

Bank of Finland Annual Report 2007



EUROJÄRJESTELMÄ
EUROSYSTEMET

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Drafted in accordance with
Section 19 of the Act on
the Bank of Finland.

The figures in the Annual Report
are based on data available in
February 2008.

ISSN 1239-9345 (print)
ISSN 1456-579X (online)
Multiprint Oy
Helsinki 2008

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Bank of Finland

The Bank of Finland is the country's monetary authority and member of the Eurosystem. The Bank's activities are regulated by the Statute of the ESCB and the Act on the Bank of Finland.

The Bank of Finland's objectives are to promote price stability as well as stability in payment and financial systems and integration of the European financial markets. All of which create the prerequisites for economic growth and employment.

In addition to monetary policy preparation and monitoring of financial market stability, the core functions of the Bank of Finland include operational central bank tasks in connection with payments, implementation of monetary policy and the maintenance of currency supply.

In 2007, the board of the Bank of Finland was composed of Governor Erkki Liikanen, chairman, Matti Louekoski,

vice-chairman, Sinikka Salo and Pentti Hakkarainen. With Matti Louekoski retiring from the post of vice-chairman at the end of the year, the President of the Republic of Finland appointed Seppo Honkapohja, PhD, as the new member of the board, from 1 January 2008.

The nine members of the Parliamentary Supervisory Board supervise the activities of the Bank. During the review year, a total of about 500 staff were employed in the 6 departments of the Bank's head office and the 5 regional offices. At the end of 2007, the Bank's regional office in Turku was closed down.

Although independent, the Financial Supervision Authority operates administratively in connection with the Bank of Finland. It currently employs about 140 people. The FIN-FSA produces its own annual report.



Board of the Bank of Finland: From the left Pentti Hakkarainen, Erkki Liikanen, Matti Louekoski and Sinikka Salo.

Foreword

The world economy continued its strong growth in 2007, despite a deceleration towards the end of the year. Growth slowed most notably in the United States, Japan and also the euro area. While the Chinese, Russian and some other emerging economies maintained their position as the engines of global growth. Strong growth was also seen in developing economies in Asia, Latin America and Africa with the standard of living gap between them and the economies of the developed world narrowing. The prevailing abnormal situation on the financial markets was fed both by uncertainty in the US economy's economic outlook in particular and increasingly elsewhere in the world economy, too.

From the beginning of August, money markets experienced exceptionally large disturbances. The subprime crisis, arising from the US mortgage lending market and, channelled through so-called structured loan instruments, caused a broad lack of confidence, leading to an exceptional level of uncertainty in the money markets. Trading in structured securities came to a halt as the market of commercial papers dried up. Several banks were forced to apply for financing from central banks and later found they had to record losses due to the subprime lending crisis. Financial market disturbances led to an increase in risks and a tightening in the terms applied to lending. These disturbances continued into the new year.

As growth forecasts were reassessed as being slower than had previously been estimated, inflation risks remained on the

upside; the most obvious signs of which were the upward shift in oil product and foodstuff prices in particular. The sudden leap in foodstuff prices was a new phenomenon springing from a strong growth in demand in emerging economies, a shift in agricultural production towards bioenergy crops as well as the negative effect of poor weather conditions on harvests in some regions of the world.

Economic growth in the euro area slowed in the second quarter of the year. Measured by the harmonised index of consumer prices, the inflation rate strengthened markedly at the end of the year and continued at the beginning of 2008 to be rapid in relation to price stability objectives.

The Eurosystem minimum bid rate was raised to 4% in June. At the turn of the year, the ECB Governing Council particularly underlined the continuing strong upward pressure on inflation. At the same time, the Governing Council underscored the point that inflation expectations need to remain firmly anchored in line with price stability.

Finnish economic growth continues to be favourable. Exports from Finland were able to take advantage of the robust growth in the export markets and consumer confidence levels remained strong. During the autumn, employer unions underwent their rounds of decentralised wage negotiations. The pay hikes agreed on were higher than those seen in earlier years. There is a risk that Finland will possibly be faced with an international downturn, while cost levels domestically are higher than before. An

increase in productivity levels across the economy would be essential in order to restrain unit labour costs and maintain the competitiveness of domestic output.

During 2007, there have been two major system projects in the Eurosystem. A new payment system, TARGET2, was taken into use in many of the euro countries, with the Bank of Finland changing over to the system in February 2008. It has been decided to build a common securities market infrastructure, TARGET2-Securities onto the existing TARGET2 system. This is set to become large and important projects for the entire Eurosystem.

The Bank of Finland has been source of several significant strategic initiatives in the process. We have created a joint forecasting system and payments system simulator in the spirit of pooling activities with cooperative partners, basically within the Eurosystem. This was the beginning of a new strategy in the Bank of Finland's operations. However, we do not want to participate in only others' projects, the Bank also wishes to host services in those areas where we already have a high level of know-how. We hope that the pooling programmes that have now been commenced will prove successful and set off on a strong course. I believe that new competitive skills in service concepts will help the Bank of Finland find its place and develop further.

