requirement</p> <p>The deposit requirement corresponding to the new cash reserve agreement was 8 per cent of the cash reserve base in April.</p>
July	<p>Exchange control</p> <p>As from July 1, the Bank of Finland permitted private persons to make foreign investments and to grant loans of over one year's maturity to nonresidents. The measure also applied to corporate entities, such as housing and real estate companies, considered comparable to private persons. Also from July 1, municipalities were permitted to invest abroad, grant loans of over one year's maturity to nonresidents and raise foreign loans of over one year's maturity for financing their own operations.</p> <p>The Bank of Finland further decided to increase financial institutions' opportunities to raise foreign loans on their own account, to act as an intermediary in foreign loan transactions and to engage in foreign operations.</p> <p>Central government cash fund deposits</p> <p>The Ministry of Finance decided to authorize the State Treasury to withdraw central government cash funds totalling FIM 5 020 million held as pension fund deposits at the Bank of Finland as from July 9. The funds were to be withdrawn in weekly instalments by the end of 1990.</p> <p>Investment reserves</p> <p>On July 12, Government decided to allow companies to use investment reserves set up by them in respect of profits for the period 1985–1987 as from January 1, 1991. The released reserves are to be used by the end of 1992.</p>
September	<p>Exchange control</p> <p>The Bank of Finland decided to allow the sale to nonresidents of derivative instruments based on Finnish shares and warrants carrying the right to purchase restricted shares with effect from September 1.</p>

The decision applied to all standardized and unstandardized options and futures based on Finnish shares and other contracts of a similiar nature.

November

Export deposits

The Government decided to release deposits levied on pulp and woodfree printing paper exports, with accrued interest, by the end of November.

December

Cash reserve requirement

The Bank of Finland decided to lower the banks' cash reserve requirement from 8.0 per cent to 7.0 per cent by the end of the year. The reduction was implemented in the form of weekly cuts of 0.2 percentage point, starting from November 30.

The following decisions took effect as from the beginning of 1991:

Exchange control

The Bank of Finland rescinded the remaining exchange controls, except those on the raising of loans abroad by private persons and comparable corporate entities.

Money market operations

As from the beginning of the year, repurchase agreements (repos) were introduced in money market dealings between the Bank of Finland and the banks. The new type of transaction complements the previous system of central bank financing, which was largely based on outright CD deals.

Termination of the clearing system

The special provisions in the Bank of Finland's Foreign Exchange Regulations concerning payments and financing in trade with the Soviet Union were cancelled as from the beginning of 1991. Henceforth, all payments in respect of trade in goods and services between Finland and the Soviet Union will be effected in convertible currencies.

MAIN STATEMENTS ISSUED BY THE BANK OF FINLAND IN 1990

Statements concerning the development of financial markets

- Statement on the second preliminary report of the securities trade committee, February 27.
- Statement on the memorandum of the working group on foreign exchange legislation, March 9.
- Statement on the memorandum of the working group on foreign bank branches, March 21.
- Statement on the first part of the report of the Central Share Register of Finland Co-Operative on the book entry system for securities, April 10.
- Statement on the report of the committee on the taxation at source of interest income, May 3.
- Statement on the memorandum of the working group on the taxation of transfers of assets, June 4.
- Statement on the memorandum of the 1990 indexation committee, June 25.
- Statement on the memorandum of the working group on the Unit Trust Act, October 10.

Statements concerning the development of the supervision of the financial system

- Statement on the more detailed instructions issued by the Banking Supervision Office concerning the intermediation of clients' funds as loans to other clients, August 10.
- Statement on the new regulations issued by the Banking Supervision Office on banks' book-keeping and financial reporting, November 14.
- Statement on the proposal by the Banking Supervision Office on rules for the consolidated financial reporting of banks and other credit institutions, December 3.

Statements concerning interest subsidies

- Statement on the confirmation of certain sums referred to in the Act on Financial Assistance to Students, March 16.
- Statement in response to a request by the Ministry of Finance for an opinion on the raising of interest rates applied by deposit banks to housing loans, April 9.
- Statement on the commissioner's report concerning the reform of the system for financial assistance to students, December 18.

Other statements

- Statement given to the Ministry of Finance with regard to a written question by Mr Ingvar S. Melin, MP, concerning the linking of the markka to the EMS currencies, January 23.
- Statement on the draft document of the Bonn Conference on Economic Cooperation in Europe (CSCE), held from March 19 to April 11, February 21.
- Statement on the memorandum of the committee on the reform of constitutional law concerning state finances, July 12.
- Statement on the OECD working programme for 1991, July 13.

TABLES

Discrepancies between constituent figures and totals are due to rounding.

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

Table 1.

THE MONTHLY BALANCE SHEET OF THE BANK OF FINLAND
IN 1990, MILLION FIM

ASSETS

Gold and foreign currency claims	30 340	30 436	33 760
Gold	2 179	2 179	2 180
Special drawing rights	900	846	791
IMF reserve tranche	954	913	910
Convertible currencies	26 196	26 379	29 751
Tied currencies	112	118	128
Other foreign claims	3 267	3 307	3 144
Markka subscription to Finland's quota in the IMF	2 087	2 126	2 126
Term credit	1 180	1 181	1 018
Claims on financial institutions	49 508	56 811	36 245
Call money credits	52	6	704
Certificates of deposit	25 780	14 735	22 422
Term credits	12 980	31 825	6 531
Till-money credits	8 099	7 677	4 002
Bonds	2 360	2 330	2 347
Other claims on financial institutions	238	238	238
Claims on the public sector	1 168	1 185	1 203
Bonds	7	7	7
Total coinage	1 161	1 178	1 196
Claims on corporations	2 157	2 126	2 058
Financing of exports	1	1	1
Financing of domestic deliveries (KTR)	1 654	1 623	1 566
Bonds: KTR credits	295	295	290
Bonds: Other	21	21	17
Other claims on corporations	186	186	185
Other assets	103	105	109
Accrued items	—	—	—
Other assets	103	105	109
TOTAL	86 543	93 969	76 520

