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Bank of Finland



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Bank of Finland's objective and tasks



Photograph: Peter Mickelsson

The Bank of Finland is Finland's *central bank* and a member of the *European System of Central Banks (ESCB)*. The Bank of Finland's primary objective is to maintain price stability, which provides a firm foundation for economic welfare. In working toward this goal, the Bank participates in monetary policy preparations, decision-making and communications of the *Eurosystem*, as well as in the implementation of monetary policy in Finland.

The Bank of Finland's tasks, objectives and related matters are prescribed in the Act on the Bank of Finland, under which the Bank is further obliged to

- participate in maintaining the reliability and efficiency of the payment system and overall financial system and in their development
- issue banknotes and, in cooperation with banks and other enterprises, contribute to maintenance of the currency supply
- contribute to the holding and management of international reserves
- provide for the compilation and publication of statistics as required for carrying out its tasks

The Bank participates in a wide range of research activities through its Research Department and the Institute for Economies in Transition. The Bank also handles contacts with numerous international organisations.

Key goal: economic stability

By carrying out its tasks, the Bank of Finland promotes a stable operational environment for economic entities and provides a foundation for economic growth and employment. The same goals motivate the Bank's active participation in economic policy discussions, in Finland and in various international fora.

The Bank of Finland, as one of the country's key sources of economic expertise, adds a formidable analytical input to the discussion of economic policy. Within the ESCB, the Bank of Finland functions as an active and constructive member as well as a source of special expertise on the Finnish economy. In the latter role, the Bank provides information on the impact of the Eurosystem's single monetary policy on the Finnish economy its consequences for domestic decision-making.

Central bank

The authority responsible for monetary policy, whose tasks include influencing the economy's supply of money, market interest rates or exchange rates. The position and tasks of the central bank vary notably among different countries.

European System of Central Banks (ESCB)

The ESCB was launched on 1 June 1998. Although its membership includes all EU national central banks and the ECB, only the central banks in the Eurosystem participate in the conduct of the single monetary policy. The excluded EU national central banks participate in the cooperative work of the ESCB only to a limited extent.

Eurosystem

System comprising the European Central Bank and national central banks of the euro area. The Eurosystem began conducting the euro area's single monetary policy at the start of 1999.

History



Photograph: Burnskow

The Bank of Finland was established in 1811 – more than a hundred years before Finland's independence. The picture shows office staff at the Bank's main office in 1910.

The Bank of Finland is one of the oldest central banks in the world. In connection with Finland's separation from Sweden and transfer to the jurisdiction of Russia in 1809, the decision was made to overhaul Finland's monetary framework. In 1811, Tsar Alexander I decreed the establishment of the 'Waihetus-Laina- ja Depositioni-Contori' in Turku, the then-capital of Finland. From this start, as what was primarily an office for exchange of banknotes, lending and state cash operations, Finland's first bank developed into the Bank of Finland. In 1819 the Bank was moved to Helsinki, which had been named the new capital city.

The Bank of Finland began to operate as a true central bank in the latter part of the 1800s, when Finland obtained its own currency and commercial banks were established. The Bank of Finland began to transfer payments between banks and to make emergency loans to them as the need arose. In 1875 a regulation concerning the Bank stated that it was charged with ensuring that financial institutions remained stable and secure and with promoting and facilitating the smooth flow of money in the economy.

When Finland gained its independence, the Bank's status as central bank was confirmed.

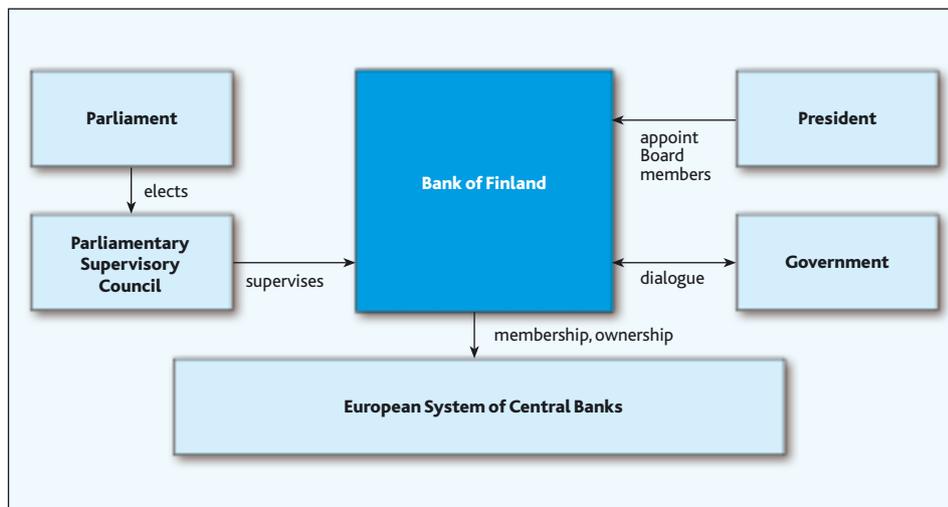
Starting with the period of the Second World War and lasting for several decades, the Bank of Finland had a broad mandate to regulate Finland's foreign currency and capital flows. In the late 1950s a gradual process of deregulation was set in motion, which led to complete dismantlement of the system in the early 1990s.

The Bank of Finland's primary objective was defined as safeguarding the markka's external value. This was brought about by influencing the amount of money in circulation, the level of interest rates, and the markka's value relative to other currencies. The Bank was also charged with maintaining financial stability and promoting the security and efficiency currency supply operations. The Bank had the sole right to issue banknotes and coins.

