



EUROJÄRJESTELMÄ  
EUROSYSTEMET

Bank of Finland



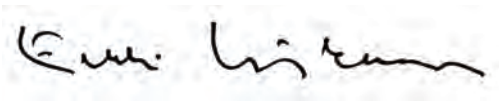
*Photograph: Timo Porthan.*

## Greetings from the Governor

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A stable currency and a reliably functioning financial system are essential to us all. Ensuring such stability and reliability is the task of the central bank. Those countries that have joined the euro area have combined their central banks to form the Eurosystem, of which the Bank of Finland is also a member. Together we work to ensure stable monetary conditions throughout the entire euro area.

The success of monetary policy depends on public trust, which is why we at the Bank of Finland hope to make our work and our institution as widely known as possible. In publishing this brochure, we would like to give an idea of what the Bank of Finland does, the goals it pursues and the framework in which it operates.

A handwritten signature in black ink, appearing to read "Eero Viikari". The signature is fluid and cursive, with a long horizontal stroke at the end.



## The Bank of Finland and the Eurosystem

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Finland's monetary unit is the euro. All EU countries that have adopted the euro belong to the euro area. The central banks of these countries, together with the European Central Bank (ECB), form the Eurosystem.

The Bank of Finland, which was established in 1811, is Finland's national central bank and a member of the Eurosystem. It participates in the preparation and decision-making of the ECB's monetary policy and is responsible for monetary policy implementation in Finland.

The Eurosystem operates under the leadership of the European Central Bank. The highest decision-making body of the Eurosystem is the Governing Council of the ECB. The Governor of the Bank of Finland participates in monetary policy decision-making as a member of the ECB Governing Council.

The Bank of Finland has four core functions: monetary policy and research, oversight of the financial system, banking operations and maintenance of currency supply.



*Meeting of the ECB Governing Council.*

*Photograph: STT-Lehtikuva.*

## Monetary policy aims at achieving price stability

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The Treaty on the Functioning of the European Union assigns the maintenance of price stability as the primary objective of monetary policy. The Governing Council of the ECB has defined this objective as meaning, in practice, that a year-on-year increase in consumer prices should be below, but close to, 2% over the medium term. From the monetary perspective, price stability provides the best conditions for enhancing overall economic welfare.

The Eurosystem's key monetary policy instruments are the policy rates – the interest rates decided by the ECB Governing Council. The level of the policy rates affects market interest rates and macroeconomic developments. In response to the financial crisis, the Eurosystem has also adopted a number of non-standard and temporary monetary policy instruments.

The Bank of Finland assesses the impact of the single monetary policy on the Finnish economy and expresses its opinion on domestic economic policy. Another of the key tasks of the Bank of Finland is the preparation of forecasts for the Finnish economy as part of joint euro area predictions.

Internationally recognised high-level research provides the basis for the Bank of Finland's effectiveness within the Eurosystem and supports monetary policy preparation. The main research focus area is 'financial markets and macroeconomic stability and interaction'. The Institute for Economies in Transition (BOFIT), which operates within the Bank of Finland, monitors developments in Russia and China, with emphasis on the analysis of the economy, including other emerging markets.



Photograph: Jaakko Koskentola.



## Stability and efficiency as objectives for financial markets

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The Bank of Finland promotes the stability and efficiency of the financial markets by undertaking thorough analyses and recommendations of the markets and by maintaining crisis management capabilities. Crisis preparedness is based on timely information on the state of the banking system and the financial markets and the functioning of their infrastructures. The aim is to prevent the emergence of financial market crises and to effectively manage potential crises. In an environment of globalised financial markets, authorities work closely together at international level in order to carry out financial supervision.

The Bank of Finland is responsible for oversight of the financial system. The Financial Supervisory Authority (FIN-FSA), which operates in connection with the Bank of Finland, supervises individual financial market participants, such as banks, insurance companies and pension companies. The Bank of Finland and FIN-FSA work in close cooperation on the macroeconomic effects of the financial markets in supervision.