34 060	34 935	34 649	35 353	35 708	36 298	37 097	37 851	37 307
2 180	2 180	2 180	2 180	2 180	2 180	2 180	2 180	2 180
779	796	778	771	780	790	792	783	791
899	902	865	858	813	823	825	774	783
30 075	30 913	30 583	31 305	31 829	32 412	33 214	34 035	33 478
126	144	243	240	106	93	86	79	75
2 828	2 781	2 814	2 805	2 530	2 533	2 530	2 572	2 574
2 129	2 080	2 115	2 115	2 154	2 154	2 154	2 197	2 198
699	702	700	690	377	379	377	375	376
32 163	29 686	28 623	26 275	24 769	23 349	20 576	18 371	15 190
1 009	11	3	10	14	14	15	—	—
24 818	23 498	22 911	20 057	19 123	17 754	14 501	12 709	9 411
—	—	—	—	—	—	—	—	—
3 770	3 627	3 207	3 752	3 196	3 186	3 695	3 307	3 427
2 329	2 312	2 263	2 218	2 198	2 156	2 128	2 116	2 115
238	238	238	238	238	238	238	238	238
1 217	1 229	1 285	1 266	1 281	1 358	1 329	1 322	1 314
8	11	25	7	7	28	0	0	0
1 209	1 218	1 259	1 259	1 274	1 330	1 329	1 322	1 314
2 022	1 973	1 916	1 871	1 838	1 791	1 751	1 728	1 678
0	0	0	0	0	0	0	—	—
1 521	1 477	1 428	1 390	1 360	1 320	1 283	1 265	1 223
288	284	278	272	272	268	265	261	254
17	17	15	15	11	10	10	8	8
195	195	195	195	195	194	193	193	193
111	113	112	114	115	113	116	117	900
—	—	—	—	—	—	—	—	770
111	113	112	114	115	113	116	117	131
72 401	70 717	69 399	67 684	66 242	65 441	63 400	61 961	58 964

Table 1., cont.

LIABILITIES

Foreign currency liabilities	713	519	1 156
Convertible currencies	17	90	66
Tied currencies	696	429	1 090
Other foreign liabilities	2 835	2 874	2 871
IMF markka accounts	2 087	2 126	2 126
Allocations of special drawing rights	748	748	745
Notes and coin in circulation	22 760	23 179	14 782
Notes	21 672	22 055	13 681
Coin	1 088	1 123	1 101
Certificates of deposit	—	—	1 050
Liabilities to financial institutions	33 667	40 471	29 620
Call money deposits	3 295	1 373	8
Term deposits	4 710	12 840	2 959
Cash reserve deposits	25 441	26 068	26 465
Capital import deposits	180	150	150
Other liabilities to financial institutions	41	40	38
Liabilities to the public sector	6 384	6 523	6 655
Cheque accounts	0	0	0
Cash fund deposits	4 525	—	—
Pension fund deposits	285	4 932	5 053
Counter-cyclical deposits	1 319	1 319	1 319
Export deposits	251	268	280
Other liabilities to the public sector	4	4	3
Liabilities to corporations	10 661	10 667	10 617
Deposits for investment and ship purchase	10 104	10 115	10 129
Capital import deposits	556	552	488
Other liabilities	70	59	60
Accrued items	—	—	—
Other liabilities	70	59	60
Valuation account and reserves	3 290	3 514	3 544
SITRA's capital	400	400	400
Capital accounts	5 764	5 764	5 764
Primary capital	5 000	5 000	5 000
Reserve fund	764	764	764
Net earnings	—	—	—
TOTAL	86 543	93 969	76 520

1 087	1 345	1 341	967	820	1 178	1 132	1 361	983
41	38	33	33	30	26	23	20	27
1 046	1 307	1 308	934	790	1 152	1 108	1 342	957
2 868	2 820	2 854	2 848	2 882	2 891	2 893	2 929	2 938
2 129	2 080	2 115	2 115	2 154	2 154	2 154	2 197	2 198
739	741	739	733	728	737	739	732	740
13 762	13 501	13 655	13 592	13 314	13 418	13 392	13 467	14 555
12 661	12 405	12 551	12 484	12 196	12 300	12 265	12 336	13 399
1 101	1 096	1 104	1 108	1 118	1 118	1 127	1 131	1 156
690	630	40	40	40	—	—	—	—
26 415	24 067	23 424	23 214	22 842	21 973	21 160	21 655	17 855
154	1 019	483	495	801	541	251	1 746	418
—	—	—	—	—	—	—	—	—
26 069	22 855	22 750	22 679	21 999	21 395	20 877	19 878	17 401
150	150	150	—	—	—	—	—	—
43	43	41	40	42	37	32	30	36
6 950	7 205	7 205	6 635	5 685	4 925	3 970	1 832	1 321
0	1	1	1	0	0	1	0	1
—	—	—	—	—	—	—	—	—
5 338	5 591	5 591	5 021	4 071	3 311	2 356	511	—
1 319	1 319	1 319	1 319	1 318	1 318	1 318	1 318	1 317
291	292	292	292	292	292	292	—	—
2	3	2	2	3	4	4	3	3
10 692	10 600	10 436	10 375	10 465	10 439	10 105	10 003	9 925
10 227	10 121	10 436	10 375	10 465	10 439	10 105	10 003	9 925
465	479	—	—	—	—	—	—	—
61	58	63	58	55	60	59	59	1 774
—	—	—	—	—	—	—	—	1 718
61	58	63	58	55	60	59	59	56
3 711	4 327	4 218	3 791	3 975	4 393	4 525	4 491	3 448
400	400	400	400	400	400	400	400	400
5 764	5 764	5 764	5 764	5 764	5 764	5 764	5 764	5 764
5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000
764	764	764	764	764	764	764	764	764
—	—	—	—	—	—	—	—	—
72 401	70 717	69 399	67 684	66 242	65 441	63 400	61 961	58 964

Table 2.

CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES, MILLION FIM

	1986	1987	1988	1989	1990
Gold	2 081	2 128	2 128	2 179	2 180
Special drawing rights	983	899	1 120	966	791
IMF reserve tranche	794	793	940	950	783
Convertible currencies					
Claims	6 795	23 634	24 492	18 822	33 478
Liabilities	- 17	- 63	- 119	- 42	- 27
Convertible foreign exchange reserves	10 636	27 391	28 561	22 875	37 205
Tied currencies					
Claims	3 435	1 284	1 073	92	75
Liabilities	- 14	- 72	- 128	- 656	- 957
Tied foreign exchange reserves	3 421	1 213	945	- 563	- 881

Table 3.