In 1995, after a referendum, Finland joined the European Union. One reason for entering into membership negotiations had been the desire to stabilise the country's economic situation. For a small country such as Finland, maintaining stable monetary conditions is easier if the country were part of a single European economic area than if it were to remain on the outside.

Introduction of the euro in 1999 did not essentially change the Bank of Finland's traditional tasks. The biggest change was that, instead of acting solely on a national basis, the Bank now functions as a part of the Euro-system of central banks.

Position and administration



According to the Constitution, the Bank of Finland operates under the guarantee and supervision of Parliament. The Bank is responsible for its operations to Parliament and thus to the Finnish people as a whole.

The Bank of Finland's administration and operations are supervised by the nine-member Parliamentary Supervisory Council, which is elected by Parliament for an election term and is usually composed of Members of Parliament. The Council annually reports on its operations and administration to Parliament's Economy Committee.

The operations of the Bank of Finland are not financed by tax revenues but by its own earnings. One of the ways the Bank earns income is by investing its international reserves in income-earning assets. By law, half of each year's profit is transferred to the state and half is added to the Bank's reserves. The Council, where there is sound reason, can decide on some other division of the profit.

In carrying out its tasks within the European System of Central Banks, the Bank of Finland acts under the guidance and direction of the *European Central Bank (ECB)*. Otherwise, it functions independently or, as necessary, in cooperation with the Finnish Government and other authorities.



Photograph: Jaakko Koskentola

European Central Bank (ECB)

The administrative centre of the ESCB and Eurosystem, established on 1 June 1998. The ECB is owned by the national banks of all the EU countries. It is located in Frankfurt, Germany, and its staff numbered 1200 at end-2003.

Board

Board of the Bank of Finland, 1 Jan 2004: Deputy Governor Matti Louekoski, Governor Matti Vanhala, and Board members Sinikka Salo and Pentti Hakkarainen.



Photograph: Johan Ahlroth

The Board is responsible for seeing that the Bank carries out its assigned tasks. The Board decides on a division of responsibilities such that each member oversees specified departments and units.

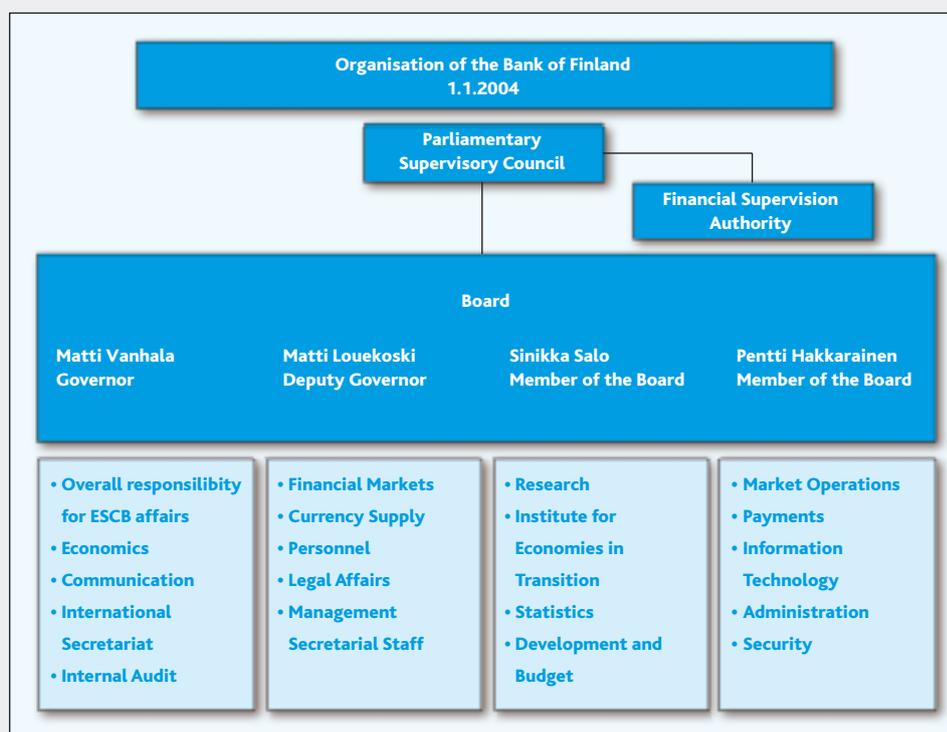
The law requires that the Bank's operations be organised in an effective and efficient manner. The Board regularly reports to the Parliamentary Supervisory Council on the implementation of monetary policy and other Bank operations.

The Board may comprise, in addition to the Chairman (Governor of the Bank), up to five other members. The President of the Republic appoints a member on the basis of a Government proposal. In this

context, the Parliamentary Supervisory Council makes its own proposal to the Government. The Governor's term of office is seven years; and five years for other members of the Board. The same person may be appointed to the Board for up to three terms. However, a person who has served on the Board may still be named Chairman for up to two terms.

The Bank of Finland's Governor is a member of the Governing Council of the ECB, the highest decision-making body in the Eurosystem, as well as the General Council of the ECB, which deals with issues affecting the whole European System of Central Banks.

Staff and organisation



At the end of 2003, the Bank of Finland's staff totalled 627. The number of employees has decreased in recent years while the share of specialists has increased. Nearly half of the Bank's employees have completed a university-level degree. The Bank staff prepares and implements euro area monetary policy and carries out extensive economic research. Other Bank activities include analysis, forecasting and statistical compilation relating to economic performance; investment of Finland's international reserves; and tasks associated with administration and personnel.

The jobs of nearly a fifth of the Bank's employees are concerned with the supply of payment instruments. This work is carried

out in the Bank's branch offices, in Kuopio, Oulu, Tampere, Turku and Vantaa.