The Bank of Finland is entrusted with the task of compiling a variety of statistics depicting the financial sector and the balance of payments, within Finland. Economic statistics serve the information needs of economic policy-makers, the business community and the general public, while also supporting the pursuit of central bank activities in respect of monetary policy and analysis of the stability of financial markets.



*Photograph: Peter Mickelsson.*

## Banking operations provide for refinancing and investment

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The Bank of Finland is the bank of banks operating in Finland. It provides, for example, payment services to its customer banks, particularly in connection with large interbank cross-border payments. Whenever needed, customer banks also have access to marginal lending facilities against delivery of eligible collateral. The Bank of Finland implements monetary policy by conducting Eurosystem monetary policy operations with respect to Finnish counterparties – mainly banks.

Banking operations also cover investment of the Bank of Finland's own financial assets – prudently and productively. Finland's foreign exchange and gold reserves account for a considerable share of these financial assets. As well as its own assets, the Bank of Finland invests part of the ECB's foreign reserves.



## Currency supply ensures banknote distribution, quality and authenticity

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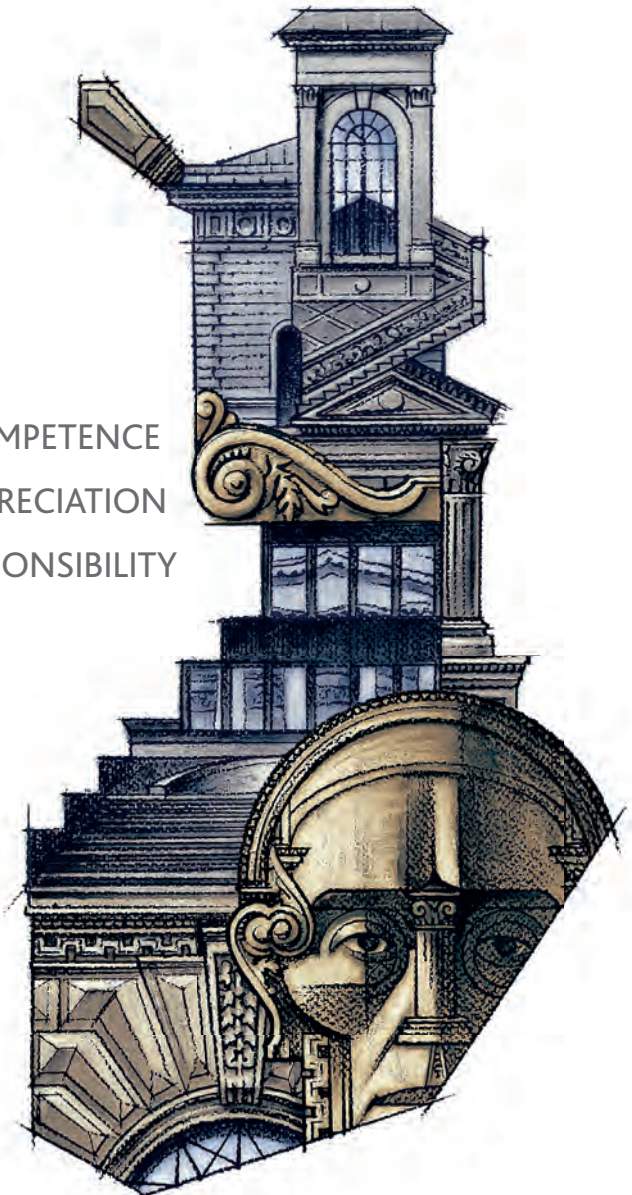
The Bank of Finland is responsible for Finland's currency supply and development of its quality, efficiency and security. The Bank issues new euro banknotes and coins in Finland and tends to the quality and authenticity of the nation's cash by withdrawing counterfeit or mutilated banknotes from circulation.

When undertaking its banknote storage, sorting and other logistical activities, the Bank of Finland cooperates with banks and specialised currency supply operators. Currency supply tasks are performed by the Bank's branches located in Vantaa and Oulu.