WEIGHTS OF THE BANK OF FINLAND'S CURRENCY INDEX

	USD	GBP	SEK	NOK	DKK	DEM	NLG	BEF	CHF	FRF	ITL	ATS	ESP	JPY	Total
4.1.1988	7.6	13.0	20.9	5.1	5.1	19.9	4.9	3.1	2.8	6.9	4.8	.	.	5.9	100.0
24.3.1988	7.6	13.2	20.8	5.1	5.0	20.1	4.9	3.1	2.7	6.8	4.8	.	.	5.9	100.0
12.8.1988	7.7	13.4	20.6	4.9	5.0	19.9	4.9	3.2	2.7	6.8	4.9	.	.	6.0	100.0
13.9.1988	7.8	13.4	20.6	4.9	5.0	19.9	4.9	3.2	2.7	6.7	4.9	.	.	6.0	100.0
5.12.1988	7.9	13.5	20.6	4.8	4.9	19.8	4.9	3.2	2.7	6.7	4.9	.	.	6.1	100.0
2.1.1989	7.8	13.8	20.0	4.7	4.8	20.1	4.9	3.2	2.7	6.8	5.0	.	.	6.2	100.0
16.3.1989	7.7	13.4	19.3	4.5	4.6	19.3	4.7	3.1	2.6	6.6	4.9	1.6	1.8	6.0	100.0
30.6.1989	7.8	13.4	19.3	4.4	4.6	19.4	4.7	3.1	2.5	6.5	4.9	1.6	1.8	6.0	100.0
7.9.1989	8.1	13.4	19.1	4.3	4.5	19.3	4.8	3.1	2.5	6.5	4.9	1.6	1.8	6.1	100.0
7.12.1989	8.0	13.2	19.1	4.3	4.5	19.4	4.8	3.1	2.5	6.6	5.0	1.6	1.8	6.1	100.0
2.1.1990	8.4	13.6	19.1	3.8	4.4	19.1	4.8	3.1	2.4	6.5	5.0	1.6	1.9	6.3	100.0
28.3.1990	8.5	13.3	19.1	3.8	4.4	19.1	4.8	3.2	2.4	6.6	5.0	1.6	1.9	6.3	100.0
6.7.1990	8.8	13.1	19.0	3.8	4.4	19.0	4.8	3.1	2.4	6.7	5.1	1.6	2.0	6.2	100.0
8.10.1990	8.7	12.9	19.0	4.0	4.5	19.1	4.8	3.1	2.4	6.8	5.1	1.6	2.0	6.0	100.0

Table 4.

**THE BANK OF FINLAND'S
CURRENCY INDEX, 1982 = 100**

	Daily averages
1986	104.0
1987	103.3
1988	102.0
1989	98.4
1990	97.3
1990	
January	97.2
February	97.1
March	97.0
April	97.0
May	96.9
June	97.2
July	97.1
August	97.0
September	97.3
October	97.7
November	97.7
December	97.9

Table 5.

**BANKS' CALL MONEY POSITION¹
AT THE BANK OF FINLAND,
MILLION FIM**

	Call money deposits	Call money credits	Call money deposits, net
1988	621	128	493
1989	417	370	47
1990	806	132	674
1990			
January	1 178	371	807
February	1 036	298	739
March	1 863	127	1 736
April	528	184	344
May	656	145	511
June	532	99	433
July	571	4	567
August	654	43	611
September	614	20	593
October	1 007	18	989
November	377	126	250
December	656	146	510

¹Daily averages

Table 6.

**RATES OF INTEREST APPLIED
BY THE BANK OF FINLAND**

Effective	Base rate ¹	Bank of Finland lending rates	
		Minimum	Maximum
1.2.1980	9 ¹ / ₄	7 ¹ / ₂	10 ¹ / ₂
1.6.1982	8 ¹ / ₂	6	11
1.7.1983	9 ¹ / ₂	7	12
1.2.1985	9	6 ¹ / ₂	11 ¹ / ₂
1.1.1986	8 ¹ / ₂	6	11
1.3.1986	8	5 ¹ / ₂	10 ¹ / ₂
19.5.1986	7	4 ¹ / ₂	9 ¹ / ₂
16.5.1988	8	5 ¹ / ₂	10 ¹ / ₂
1.1.1989	7 ¹ / ₂	5	10
1.11.1989	8 ¹ / ₂	6	11

¹The base rate is decided by the Parliamentary Supervisory Board on the proposal of the Board of Management.

Table 7.

**THE BANK OF FINLAND'S CALL
MONEY RATES**

Effective	Call money credit rate		Call money deposit rate
	Ordinary rate of interest	Penalty rate of interest	
1.12.1986	11.8	.	9.0
2.12.1986	11.9	.	9.0
9.12.1986	12.0	.	9.0
26.1.1987	11.9	.	9.0
2.2.1987	11.8	.	9.0
13.2.1987	11.7	.	8.5
20.2.1987	11.6	.	8.0
24.2.1987	11.6	19.0	8.0
5.3.1987	11.5	19.0	7.5
17.3.1987	11.4	19.0	7.5
2.4.1987	11.2	19.0	7.5
29.4.1987	11.0	19.0	7.5
6.10.1988	13.0	<u>19.0</u>	4.0
16.6.1989	15.0	.	4.0
6.11.1989	15.0	30.0	4.0

Table 8.

DOMESTIC INTEREST RATES ¹

	HELIBOR, %						Long-term market rate, %	
	1-month	2-month	3-month	6-month	9-month	12-month	3-year	5-year
1987	9.90	9.95	10.02	10.14	10.29	10.40	.	.
1988	9.77	9.87	9.97	10.16	10.35	10.50	10.7	10.8
1989	12.32	12.45	12.53	12.61	12.67	12.72	12.2	12.0
1990	13.63	13.82	13.99	14.16	14.28	14.39	13.7	13.5
January	16.01	16.05	16.05	15.73	15.48	15.45	13.5	13.0
February	16.01	16.04	16.01	15.73	15.44	15.39	13.5	13.0
March	15.08	15.27	15.38	15.40	15.36	15.37	13.8	13.4
April	13.16	13.48	13.94	14.33	14.56	14.70	13.8	13.5
May	12.25	12.52	12.77	13.17	13.47	13.74	13.8	13.7
June	12.07	12.28	12.52	13.17	13.54	13.79	13.8	13.7
July	11.69	12.10	12.45	13.01	13.38	13.63	13.8	13.7
August	12.03	12.28	12.51	12.94	13.29	13.52	13.7	13.7
September	12.59	12.88	13.09	13.46	13.74	13.93	13.7	13.6
October	13.97	14.20	14.41	14.57	14.66	14.72	14.0	13.9
November	14.48	14.50	14.53	14.40	14.39	14.38	13.9	13.8
December	14.40	14.34	14.30	14.08	14.03	14.02	13.5	13.4

¹ Daily averages

Table 9.