The organisation of the Bank of Finland is divided into offices and special units, the heads of which report to the Board. The larger departments are further divided into divisions, whose heads report to the department heads.

Financial Supervision Authority

Operating in connection with the Bank of Finland, but as an independent authority, is the Financial Supervision Authority (FSA), which supervises the financial institutions. The FSA is charged with promoting financial stability and confidence in supervised institutions and markets. At end-2003 the FSA employed 138 persons.

Bank of Finland in the ESCB



Member countries of the European System of Central Banks, from 1 May 2004:

■ Euro area, ie countries that have entered stage 3 of EMU and adopted the euro: Belgium, Spain, Netherlands, Ireland, Italy, Austria, Greece, Luxemburg, Portugal, France, Germany, Finland

■ EU countries that have not joined the euro area: United Kingdom, Sweden, Denmark

■ New members of the EU and ESCB from 1 May 2004: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia, each of which will adopt the euro once it meets the economic criteria

The Bank of Finland is part of the European System of Central Banks (ESCB), which includes all EU national central banks and the ECB. The national central banks own the ECB, which is the adminis-

trative centre of the ESCB and is located in Frankfurt.

The Eurosystem is the ESCB's core group and includes all the national central banks of the euro area, ie the 12 countries



Photograph: Hanna Saira

European Central Bank is located in Frankfurt

that have entered stage 3 of EMU and adopted the euro. The Eurosystem began to conduct the single monetary policy at the start of 1999. The Bank of Finland is the Finnish part of the Eurosystem and represents Finland in the system and the Eurosystem in Finland.

Under the Treaty establishing the European Community, the ESCB is to be independent of EU bodies, member state Governments, and all other public and

private entities. Independence means that ESCB members can neither ask for nor take directions from any outside entity. Independence is important for the operability of the central banks and for the credibility of monetary policy.

The ECB reports regularly on its operations to the European Parliament, European Commission, *ECOFIN Council*, and *European Council*.

EMU

Economic and Monetary Union, whose aim is to promote economic cooperation and economic development among EU countries. The EMU progressed in stages to reach the third and final stage on 1 January 1999. Stages 1 and 2, which began in 1990 and 1994, comprised a period of convergence among EU countries, and stage 3 marked the introduction of the common currency - the euro - in the countries participating in the euro area.

Monetary policy

Public authority measures that influence the structure and functioning of the monetary system. Monetary policy is aimed at achieving the goals of general economic policy. Central banks implement monetary policy by affecting the economy's money supply, market interest rates, or exchange rates.

ECOFIN

The Council of the EU in the composition for deciding on economic and financial matters. ECOFIN meetings are attended by finance or economic ministers from the EU countries. The Eurogroup is an unofficial part of ECOFIN, comprising the finance ministers from the euro area countries, which meets to discuss - but not decide - matters concerning just the euro area.

European Council

Summit meeting of the EU, attended by member-states' Heads of State or Government. Its tasks include the provision of broad guidelines for economic policy and taking up of issues that other EU bodies have not been able to resolve.

ESCB organisation



European System of Central Banks, from 1 May 2004

ESCB committees

- Budget Committee
- International Relations Committee
- Accounting and Monetary Income Committee
- Legal Committee
- Payment and Settlement Committee
- Market Operations Committee
- Banking Supervision Committee
- Monetary Policy Committee
- Banknote Committee
- Internal Auditors Committee
- Information Technology Committee
- Statistics Committee
- External Communications Committee

The Bank of Finland's Governor is a member of the Eurosystem's highest decision-making body, the Governing Council of the ECB. The Governing Council comprises 18 members: the governors of the euro area national central banks and the six members of the ECB Executive Board. The Executive Board meets in Frankfurt, generally twice a month, and its main responsibility is to decide on euro area monetary policy.

The ECB Executive Board is composed of the President and Vice-President of the ECB and four other members. The Board handles the daily tasks of the ECB, under the guidance of the ECB Governing Council. In other words, the Executive Board directs ECB operations in Frankfurt. It also makes preparations and decision proposals for ECB governing Council meetings.

Issues concerning all the EU countries are dealt with in the General Council of the ECB, which is composed of the governors of the EU national central banks and President and Vice-President of the ECB. The General Council generally convenes four times a year. It participates in the ECB's advisory and coordinating activities and in preparations for euro area enlargement, but not in Eurosystem decision-making.

Preparations for Eurosystem and ESCB decisions are made in all the national central banks and in their joint committees, which include experts from all the ESCB member central banks. Euro area matters are dealt with only by representatives of the Eurosystem. There are 13 of these committees and each one focuses on a certain area of concern.

Many of the committees have permanent or temporary working groups. The committees do background work on issues for which the EBC Executive Board will make proposals to the Governing Council and General Council. The latter, in turn, decide what issues will be acted on by the ESCB. The Bank of Finland can have an impact on ESCB decisions already at the preparation phase via the committees and working groups.

Eurosystem objectives, tasks and operations

The primary objective of the Eurosystem is to maintain price stability in the euro area. This is the most effective means by which Eurosystem monetary policy can support welfare maximisation in the national economies.