*Photograph: Jussi Aalto.*



COMPETENCE  
APPRECIATION  
RESPONSIBILITY



## Bank of Finland's status and organisation

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In accordance with the Constitution of Finland, the Bank of Finland operates under the guarantee and supervision of the Parliament. The Bank's operations are supervised by the Parliamentary Supervisory Council, appointed by the Parliament and consisting of nine members.

The Board of the Bank of Finland is responsible for ensuring the due execution of the tasks assigned to the Bank. The President of the Republic appoints the Bank's Governor upon the proposal of the Parliamentary Supervisory Council. Other members of the Board are appointed by the Parliamentary Supervisory Council. The term of office for the Governor is seven years, and for the other Board members five years.

Operating in connection with the Bank of Finland, but as an independent decision-making authority, is the Financial Supervisory Authority (FIN-FSA), which supervises the financial markets.



*The Bank of Finland aims at promoting young persons' knowledge of economic matters.*

*Photograph: Peter Mickelsson.*



## The Bank of Finland and the general public

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The Bank of Finland provides extensive information on both its own activities and the ECB's decisions. The aim is also to promote understanding of euro area monetary policy and financial markets. The most important channel of communication is the Bank's website, which provides access to timely information on interest rates, exchange rates and many other aspects of the monetary economy.

The Bank of Finland's main publication is the journal *Euro & talous*. It deals with the economic outlook and the state of the financial system. The Bank also publishes an English-language review, the *Bank of Finland Bulletin*, and various research studies.

The Bank of Finland aims at promoting young peoples' knowledge of economic matters. To this end, the Bank has developed 'Eurokampus', which contains economics-themed competitions for students, economics training for teachers and a wide net-based study package.

The Bank of Finland Museum, located in Helsinki, presents the monetary economy, both in history and the present day, and explains the Bank's present role as part of the Eurosystem and the ECB's decision-making process. The Museum also has a collection that features the artistic aspect of Finnish banknotes as well as a seasonal exhibition.



*Bank of Finland, autumn 1910.*

# 1811

Tsar Alexander I of Russia establishes the Bank of Finland under the name of 'Office of Exchange, Lending and Deposits in the Grand Duchy of Finland'.

# 1840

**Currency Transformation.** The Bank of Finland's own rouble banknotes, redeemable against silver, become the main legal tender in Finland. Swedish money, until then widely used in Finland, is withdrawn from circulation.

# 1860

Finland granted its own monetary unit, the markka, initially defined in terms of a quarter of the rouble banknote.

# 1865

**Monetary Reform.** The markka is tied to the silver standard, and, in practice, Finland exits from the Russian monetary system.

# 1868

The Bank of Finland is subordinated to the Diet of Finland.

# 1878

Finland changes over to the gold standard. The markka is set equal value to the French franc. The gold standard remains in force until the First World War.

# 1917

Finland declares its independence, and the Bank of Finland becomes the central bank of the newly independent state.

# 1948

**Bretton Woods system.** Finland joins the International Monetary Fund (IMF) and the World Bank. The markka is pegged to a system of fixed exchange rates, based on the dollar's value in terms of gold.

# 1963

**Currency Reform.** 1 markka = 100 old markka.

# 1971

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

# 1986

Controls on capital movements are gradually removed, and regulation of average bank lending rates is abandoned.

# 1996

Finland joins the Exchange Rate Mechanism (ERM).

# 1999

**The euro area is born.** The euro becomes the official currency of the euro area. The Bank of Finland becomes part of the Eurosystem.

# 2002

Euro banknotes and coins replace markka banknotes and coins in Finland.

# 2011

The Bank of Finland has been in existence for 200 years.

# HISTORIA



Bank of Finland  
Snellmaninaukio  
PO Box 160, FI-00101 Helsinki  
Tel.: within Finland 010 8311 (switchboard)  
International +358 10 8311  
Communications unit: 010 195 701,  
International +358 10 195 701

[www.bof.fi](http://www.bof.fi)  
[www.rahamuseo.fi](http://www.rahamuseo.fi)  
[www.euro.fi/en](http://www.euro.fi/en)

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