THE BANK OF FINLAND'S MONEY MARKET OPERATIONS, MILLION FIM

	Purchases of money market instruments	Sales of money market instruments	Matured transactions, net	Money market operations, net
1988	+ 13 840	- 19 190	+ 16 850	+ 11 500
1989	+ 131 110	- 3 855	- 99 245	+ 28 010
1990	+ 163 326	- 26 379	- 160 797	- 23 850
January	+ 18 660	- 4 710	- 13 630	+ 320
February	+ 31 775	- 14 350	- 18 650	- 1 225
March	+ 24 811	- 4 739	- 27 435	- 7 363
April	+ 16 470	- 150	- 17 452	- 1 132
May	+ 15 510	- 1 610	- 15 130	- 1 230
June	+ 15 310	- 250	- 14 220	+ 840
July	+ 7 290	—	- 10 970	- 3 680
August	+ 10 230	- 20	- 11 440	- 1 230
September	+ 11 110	- 100	- 11 340	- 330
October	+ 4 850	- 50	- 8 340	- 3 540
November	+ 4 160	- 50	- 5 940	- 1 830
December	+ 3 150	- 350	- 6 250	- 3 450

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

Table 10.

THE BANK OF FINLAND'S SPOT TRANSACTIONS ¹, MILLION FIM

	Purchases of foreign exchange (+)	Sales of foreign exchange (-)	Spot transactions, net
1988	+ 6 372	- 5 776	+ 596
1989	+ 4 825	- 7 473	- 2 648
1990	+13 460	- 3 540	+ 9 920
January	+ 7 820	—	+ 7 820
February	+ 480	—	+ 480
March	+ 1 730	—	+ 1 730
April	+ 2 480	—	+ 2 480
May	+ 510	—	+ 510
June	—	- 320	- 320
July	+ 120	—	+ 120
August	—	—	—
September	+ 320	- 880	- 560
October	—	—	—
November	—	—	—
December	—	- 2 340	- 2 340

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

Table 11.

THE BANK OF FINLAND'S FORWARD TRANSACTIONS ^{1, 2}, MILLION FIM

	Forward sales of foreign exchange (+)	Matured forward sales	Forward purchases of foreign exchange (-)	Matured forward purchases	Forward transactions, net
1988	+ 377	- 103	- 2 705	+ 2 980	+ 549
1989	—	- 337	- 394	+ 1 509	+ 778
1990	—	- 200	- 29 900	+ 23 950	- 6 150
January	—	—	- 280	—	- 280
February	—	- 200	- 1 700	+ 280	- 1 620
March	—	—	- 2 330	+ 1 710	- 620
April	—	—	- 3 600	+ 450	- 3 150
May	—	—	- 4 030	+ 1 170	- 2 860
June	—	—	- 2 090	+ 2 260	+ 170
July	—	—	- 2 450	+ 2 580	+ 130
August	—	—	- 3 290	+ 3 610	+ 320
September	—	—	- 1 640	+ 2 490	+ 850
October	—	—	- 2 270	+ 2 590	+ 320
November	—	—	- 4 320	+ 4 500	+ 180
December	—	—	- 1 900	+ 2 310	+ 410

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

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

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

Table 12.

FOREIGN EXCHANGE RATES: SPOT SELLING RATES IN 1985-1990, FIM

Currency	1985			1986			1987		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	7.132	6.206	5.425	5.467	5.078	4.802	4.793	4.404	3.954
1 CAD, Montreal	5.129	4.554	3.889	3.914	3.659	3.484	3.501	3.325	3.044
1 GBP, London	8.501	8.000	7.424	7.916	7.459	6.927	7.425	7.213	6.911
1 IEP, Dublin	6.763	6.590	6.435	7.090	6.816	6.593	6.730	6.556	6.464
1 SEK, Stockholm	0.7385	0.7222	0.7135	0.7261	0.7138	0.7045	0.7067	0.6952	0.6789
1 NOK, Oslo	0.7285	0.7231	0.7150	0.7290	0.6882	0.6501	0.6666	0.6547	0.6332
1 DKK, Copenhagen	0.6060	0.5871	0.5745	0.6572	0.6290	0.6005	0.6665	0.6444	0.6258
1 ISK, Reykjavik	0.1730	0.1520	0.1305	0.1323	0.1259	0.1213	0.1216	0.1163	0.1127
1 DEM, Frankfurt a.M.	2.2090	2.1142	2.0635	2.4814	2.3454	2.2055	2.5267	2.4514	2.4048
1 NLG, Amsterdam	1.9620	1.8745	1.8195	2.1953	2.0789	1.9585	2.2401	2.1755	2.1375
1 BEF, Brussels	0.10820	0.10483	0.10250	0.11930	0.11399	0.10780	0.12190	0.11806	0.11590
1 CHF, Zurich	2.6540	2.5360	2.4240	3.0081	2.8349	2.6025	3.0956	2.9563	2.8862
1 FRF, Paris	0.7215	0.6940	0.6760	0.7589	0.7355	0.7010	0.7583	0.7345	0.7239
1 ITL, Rome	0.00344	0.00327	0.00315	0.00359	0.00343	0.00322	0.00356	0.00341	0.00333
1 ATS, Vienna	0.3145	0.3012	0.2940	0.3546	0.3339	0.3140	0.3593	0.3488	0.3420
1 PTE, Lisbon	0.0393	0.0367	0.0342	0.0355	0.0343	0.0331	0.0332	0.0315	0.0304
1 ESP, Madrid	0.0382	0.0366	0.0351	0.0373	0.0364	0.0353	0.0377	0.0358	0.0348
1 JPY, Tokyo	0.02770	0.02610	0.02490	0.03258	0.03028	0.02675	0.03248	0.03050	0.02945
1 AUD, Melbourne	..	..	..	..	..	..	3.259	3.106	2.810
1 SUR, Moscow, clearing	7.773	7.419	7.140	7.367	7.228	7.040	7.186	6.965	6.792
1 special drawing right (SDR)	6.75940	6.27879	5.93241	6.10906	5.94432	5.79542	5.86330	5.68010	5.54077
1 ECU	..	..	..	..	..	..	5.198	5.075	4.995