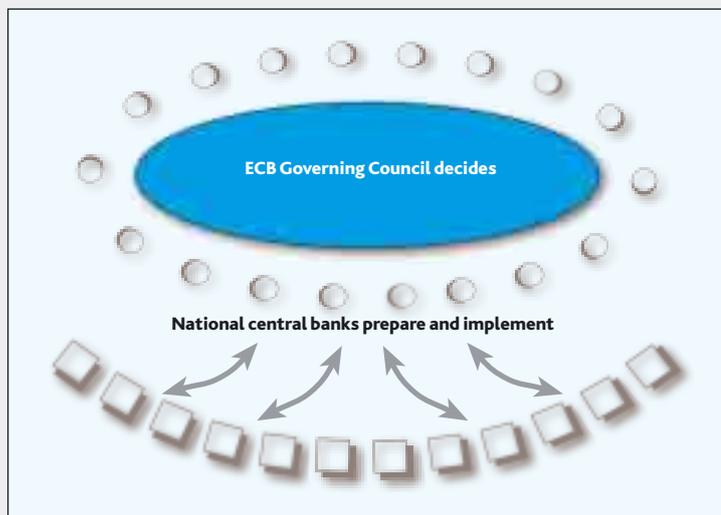
To the extent possible, without jeopardising the price stability objective, the Eurosystem supports the general economic policies of the EU, aimed for example a balanced economic performance, sustainable and environmentally responsible economic growth, as well as a high level of employment and favourable social conditions.

To achieve these aims, the Eurosystem uses the following tools:

- deciding and implementing the single monetary policy
- holding and managing euro area countries' international reserves and, as needed, conducting foreign exchange operations
- promoting smooth operation of payment systems

The Eurosystem also monitors developments in the banking and financial sector, issues guidelines concerning its areas of competence, and oversees compilation of statistics in connection with monetary policy. Moreover, the ECB Governing Council has the sole right to issue banknotes and the right to approve the amounts of coin issuance in euro area countries.

The ECB and national central banks cooperate in producing economic forecasts for use in determining monetary policy. The



Bank of Finland serves as expert on the Finnish economy and also contributes to analytical work concerning the euro area and world economy.

Decisions are made in the ECB Governing Council on a simple-majority basis. Regarding all policy decisions, each member has one vote and hence an equal input into those decisions. Monetary policy actions are based on the outlook for inflation and other economic developments in the whole euro area. Members do not pursue national interests but rather take a euro area-wide perspective.

Even though decision-making is centralised in the ECB Governing Council, decisions are prepared and implemented largely in a decentralised manner among the national central banks. For example, monetary policy preparations and implementation are decentralised and all banks operating in Finland handle their central banking matters via the Bank of Finland.

Eurosystem decision-making centralised in ECB Governing Council; preparations and implementation largely decentralised among national central banks

Monetary policy

ECB monetary policy decisions are based on broad-ranging analyses of economic conditions in the euro area. Picture shows the Bank of Finland's Market Operations Department



Photograph: Jussi Aalto

Inflation

Reduction of the real value of money, ie a general rise in the price level.

Real interest rate

The true interest rate, corrected for the effects of inflation. In times of high inflation, the real interest rate is considerably lower than the nominal interest rate; correspondingly, in times of deflation, the real interest rate is higher than the nominal interest rate.

Deflation

A general decline in the level of prices - opposite of inflation.

Monetary policy, broadly interpreted, includes all efforts by public authorities to affect the structure and functioning of the monetary system. Monetary policy aims at furthering the goals of overall economic policy. In practice, monetary policy is conducted by central banks, by influencing the economy's money supply, market interest rates or - depending on the exchange rate regime - foreign exchange rates.

Monetary policy's traditional task is to stabilise the value of money, which means curbing inflation and *inflation* expectations. The most effective way to restrain inflation expectations is to set a measurable goal and clear strategy for monetary policy, so as to inform the public beforehand exactly what economic indicators the central bank will focus on and how it intends to achieve its goals.

Monetary policy is transmitted to the economy in a number of different ways. Policy operations affect the liquidity of the banking system, market interest rates and exchange rates. Inflation and inflation expectations affect the level of the *real interest rate*, which in turn affects aggregate demand and supply in the economy.

ECB's monetary policy objective

The primary objective of ECB monetary policy is to maintain price stability in the euro area - defined as annual inflation of less than 2%, as measured by the harmonised index of consumer prices - over the medium term. In striving for this goal, the aim is to keep inflation close to 2% over the medium term and thus to also prevent *deflation*, in other words, a damaging fall in the price level. In setting the inflation goal, possible measurement problems



Photograph: Jaakko Koskentiola

concerning the euro area have been taken into account.

ECB monetary policy decisions are based on broad-ranging analyses of economic conditions and money-supply developments in the euro area. Economic analyses deal eg with price and cost indices, wages, exchange rates, and various business cycle surveys. On the basis of these, evaluations are made of the short-

and medium-term risks to price stability. Long-run prospects for inflation are also evaluated by analysing the economy's money supply, because there is a clear connection between money supply and price movements over the long run. The greater the supply of money relative to the size of the economy, the more likely it is that prices will rise.

Different monetary policy instruments are used to steer the level of market interest rates



Monetary policy instruments

The Eurosystem has several monetary policy tools it can use to maintain price stability. Most important among these are the main refinancing operations, in which the Eurosystem uses changes in the *key interest rates* to send signals regarding the stance of monetary policy. If analyses indicate that inflation is accelerating excessively, the ECB Governing Council can raise its key rates; or if instead inflation threatens to slow excessively, the key rates can be lowered.

The instruments of monetary policy are used to steer short-term market interest rates, regulate market *liquidity*, and signal the stance of monetary policy. The national central banks simultaneously implement monetary policy operations according to the directions of the ECB.

Of open market operations, the most important are the main refinancing operations. In these weekly operations the Eurosystem provides banks with liquidity by offering them short-term (one-week) credits. The interest rates charged are determined in

tenders in which banks inform the central banks of how much money they want and at what interest rates. A minimum bid rate is set for each tender, which serves as the Eurosystem's key interest rate.

Longer-term refinancing operations enable credit institutions to obtain extra liquidity from central banks in the form of three-month credits. These monthly operations are conducted as variable tenders and, as they are not used for policy signalling, there are no minimum bid rates.

When the need arises, the Eurosystem can also conduct fine-tuning or structural operations. Fine-tuning operations are used to smooth the effects of unexpected fluctuations in interest rates or liquidity and structural operations to influence banks' long-term liquidity position vis-à-vis the Eurosystem.

A minimum reserve system is in effect in the euro area, which obligates banks and other credit institutions to hold specified amounts of their assets in national central banks. The system enables regulation of credit institutions' liquidity and smoothing

Key central bank interest rates

Key central bank interest rates are set in accord with the stance of monetary policy and to influence market liquidity and movements in market interest rates. The Eurosystem's key interest rates are the rate on ECB main refinancing operations, the marginal lending rate, and the deposit rate.

Liquidity

The ability to pay.

of movements in short-term market interest rates. Interest is paid on these deposits, at rates equal to prevailing minimum bid rates in the Eurosystem's main refinancing operations.

The Eurosystem's standing facilities enable credit institutions to obtain liquidity from, or deposit excess amounts in, the national central banks at the end of each banking day. Interest rates on these overnight loans and deposits, which are set by the ECB Governing Council, form an 'interest rate corridor' whose upper bound is the marginal lending rate and lower bound is the deposit rate. Adjustments in the corridor signal the stance of monetary policy and set limits on movements in interest rates on overnight interbank loans.

Exchange rate policy

The Eurosystem does not have an objective with respect to exchange rates. The euro is a floating currency, which means that its exchange rates are determined freely in the currency markets. When necessary, the Eurosystem can nonetheless dampen movements in exchange rates by intervening, for example by buying or selling euro against other currencies. Possible interventions are decided by the ECB Governing Council and implemented by the national central banks in a decentralised manner.

The ECOFIN Council, composed of EU finance and economic ministers, can

issue general guidelines to the ECB regarding exchange rate policy. The guidelines cannot, however, compromise the ESCB's independence or conflict with the price stability objective.

International reserves

The Bank of Finland's own international reserves amounted to about EUR 9.2 billion at the end of 2003. The Bank needs such reserves to prepare for possible additional transfers to the ECB and to participate in IMF financing if necessary to ensure the security of the international monetary system. The Bank could also find itself in an emergency situation in which it would need its own international reserves.

At the start of 1999 the euro area national central banks transferred a part of their own reserves to the ECB. The total amount transferred was nearly EUR 40 billion, of which the Bank of Finland's share was some EUR 700 million. The ECB needs international reserves in order to be able to conduct possible foreign exchange operations.

Although the investment of assets transferred to ECB ownership remains the responsibility of the national central banks, the related investment policy is decided by the ECB. As to their own international reserve holdings, the national central banks decide for themselves.



Photograph: Jaakko Koskentola

Financial markets

The financial markets channel surplus savings of individuals and companies to counterparts in need of financing. This transfer of funds is effected both through banks and other credit institutions and directly in the markets via the issuance of securities. Efficient and reliable operation of the financial system is important for the economy as a whole. Efficient allocation of finance and stable financial markets promote economic performance and well-being.

Payment systems are an important part of the foundation of the economy and financial system. Fast and reliable payment-flows between economic units promote the smooth functioning of the economy. Other key parts of the financial system's foundation are the systems used in executing securities trades.

The Bank of Finland acts to maintain and increase the stability, reliability and efficiency of financial and payment systems in Finland. The aim is to prevent financial crises if possible and otherwise to manage them in an effective manner. The central bank's tools for carrying out this task are payment transfer operations, general oversight and financial operations, and participating in the development of these systems. The Bank works in close cooperation with other supervisory and regulatory bodies.

Stability and efficiency of the financial system

The Bank of Finland's legally mandated task - as regards financial system stability, reliability and efficiency - is referred to as oversight of the financial system. As part of that task, the Bank regularly monitors and analyses the state and development of the financial system as a whole. The aim is to promote financial stability without interfering in the operation of the system. The Financial Supervision Authority, which operates as an independent body in connection with the Bank, is charged with supervising the involved institutions - credit institutions, financial firms and exchanges - in terms of risks, capital adequacy and legality of operations.

Key to the Bank of Finland's oversight task is the analysis of banking-sector payment and settlement systems in terms of stability and efficiency. The tools used include oversight of various systems, operative participation in payment systems and, in cooperation with the Eurosystem and other authorities, the development of crisis management techniques, as well as joint efforts with market participants.

Introduction of the euro has harmonised the euro area financial system and increased the need for cooperation between EU national supervisory authorities. Cooperation is facilitated by numerous ESCB and EU committees dealing with banking and payment systems. Through such

committees, the ESCB plays a major role in promoting the financial stability of the euro area. The need for cooperation among authorities in the Nordic and Baltic countries has also increased, along with the rapid growth and development of financial institutions' cross-border activities and system linkages in the region.

Payment systems

The basic structure of the European financial markets is changing rapidly with the development of the single market, as country-specific systems are replaced by more efficient Europe-wide systems. Among the most important of these is the inter-central-bank *TARGET* system, through which euro area monetary policy operations are implemented. *TARGET* links together the national real-time gross settlement systems of the EU countries and the ECB.

Nearly every EU-country credit institution is connected to *TARGET*, through either its national central bank or another credit institution. The system was developed primarily to meet the needs of the single monetary policy. Its use in transmitting other payments significantly reduces the associated risks because *TARGET* is designed so that payments are immediately final and irrevocable. *TARGET* can be used for transmitting both interbank and customer payments.