Currency	1988			1989			1990		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.528	4.191	3.930	4.560	4.295	4.020	4.097	3.831	3.540
1 CAD, Montreal	3.727	3.412	3.030	3.806	3.632	3.476	3.533	3.287	3.044
1 GBP, London	7.668	7.466	7.228	7.605	7.051	6.524	7.221	6.827	6.452
1 IEP, Dublin	6.589	6.397	6.279	6.322	6.104	5.958	6.474	6.347	6.221
1 SEK, Stockholm	0.6941	0.6848	0.6752	0.6839	0.6673	0.6530	0.6565	0.6479	0.6389
1 NOK, Oslo	0.6591	0.6444	0.6284	0.6428	0.6234	0.6148	0.6194	0.6130	0.6099
1 DKK, Copenhagen	0.6443	0.6235	0.6072	0.6158	0.5886	0.5716	0.6313	0.6197	0.6081
1 ISK, Reykjavik	0.1156	0.1006	0.0924	0.0923	0.0782	0.0686	0.0694	0.0681	0.0671
1 DEM, Frankfurt a.M.	2.4845	2.3895	2.3441	2.3969	2.2879	2.2252	2.4332	2.3721	2.3393
1 NLG, Amsterdam	2.2073	2.1233	2.0768	2.1219	2.0281	1.9745	2.1569	2.1053	2.0750
1 BEF, Brussels	0.11870	0.11420	0.11190	0.1141	0.1092	0.1064	0.1176	0.1148	0.1124
1 CHF, Zurich	3.0641	2.8700	2.7688	2.7746	2.6306	2.4843	2.9010	2.7635	2.6025
1 FRF, Paris	0.7354	0.7060	0.6882	0.7029	0.6757	0.6587	0.7165	0.7054	0.6942
1 ITL, Rome	0.00337	0.00324	0.00318	0.00322	0.00315	0.00307	0.00326	0.00321	0.00316
1 ATS, Vienna	0.3529	0.3401	0.3338	0.3411	0.3254	0.3163	0.3462	0.3374	0.3326
1 PTE, Lisbon	0.0303	0.0294	0.0286	0.0287	0.0276	0.0270	0.0277	0.0271	0.0268
1 ESP, Madrid	0.0369	0.0361	0.0356	0.0377	0.0364	0.0346	0.0387	0.0377	0.0364
1 JPY, Tokyo	0.03392	0.03273	0.03126	0.03402	0.03122	0.02831	0.02879	0.02654	0.02473
1 AUD, Melbourne	3.703	3.309	2.851	3.879	3.423	3.190	3.232	3.011	2.722
1 SUR, Moscow, clearing	7.132	6.891	6.734	6.988	6.817	6.656	6.706	6.553	6.426
1 special drawing right (SDR)	5.79563	5.61826	5.50705	5.68080	5.49375	5.30888	5.34498	5.18345	5.07250
1 ECU	5.116	4.954	4.868	4.879	4.731	4.625	4.974	4.875	4.789

Table 13.

FOREIGN EXCHANGE RATES: MONTHLY SPOT SELLING RATES IN 1990, FIM

Currency	January			February			March		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.097	4.010	3.954	3.987	3.960	3.935	4.055	4.030	4.008
1 CAD, Montreal	3.533	3.431	3.332	3.351	3.315	3.287	3.452	3.416	3.371
1 GBP, London	6.688	6.632	6.572	6.773	6.724	6.682	6.722	6.561	6.452
1 IEP, Dublin	6.334	6.270	6.221	6.293	6.277	6.263	6.345	6.308	6.262
1 SEK, Stockholm	0.6555	0.6508	0.6473	0.6522	0.6482	0.6459	0.6565	0.6548	0.6519
1 NOK, Oslo	0.6166	0.6139	0.6117	0.6140	0.6129	0.6123	0.6131	0.6125	0.6121
1 DKK, Copenhagen	0.6170	0.6117	0.6081	0.6145	0.6128	0.6108	0.6206	0.6177	0.6117
1 ISK, Reykjavik	0.0689	0.0684	0.0681	0.0694	0.0684	0.0682	0.0684	0.0682	0.0681
1 DEM, Frankfurt a.M.	2.4002	2.3708	2.3550	2.3731	2.3635	2.3541	2.3783	2.3648	2.3464
1 NLG, Amsterdam	2.1246	2.1018	2.0883	2.1028	2.0966	2.0894	2.1113	2.1001	2.0842
1 BEF, Brussels	0.11420	0.11317	0.11240	0.11340	0.11322	0.11290	0.11460	0.11399	0.11300
1 CHF, Zurich	2.6794	2.6457	2.6025	2.6873	2.6625	2.6456	2.6832	2.6677	2.6530
1 FRF, Paris	0.7039	0.6980	0.6942	0.6990	0.6975	0.6951	0.7057	0.7021	0.6963
1 ITL, Rome	0.00321	0.00319	0.00318	0.00321	0.00320	0.00319	0.00323	0.00322	0.00320
1 ATS, Vienna	0.3416	0.3371	0.3347	0.3372	0.3359	0.3345	0.3382	0.3362	0.3336
1 PTE, Lisbon	0.0274	0.0272	0.0270	0.0271	0.0271	0.0270	0.0271	0.0270	0.0270
1 ESP, Madrid	0.0372	0.0367	0.0364	0.0368	0.0367	0.0366	0.0372	0.0370	0.0367
1 JPY, Tokyo	0.02822	0.02768	0.02736	0.02757	0.02723	0.02675	0.02693	0.02634	0.02552
1 AUD, Melbourne	3.232	3.159	3.049	3.084	3.029	2.989	3.106	3.067	3.037
1 SUR, Moscow, clearing	6.706	6.640	6.586	6.608	6.591	6.576	6.631	6.610	6.591
1 special drawing right (SDR)	5.34498	5.27623	5.24393	5.25952	5.24250	5.23258	5.26111	5.23570	5.20592
1 ECU	4.848	4.812	4.789	4.870	4.829	4.816	4.841	4.827	4.807