Finnish banks can use numerous other payment systems for making international



Photograph: Jussi Aalto

payments, in addition to *TARGET*. But even these payments often involve transfers of payment cover via *TARGET*.

The Finnish part of *TARGET* is the BoF-RTGS (Bank of Finland Real-Time Gross Settlement System). In Finland, BoF-RTGS account holders - mainly banks and other credit institutions - can handle their payment transactions with other credit institutions and the Bank of Finland. The system operates totally electronically and largely automatically. Payments in the system are irrevocable and hence free of risk to the receiver. In order to facilitate the smooth flow of payments, the Bank may grant intraday credits to account holders against collateral.

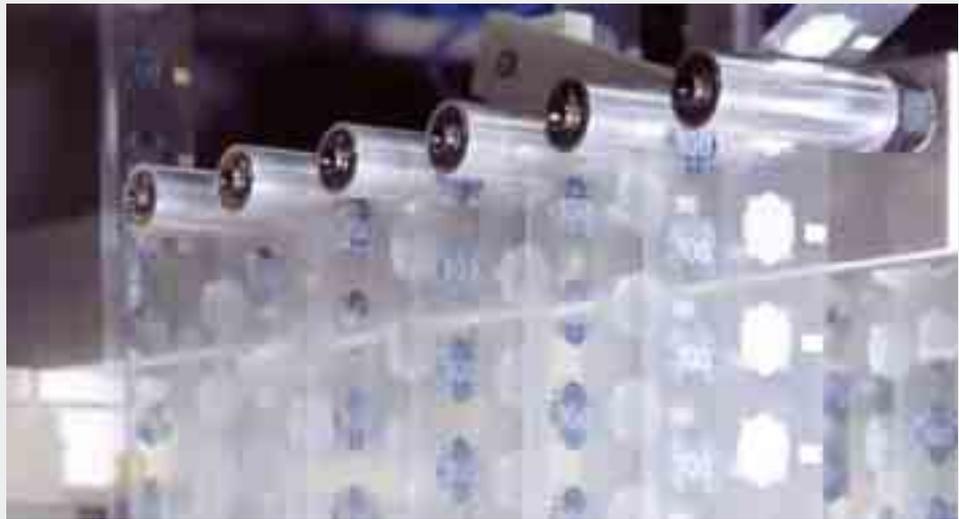
Finnish banks can transmit payments to all EU countries via the *TARGET* system. The picture shows part of the Bank of Finland's Payments and Settlement Department

TARGET

Trans-European Automated Real-time Gross settlement Express Transfer system, ie the system that forges the EU's national real-time gross settlement systems to form an EU-wide payment system.

Maintenance of currency supply

The Bank of Finland ensures the quality and authenticity of euro banknotes in Finland. Picture shows holograms for EUR 100 banknotes



Photograph: Jussi Aalto

The Bank of Finland serves as the country's authority in respect of currency maintenance. With the approval of the European Central Bank, the Bank of Finland issues euro banknotes and coins and sees to the quality and authenticity of the banknotes. Each year, the national central banks as a group print euro banknotes in accord with the needs of the Eurosystem. Production of euro coins, on the other hand, is the responsibility of the ECOFIN Council and national authorities, in Finland this is the Ministry of Finance.

Working with the banks and other concerned parties, the Bank of Finland ensures the efficiency and security of Finland's currency maintenance operations. Besides the banks, those involved are the security transport firms, which specialise in the security and transport of banknotes and coins. These firms deliver banknotes and coins to the banks, ATMs, shops, and other business

that need cash, and transport returned money to cash centres and branches of the Bank of Finland, located in Kuopio, Oulu, Tampere, Turku and Vantaa.

At the Bank of Finland's regional branches, euro banknotes are examined for authenticity and quality and those in poor condition are disposed of. The Bank issues new cash as needed. At the start of 2004, there were 108.5 million banknotes in circulation, with a total value of EUR 3.6 billion. Coins in circulation numbered 710 million and their value was EUR 286 million.

The Bank of Finland will continue to redeem all markka banknotes and the newer markka and penni coins until 29 February 2012. Silver-coloured markka and ice-breaker fives will be redeemed until 31 December 2007, at the Bank's main office in Helsinki.

Research and statistics



Photograph: Hanna Saira

The Bank of Finland comprehensively monitors, compiles statistics on, and analyses the Finnish economy and financial markets

The Bank of Finland is one of Finland's key economic research organisations. The Bank's research focuses on tasks that concern a central bank such as monetary policy, macroeconomic performance, and the functioning of financial markets and payment systems. Cooperation with Eurosystem members, other central banks, and various other research organisations is extensive.

The aim of the research is to provide support for the preparation of monetary policy and assist economic decision-makers, researchers and media representatives, particularly in Finland, to understand the foundations and effects of Eurosystem monetary policy.

The Bank's Institute for Economies in Transition monitors and analyses developments in the 'transition economies', especially Russia and China. The Institute focuses on these economies' economic policy developments, monetary and banking systems, and public sector problems.

Statistics

The Bank of Finland produces data concerning Finland, as required by the European System of Central Banks, on euro area monetary financial institutions, financial markets and balance of payments, as well as corresponding national data. Data are published monthly in the Financial Markets Statistical Review and in special publications. These publications include extensive data on interest rates, deposits, and loans relating to Finnish monetary financial institutions, as well as on securities markets, balance of payments, international investment position, and financial accounts. In addition, data are published on euro area monetary policy instruments, exchange rates, and the euro area and Finnish economies. The data can also be accessed via the Bank's website (www.bof.fi).

Communication

In August 2003, the Bank of Finland Museum opened its doors. The museum presents the workings of the monetary economy, both historically and today



Photograph: Rauno Traskelin

The Bank of Finland informs the Finnish public of its own activities and Eurosystem decisions. The aim is also to promote an understanding of Eurosystem policies and transparent communications.

The Bank makes known its views in respect of current economic conditions in articles published in the quarterly Euro & taalous and Bank of Finland Bulletin. Other key publications are the Bank's Annual Report, the Financial Stability report, and special studies by Bank experts.

The Bank of Finland Museum presents the monetary economy, both in history and in the present day, and explains the Bank's present role as part of the European System of Central Banks. The Museum also has a collection that features the artistic aspect of Finnish banknotes as well as a continuing series of special exhibits.

More details on the Bank's operations, publications and statistics can be found on the Bank's websites: www.suomenpankki.fi and www.bof.fi.

International cooperation

The Bank of Finland works with many international organisations that promote the development of economic and financial systems. The European Central Bank is a major participant in the international financial markets. As a member of the Eurosystem, the Bank of Finland is now more extensively involved in international cooperation. The ECB Governing Council and the ESCB's International Relations Committee handle issues concerning the ESCB's external relations.

The Bank of Finland is also represented on one of the EU Council's most important committees, the Economic and Financial Committee, which monitors economic conditions in the member countries and the EU as a whole and prepares the work of the ECOFIN Council.

Finland has been a member of the International Monetary Fund (IMF) since 1948. The IMF's objective is to promote strong economic performance and stable currencies in the member countries. The Fund monitors member country economies and occasionally grants credits to strengthen their international liquidity positions. Finland's relations with the IMF are handled by the Bank of Finland in cooperation with the Ministry of Finance.

Relations with the IMF's sister organisation, the World Bank, are handled by the Ministry of Finance. The World Bank was established in 1944 as an international financial institution for supporting economic and



Photograph: Jaakko Koskimentä

social development in the world's poorer countries by providing loans and advice.

The Bank for International Settlements (BIS) was founded in 1930 to promote cooperation among central banks of different countries, and the Bank of Finland has been a shareholder from the start. The BIS monitors and analyses banking activities and currency markets, and its special concerns include banking supervision and stability issues. The BIS is an important body for cooperation among central banks.

Finland joined the Organisation for Economic Cooperation and Development (OECD) in 1969. Since that time, the Bank of Finland has participated mainly in the OECD's work in the areas of economic policy, financial markets, and liberalisation of capital movements.

The Bank of Finland works in cooperation with numerous international organisations

Historical years

1809

Finland is separated from Sweden. The possibility of Finland having its own bank-note-issuing bank is discussed in the Porvoo Diet.

1811

'His Imperial Majesty's Gracious Regulations for an Office of Exchange, Lending and Deposits in the Grand Duchy of Finland', the Charter of the Bank of Finland.

1812

The Bank of Finland issues its first (kopeck) banknotes.

1819

The Bank of Finland moves from Turku to Helsinki.

1840

The Bank of Finland's first branches are established.

1840–1842

The 'Currency Transformation' is brought about, whereby Finnish and Russian roubles are substituted for circulating Swedish money.

1843

The Bank of Finland begins dealing in foreign bills of exchange and quoting rates on bills of exchange.

1857

The discount rate is raised to 6%; Finland begins to conduct interest rate policy.

1860

Finland obtains its own monetary unit - the markka.

1865

Monetary Reform: silver money becomes the sole legal tender; the markka is linked to silver and replaces the rouble as the means of payment.

1868

The Bank of Finland is subordinated to the Estates (later Parliament).

1875

New Regulations for the Bank of Finland, by which the task of the Bank is defined as maintaining a stable and secure monetary system. The State Treasury is founded and its duties separated from those of the Bank of Finland.

1877–1878

The markka is pegged to gold.

1883

The Bank of Finland's Head Office in Snellmanin aukio in Helsinki is completed.

1886

The Bank of Finland is granted the sole right to issue banknotes in Finland. Design of the first banknotes to be manufactured at the Bank's own printing works commences; the notes are put into circulation three years later.

1890s

Rediscounting of bills of exchange of bank customers becomes commonplace and assumes a key role in the Bank of Finland's central bank policies.

1906

Clearing of interbank transactions commences at the Bank of Finland.

1915

The Bank of Finland suspends redemption of banknotes in gold.

1919

The Bank of Finland comes under the guarantee and care of Parliament and is supervised by the Parliamentary Supervisory Council elected by Parliament (Constitution of Finland, section 73).

1925

The Regulations for the Bank of Finland (from 1993: Act on the Bank of Finland) and the many subsequent amendments define the Bank's administrative bodies, functions and principal operating rules, until entry into force of new Acts on the Bank of Finland (1998 and 1999).

1926

Finland returns to the gold standard.

1931

Finland effectively abandons the gold standard. On the initiative of the Bank of Finland, the banks conclude an agreement on deposit rates, which serves as the basis for a practice that will be observed for many decades to come.

1939–1944

An extensive system of controls on capital flows and lending rates in effect during the war.

1945–1946

At turn of year, banknotes are clipped as a means of forcing loans to the state.

1948

Finland joins the International Monetary Fund (IMF) and the World Bank (IBRD). Markka's international par value defined (officially in 1951) in terms of gold and US dollar.

1950

Bank-specific credit quotas and penalty rates of interest are introduced in the banks' central bank financing arrangement.

1957–1958

The markka again becomes externally convertible, following dismantling of controls on foreign trade.

1960

Regulation of banks' average lending rates is introduced.