Currency	April			May			June		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.030	4.000	3.972	3.985	3.931	3.890	3.999	3.966	3.923
1 CAD, Montreal	3.458	3.439	3.422	3.419	3.351	3.308	3.425	3.385	3.340
1 GBP, London	6.622	6.557	6.516	6.714	6.612	6.538	6.860	6.780	6.683
1 IEP, Dublin	6.382	6.362	6.346	6.402	6.351	6.300	6.346	6.318	6.287
1 SEK, Stockholm	0.6565	0.6546	0.6535	0.6536	0.6503	0.6484	0.6532	0.6516	0.6503
1 NOK, Oslo	0.6122	0.6117	0.6108	0.6121	0.6111	0.6105	0.6148	0.6133	0.6110
1 DKK, Copenhagen	0.6245	0.6217	0.6174	0.6255	0.6213	0.6171	0.6218	0.6186	0.6159
1 ISK, Reykjavik	0.0683	0.0680	0.0676	0.0683	0.0679	0.0674	0.0685	0.0683	0.0681
1 DEM, Frankfurt a.M.	2.3790	2.3704	2.3625	2.3875	2.3666	2.3489	2.3645	2.3540	2.3449
1 NLG, Amsterdam	2.1130	2.1060	2.0977	2.1229	2.1041	2.0857	2.1000	2.0913	2.0833
1 BEF, Brussels	0.11510	0.11472	0.11420	0.11520	0.11469	0.11410	0.11510	0.11461	0.11420
1 CHF, Zurich	2.7339	2.6899	2.6702	2.8024	2.7738	2.7296	2.8086	2.7822	2.7624
1 FRF, Paris	0.7099	0.7072	0.7041	0.7091	0.7044	0.6981	0.7044	0.7011	0.6972
1 ITL, Rome	0.00325	0.00324	0.00322	0.00326	0.00323	0.00321	0.00324	0.00322	0.00320
1 ATS, Vienna	0.3385	0.3372	0.3361	0.3395	0.3366	0.3341	0.3366	0.3348	0.3326
1 PTE, Lisbon	0.0272	0.0270	0.0270	0.0271	0.0270	0.0270	0.0272	0.0271	0.0269
1 ESP, Madrid	0.0377	0.0375	0.0371	0.0381	0.0380	0.0377	0.0385	0.0382	0.0380
1 JPY, Tokyo	0.02557	0.02528	0.02503	0.02641	0.02562	0.02490	0.02619	0.02582	0.02545
1 AUD, Melbourne	3.099	3.075	3.013	3.070	3.017	2.981	3.139	3.105	3.075
1 SUR, Moscow, clearing	6.594	6.582	6.566	6.616	6.575	6.548	6.641	6.620	6.594
1 special drawing right (SDR)	5.20648	5.19392	5.17695	5.19981	5.17416	5.14776	5.22494	5.20247	5.18213
1 ECU	4.858	4.847	4.834	4.872	4.849	4.826	4.871	4.850	4.825

Table 13., cont.

Currency	July			August			September		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	3.899	3.848	3.773	3.786	3.710	3.650	3.756	3.715	3.673
1 CAD, Montreal	3.355	3.328	3.272	3.286	3.245	3.210	3.257	3.212	3.165
1 GBP, London	7.019	6.959	6.857	7.155	7.061	6.968	7.054	6.993	6.910
1 IEP, Dublin	6.327	6.300	6.280	6.368	6.346	6.320	6.408	6.358	6.317
1 SEK, Stockholm	0.6503	0.6473	0.6453	0.6455	0.6431	0.6408	0.6499	0.6451	0.6420
1 NOK, Oslo	0.6125	0.6112	0.6100	0.6116	0.6106	0.6099	0.6165	0.6125	0.6102
1 DKK, Copenhagen	0.6194	0.6166	0.6150	0.6205	0.6182	0.6158	0.6256	0.6200	0.6156
1 ISK, Reykjavik	0.0687	0.0680	0.0675	0.0684	0.0677	0.0671	0.0688	0.0680	0.0672
1 DEM, Frankfurt a.M.	2.3569	2.3463	2.3393	2.3719	2.3628	2.3538	2.3869	2.3667	2.3497
1 NLG, Amsterdam	2.0939	2.0824	2.0750	2.1051	2.0973	2.0895	2.1168	2.1000	2.0866
1 BEF, Brussels	0.11470	0.11404	0.11350	0.11530	0.11495	0.11460	0.11600	0.11514	0.11430
1 CHF, Zurich	2.7854	2.7628	2.7272	2.9010	2.8338	2.7647	2.8737	2.8450	2.8160
1 FRF, Paris	0.7032	0.7009	0.6985	0.7075	0.7057	0.7039	0.7143	0.7081	0.7035
1 ITL, Rome	0.00323	0.00322	0.00321	0.00325	0.00322	0.00318	0.00321	0.00318	0.00316
1 ATS, Vienna	0.3354	0.3338	0.3328	0.3373	0.3361	0.3352	0.3392	0.3367	0.3345
1 PTE, Lisbon	0.0270	0.0270	0.0269	0.0271	0.0270	0.0269	0.0271	0.0270	0.0268
1 ESP, Madrid	0.0385	0.0384	0.0383	0.0387	0.0384	0.0378	0.0382	0.0378	0.0375
1 JPY, Tokyo	0.02619	0.02581	0.02532	0.02566	0.02519	0.02473	0.02757	0.02681	0.02585
1 AUD, Melbourne	3.129	3.068	3.002	3.089	3.020	2.966	3.134	3.083	3.042
1 SUR, Moscow, clearing	6.581	6.549	6.509	6.508	6.480	6.456	6.588	6.523	6.475
1 special drawing right (SDR)	5.18414	5.16136	5.13581	5.11497	5.09787	5.07250	5.22274	5.15451	5.11114
1 ECU	4.873	4.856	4.843	4.913	4.899	4.876	4.943	4.898	4.866