1963

Currency Reform: 1 markka = 100 old markka. New Currency Act enters into force.

1969

Finland joins the OECD and accepts obligations relating to codes of liberalisation of capital movements and transactions in current account invisibles.

1971

Markka's fixed value in terms of gold as the basis for exchange rates is effectively abandoned and the Bank of Finland begins to steer the markka's external value in terms of a currency index.

1975

The Bank of Finland introduces its call money credit facility.

1977

Amendment to the Currency Act: trade-weighted currency index is officially adopted for expressing markka's external value. The Bank of Finland's Board is responsible for keeping the index within the prescribed fluctuation range.

1979

Bank of Finland starts collecting cash reserve deposits from banks on the basis of an agreement concluded with the banks.

1980

Bank of Finland discontinues operations in the forward market for providing banks with forward cover. Henceforth banks are allowed to cover their open forward positions in the financial markets.

1983

Regulation of interest rates is eased and banks' central bank credit quotas are abolished.

1986

Legislation governing foreign exchange is revised. Bank of Finland initiates gradual removal of controls on capital movements. Regulation of banks' average lending rates is abandoned.

1987

Transactions in certificates of deposit are introduced as a method of monetary control while call money credits to banks diminish in importance. The Bank of Finland begins to calculate and publish HELIBOR rates based on CD transactions.

1991

The remaining exchange controls are dismantled, and the clearing account between Finland and the Soviet Union is terminated. Amendment to Currency Act: markka's external value is defined in relation to the ECU, the currency unit of the European Community.

1992

The markka is floated.

1993

New Currency Act; cash reserve system replaced by minimum reserve system. The Financial Supervision Authority commences operations in connection with the Bank of Finland.

1995

Finland becomes a member of the European Union.

1996

Finland joins the Exchange Rate Mechanism (ERM).

1998

Parliament approves Finland's joining the euro area. European Council decides on the countries to participate in the euro area; Finland is one of them. The ECB and the ESCB are established on 1 June 1998, and the Bank of Finland becomes a member of the ESCB.

1 Jan 1999

The euro area is born. The euro becomes the official currency of the euro area and the markka becomes one of the national denominations of the euro. Decision-making power in monetary policy matters is transferred to the Governing Council of the European Central Bank. The Bank of Finland discontinues calculation and publication of reference interest rates.

1 Jan 2002

Euro banknotes and coins are introduced in Finland and 11 other euro area countries.

1 May 2004

Ten countries join the European Union: Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

Glossary

Deflation

A general decline in the level of prices - opposite of inflation.

Central bank

The authority responsible for monetary policy, whose tasks include influencing the economy's supply of money, market interest rates or exchange rates. The position and tasks of the central bank vary notably among different countries.

ECOFIN

The Council of the EU in the composition for deciding on economic and financial matters. ECOFIN meetings are attended by finance or economic ministers from the EU countries. The Eurogroup is an unofficial part of ECOFIN, comprising the finance ministers from the euro area countries, which meets to discuss - but not decide - matters concerning just the euro area.

EMU

Economic and Monetary Union, whose aim is to promote economic cooperation and economic development among EU countries. The EMU progressed in stages to reach the third and final stage on 1 January 1999. Stages 1 and 2, which began in 1990 and 1994, comprised a period of convergence among EU countries, and stage 3 marked the introduction of the common currency - the euro - in the countries participating in the euro area.

Euro (€, e. EUR)

The common currency of the euro area, adopted at the start of stage 3 on 1 January 1999. Initially, the euro was used only as account money. Then, on 1 January 2002, euro-denominated banknotes and coins replaced markka and other euro area national banknotes and coins.

Euro area

Area comprised of those EU countries that have adopted the euro: (at end-2003) Netherlands, Belgium, Spain, Ireland, Italy, Austria, Greece, Luxembourg, Portugal, France, Germany and Finland.

European Central Bank (ECB)

The administrative centre of the ESCB and Eurosystem, established on 1 June 1998. The ECB is owned by the national banks of all the EU countries. It is located in Frankfurt, Germany, and its staff numbered 1200 at end-2003.

European Council

Summit meeting of the EU, attended by member-states' Heads of State or Government. Its tasks include the provision of broad guidelines for economic policy and taking up of issues that other EU bodies have not been able to resolve.

European System of Central Banks (ESCB)

The ESCB was launched on 1 June 1998. Although its membership includes all EU national central banks and the ECB, only the central banks in the Eurosystem participate in the conduct of the single monetary policy. The excluded EU national central banks participate in the cooperative work of the ESCB only to a limited extent.

Eurosystem

System comprising the European Central Bank and national central banks of the euro area. The Eurosystem began conducting the euro area's single monetary policy at the start of 1999.

Inflation

Reduction of the real value of money, ie a general rise in the price level.

Key central bank interest rates

Key central bank interest rates are set in accord with the stance of monetary policy and to influence market liquidity and movements in market interest rates. The Eurosystem's key interest rates are the rate on ECB main refinancing operations, the marginal lending rate, and the deposit rate.

Liquidity

The ability to pay.

Monetary policy

Public authority measures that influence the structure and functioning of the monetary system. Monetary policy is aimed at achieving the goals of general economic policy. Central banks implement monetary policy by affecting the economy's money supply, market interest rates, or exchange rates.

Real interest rate

The true interest rate, corrected for the effects of inflation. In times of high inflation, the real interest rate is considerably lower than the nominal interest rate; correspondingly, in times of deflation, the real interest rate is higher than the nominal interest rate.

TARGET

Trans-European Automated Real-time Gross settlement Express Transfer system, ie the system that forges the EU's national real-time gross settlement systems to form an EU-wide payment system.

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