Currency	October			November			December		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	3.710	3.627	3.571	3.634	3.569	3.540	3.697	3.611	3.561
1 CAD, Montreal	3.220	3.133	3.062	3.113	3.072	3.044	3.187	3.117	3.079
1 GBP, London	7.221	7.060	6.995	7.050	7.015	6.982	6.996	6.974	6.941
1 IEP, Dublin	6.406	6.386	6.362	6.474	6.433	6.393	6.473	6.449	6.422
1 SEK, Stockholm	0.6472	0.6434	0.6389	0.6435	0.6420	0.6400	0.6464	0.6438	0.6415
1 NOK, Oslo	0.6152	0.6135	0.6112	0.6173	0.6155	0.6130	0.6194	0.6177	0.6158
1 DKK, Copenhagen	0.6257	0.6235	0.6211	0.6286	0.6264	0.6239	0.6313	0.6284	0.6263
1 ISK, Reykjavik	0.0684	0.0681	0.0677	0.0682	0.0680	0.0678	0.0685	0.0681	0.0677
1 DEM, Frankfurt a.M.	2.3873	2.3785	2.3674	2.4125	2.4006	2.3846	2.4332	2.4197	2.4035
1 NLG, Amsterdam	2.1172	2.1100	2.1007	2.1395	2.1285	2.1151	2.1569	2.1451	2.1306
1 BEF, Brussels	0.11600	0.11559	0.11510	0.11710	0.11645	0.11610	0.11760	0.11699	0.11630
1 CHF, Zurich	2.8729	2.8302	2.8068	2.8549	2.8394	2.8114	2.8417	2.8293	2.8094
1 FRF, Paris	0.7145	0.7117	0.7084	0.7165	0.7146	0.7119	0.7157	0.7142	0.7129
1 ITL, Rome	0.00320	0.00319	0.00318	0.00322	0.00321	0.00319	0.00323	0.00322	0.00321
1 ATS, Vienna	0.3395	0.3384	0.3368	0.3433	0.3416	0.3394	0.3462	0.3443	0.3420
1 PTE, Lisbon	0.0274	0.0272	0.0271	0.0277	0.0275	0.0272	0.0277	0.0276	0.0273
1 ESP, Madrid	0.0382	0.0380	0.0378	0.0383	0.0381	0.0379	0.0382	0.0381	0.0379
1 JPY, Tokyo	0.02879	0.02794	0.02688	0.02810	0.02770	0.02718	0.02730	0.02706	0.02679
1 AUD, Melbourne	3.102	2.933	2.785	2.870	2.782	2.722	2.860	2.799	2.743
1 SUR, Moscow, clearing	6.549	6.500	6.451	6.486	6.465	6.426	6.575	6.504	6.472
1 special drawing right (SDR)	5.18458	5.16932	5.15378	5.17002	5.14440	5.12045	5.18547	5.14894	5.12947
1 ECU	4.939	4.919	4.900	4.970	4.949	4.934	4.974	4.963	4.944

Table 14.

MANUFACTURE AND DESTRUCTION OF NOTES AND COIN, MILLION FIM

Notes printed					
1 000 markkaa	10 650.0	—	—	—	—
500 "	400.0	5 360.5	—	—	—
100 "	2 647.2	—	4 440.0	2 800.0	6 380.0
50 "	—	1 142.0	—	1 745.0	588.5
10 "	695.0	841.0	700.4	780.0	859.0
Total	14 392.2	7 343.5	5 140.4	5 325.0	7 827.5
In millions	107.4	117.7	114.4	140.9	161.5
Notes destroyed					
1000 markkaa	—	9.7	101.5	231.0	296.0
500 "	324.3	566.9	2 364.5	1 190.5	475.0
100 "	1 550.0	2 505.0	2 930.0	2 261.9	1 945.0
50 "	665.0	177.5	1 370.0	1 269.0	832.5
10 "	826.3	506.0	822.3	1 071.9	613.5
5 "	2.2	0.5	0.3	1.3	0.3
1 "	—	0.0	0.1	0.0	0.0
Total	3 367.8	3 765.7	7 588.7	6 025.6	4 162.3
In millions	112.5	80.5	143.9	158.1	98.8
Coin minted					
100 markkaa	.	.	.	20.0	25.0
50 "	.	.	.	.	.
25 "	.	.	.	.	.
10 "	.	.	.	.	.
5 "	25.0	15.0	15.2	41.4	59.1
1 "	10.0	10.0	25.0	34.5	55.8
50 penniä	4.5	2.5	7.4	5.3	37.9
20 "	4.0	4.2	2.8	7.4	2.6
10 "	1.5	1.0	2.3	2.2	20.2
5 "	1.0	1.0	1.7	0.1	0.1
Total	46.0	33.8	54.4	111.0	200.7
Coin destroyed					
100 markkaa	.	.	.	—	—
50 "	0.8	1.3	1.1	1.1	—
25 "	—	—	0.0	0.0	—
10 "	—	—	—	0.1	—
5 "	0.1	0.1	0.1	0.1	0.1
1 "	0.3	0.2	0.1	0.2	0.2
50 penniä	0.1	0.0	0.0	0.0	9.4
20 "	0.0	0.0	0.0	0.0	3.3
10 "	0.0	0.0	0.0	0.0	2.2
5 "	0.0	0.0	0.0	0.0	0.9
1 "	0.2	0.2	0.1	0.1	0.0
Total	1.5	1.9	1.5	1.5	16.2

Table 15.

NOTES AND COIN IN CIRCULATION, at the end of the year, million FIM

Notes					
1 000 markkaa	497.8	1 727.3	2 451.5	3 016.3	3 473.8
500 "	2 815.1	2 467.5	2 539.0	2 701.1	2 785.2
100 "	3 410.6	3 686.9	4 276.2	4 893.4	5 599.6
50 "	661.2	736.2	807.6	899.9	950.6
10 "	441.9	470.7	498.0	533.9	561.1
5 "	22.1	21.5	21.2	21.0	20.9
1 "	7.0	7.2	7.4	7.4	7.6
Total	7 855.7	9 117.3	10 600.8	12 073.0	13 398.8
Issued before 1963	9.4	9.4	9.4	9.4	9.4
Coin					
100 markkaa	.	.	.	19.5	44.0
50 "	75.5	74.3	74.3	74.2	74.0
25 "	19.9	19.9	19.9	19.9	19.9
10 "	38.4	38.3	38.4	38.4	38.4
5 "	221.3	249.8	284.9	324.1	352.8
1 "	273.6	295.8	320.9	354.3	374.0
50 penniä	63.7	69.6	75.8	83.3	102.1
20 "	57.6	59.9	66.7	71.9	70.5
10 "	29.2	31.3	33.6	35.8	45.7
5 "	24.4	25.9	26.5	27.4	26.8
1 "	8.0	7.9	7.8	7.7	7.7
Total	811.6	872.8	948.7	1 056.3	1 155.9
Issued before 1963	15.7	15.7	15.7	15.7	15.7

Table 16.

INTERNAL CLEARING OPERATIONS¹

Year	Head office		Branch offices ²		Total	
	Number, in thousands	Value, million FIM	Number, in thousands	Value, million FIM	Number, in thousands	Value, million FIM
1986	159 105	604 292	61	13 451	159 166	617 743
1987	170 494	662 296	4	2 243	170 498	664 539
1988	206 206	766 278	—	—	206 206	766 278
1989	241 956	920 019	—	—	241 956	920 019
1990	266 476	818 594	—	—	266 476	818 594 ³

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

² Clearing operations were terminated at branch offices other than Turku and Tampere as from the end of March, 1986; at the Turku and Tampere branch offices they were terminated as from the end of February 1987.

³ The banking sector dispute from January 18 to March 4, 1990 reduced clearing activity.

BANK OF FINLAND PUBLICATIONS

- Bank of Finland Bulletin** 11 monthly issues (double issue for June-July).
- Annual publications in 1990** Bank of Finland Year Book 1989 (available separately in Finnish, Swedish and English)
Finnish Bond Issues 1989 (in Finnish, Swedish and English)
- Foreign Exchange Regulations binder**
Available separately in Finnish, Swedish and English
- Economic studies in 1990**
- Series A,
studies for
the general
public
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- A:74 MARKKU MALKAMÄKI Rahoitusmarkkinoiden kansainvälistyminen (Internationalization of Financial Markets); in Finnish with English summary
- A:75 Neuvostotalous muutoksessa (The Soviet Economy in Transition); various authors; in Finnish with English summary
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- A:78 Suomen rahoitusmarkkinoiden kehitys 1980-luvulla (The Development of the Financial Markets in Finland in the 1980s), various authors; in Finnish with English summary
- Series B,
doctoral theses
- B:44 CHRISTIAN C. STARCK Foreign and Domestic Shocks and Fluctuations in the Finnish Economy 1960-1988
- Series D,
analytical studies
- D:73 The BOF4 Quarterly Model of the Finnish Economy; various authors
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- Orders and subscriptions** The Bank of Finland's annual and research publications can be ordered from bookshops. Libraries, public organizations, research institutions and, at the Bank's discretion, other organizations and individuals may obtain them directly from the Bank of Finland. The address is: The Bank of Finland, Information Department, Publications Office, P.O.Box 160, 00101 Helsinki, tel. (90)-1831. A list of the Bank of Finland's publications is also available at the same address.
- The Foreign Exchange Regulations binder can be ordered COD from the Bank of Finland at the price of FIM 100. The price includes updated pages whenever the regulations are amended.
- The Bank of Finland Bulletin, Discussion Papers and the statistical reports can be ordered from the Information Department of the Bank of Finland.

THE MANAGEMENT AND ORGANIZATION OF THE BANK OF FINLAND AT THE END OF 1990

Members of the Parliamentary Supervisory Board

Erkki Pystynen, (Chairman)	}	Executive Committee
Pertti Hietala, (Vice-Chairman)		
Matti Maijala		
Heikki Perho		
Tuure Junnila		
Antti Kalliomäki		
Jussi Ranta		
Paavo Väyrynen		
Henrik Westerlund		
Heikki T. Hämäläinen, Secretary		

The Board of Management of the Bank of Finland

The division of responsibilities of the Board of Management as confirmed by the Parliamentary Supervisory Board:

Rolf Kullberg, Chairman	Overall management and supervision of the activities of the Bank General principles of central bank policy Representation of the Board of Management Supervision of the activities of the members of the Board of Management and the substance of their decisions Internal Audit
Ele Alenius	Matters related to – the Administration Department – the Branches – Building projects – the Economics Department – the Payment Instruments Department – the Research Department – Security Printing House
Harri Holkeri, on leave of absence as Prime Minister	
Esko Ollila	Matters related to – the Accounting Department – the Bilateral Trade Department – the Financial Markets Department – the Payments and Settlement Department – the Personnel Department – the Risk Monitoring Department – SITRA (Finnish National Fund for Research and Development)
Kalevi Sorsa, on leave of absence as Speaker of Parliament	
Markku Puntila	Matters related to – the Central Bank Policy Department – the Data Processing Department – the Exchange Control Department – the Information Department – Legal Affairs – the Market Operations Department – Security

HEAD OFFICE

DIRECTORS	DIVISIONS	UNITS	HEADS OF UNIT	HEADS OF OFFICE
Pentti Koivikko	Currency Supply	Branches	(see next page)	Märjam Bederdin Seppo Eriksson Kari Lottanen Kyösti Norhomaa Kenneth Sainio Tuula Colliander Kaisa-Liisa Nordman Harri Brandt Iris Kolehmainen Taisto Lehtinen
		Payment Instruments Department	Reijo Mäkinen Chief Cashier	
	Internal Services	Accounting Department	Ossi Leppänen	
		Administration Department	Urpo Levo	
		Building Projects	Bengt Palmroos Project Manager	
		Data Processing Department	Riitta Jokinen	
		Legal Affairs	Arno Lindgren Head of Legal Affairs	
		Personnel Department	Anton Mäkelä	
		Personnel Projects	Anneli Soini Project Manager	
		Security	Jyrki Ahvonen Security Manager	
Sirkka Hämäläinen	Central Bank Policy	Central Bank Policy Department	Johnny Åkerholm	Tapio Korhonen Antti Suvanto Kjell Peter Söderlund Ritva Alasaukko-oja Antero Arimo Heikki Elonen Pirjo Kivelä Monica Ahlstedt (Acting Head) Antti Juusela Pirkko Pohjoisaho-Aarti
		Information Department	Antti Heinonen	
		Market Operations Department	Tom Nordman (Acting Head)	
	Economic Research and Analysis	Economics Department	Kari Puumanen	
		Exchange Control Department	Esa Ojanen	
		Research Department	Heikki Koskenkylä	
Matti Vanhala	Bilateral Trade	Bilateral Trade Department	Kari Holopainen	Terhi Kivilahti Juhani Laurila
	Financial Markets	Financial markets Department	Peter Nyberg (Acting Head)	Kaiju Kallio Juhani Raatikainen (Acting Head)
		Payments and Settlement Department	Raimo Hyvärinen	Mauri Lehtinen Jyrki Varstala Hannu Wiksten
		Risk Monitoring Department	Kaarlo Jännäri	Liisa Halme Veikko Saarinen
Internal Audit Management Secretarial staff		Internal Audit Department	Timo Männistö Heikki T. Hämäläinen	Anna-Majja Tikkanen

BRANCHES

BRANCHES	BRANCH MANAGERS
Joensuu	Pekka Konttinen (in addition to own duties)
Jyväskylä	Pauli Lähde
Kotka	Juhani Huuskonen
Kuopio	Pekka Konttinen
Lahti	Reino Ylönen (in addition to own duties)
Mikkeli	Juhani Huuskonen (in addition to own duties)
Oulu	Renne Kurth
Pori	Martti Hagman (in addition to own duties)
Rovaniemi	Renne Kurth (in addition to own duties)
Tampere	Reino Ylönen
Turku	Martti Hagman
Vaasa	Tapani Kulanko

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Secretary to the Supervisory Board: Urpo Levo
Managing Director: Veli Tarvainen
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