In spring 2007, the Bank of Finland proposed a merger of the financial and insurance sectors' supervisory authorities. The second government of

Prime Minister Vanhanen adopted the merge into its programme and later came up with the solution of placing the new supervisory authority under the auspices of the Bank of Finland. The working group commissioned with handling this issue worked at a brisk pace and the proposal for the new authority was ready in February 2008.

The Board has drawn up guidelines for the maintenance of the country's currency supply for the coming years. The Bank of Finland has also become part of the joint CashSSP cash management system, along with the central banks of Belgium, the Netherlands and Luxembourg. The areas of payment instruments and security were both in the spotlight in early 2007, when the nation's news broadcasts were dominated for days by the robbery that took place in the Bank of Finland's Turku regional office's courtyard. In the autumn we received news that, through the excellent work of the Finnish police force, the case seems to be closed.

Reorganisation of the Bank's currency supply maintenance approach is related to Turku, the smallest of the Bank's regional offices, which closed its doors at the end of 2007. The region's currency supply is now managed, for example, by extending other, existing banknote storage arrangements. The office in Turku had particular significance to us in that the Bank of Finland originally began its operations in Turku almost two hundred years ago. Happily, all personnel arrangements in

respect of the closure were achieved in the spirit of cooperation. Our warmest thanks are extended to the staff of the regional office, for their years of loyal service to the Bank.

In terms of international involvement and activity, 2007 was an exceptionally lively year for the Bank. Finland has been the Nordic-Baltic Constituency representative to the International Monetary Fund's (IMF) executive board and has succeeded in influencing preparatory stages of the IMF's ongoing administrative reform.

In the summer the Bank of Finland took a prominent role in the arrangements of the SuomiAreena, a forum for high-level discussions and seminars affecting various aspects of society and the economy, held in Pori in western Finland. The forum was graced by a visit from the President of the European Central Bank, Jean-Claude Trichet, bringing the work of central banks to the attention of the Finnish public in a new context. A meeting of the Governors of the Nordic central banks was also arranged in Finland, in June. On top of this, the Governors of the Russian and Chinese central banks visited the Bank of Finland in the course of the year.

During the year under review, we have been in able to strengthen and intensify implementation of the Bank's strategies. A new framework was adopted regarding the Bank's personnel policy, due to be put into action in 2008. The new framework will concentrate on management, personnel development, the Bank's image as an employer and equality within the Bank and the Financial Supervision Authority.

The disruptions experienced in financial markets, beginning August 2007, have highlighted the importance of cooperation of the units responsible for banking operations, monetary policy and financial markets. Horizontal cooperation, crossing departmental borders is vital to the Bank and its capacity to respond.

22 February 2008



Strategy of the Bank of Finland

The Bank of Finland has set itself the following strategic goals.

The Bank of Finland is an active and constructive member of the Eurosystem. The operations of the Bank of Finland are of high quality, transparent and cost-effective, thereby enhancing the efficiency and openness of the Eurosystem.

Based on its expertise, the Bank of Finland is a sought-after and trusted partner in the preparation of euro area monetary policy and financial market policy as well as in domestic economic policy. Its expertise is founded on research at the cutting-edge among central banks, first-class statistical compilation methods, effective international connections and long-term development of personnel competence.

The stability analyses undertaken by the Bank of Finland are reliable and up-to-date, covering the entire financial system. Stability analysis is well integrated into the Bank's macroeconomic analysis and contingency development in the event of potential financial crises. The Bank carries out its stability function in close cooperation with domestic and foreign authorities.

The Bank of Finland is responsible for ensuring that it can provide internationally competitive central banking services to credit institutions and other market participants operating in Finland. In currency supply the Bank of

Finland emphasises its duties as a supervising and developing authority by ensuring that the Finnish currency supply system serves the Finnish business community and consumers in a fitting and cost-effective manner, as part of the payment system framework.

Foreign exchange and investment risks are accommodated both to a level of crisis management capability the level imposed on all euro area central banks through requirements governing international obligations. The Bank's reserves meet the selected risk level with a competitive yield. Risk management and cost-effectiveness enable stable and reasonable transfer of profits relative to the amount of own capital.

Key strategy work themes in 2007

The main themes in 2007 regarding the Bank of Finland's strategy work were improvement of the quality and cost-effectiveness of operations and enhancement of service competence and the exercise of influence.

Two key themes were the adjustment of personnel numbers in the medium term and the Bank's pooling objectives in the Eurosystem. Pooling refers to the division of labour between central banks, whereby banks offer and procure services to and from each other.

The Bank of Finland's personnel number target for 2011 is 440. The results of the strategy work show that this can be achieved through improvement of processes and operating procedures by exploiting IT and investing in training as well as through active participation in developing internal division of labour within the Eurosystem. Furthermore, the Bank will focus its resources on key areas of competence.

The Bank of Finland participates in the division of labour between central banks as both a provider and procurer of services. This pooling of services is designed to make various central banks' prime competences available to other central banks and eventually share any associated development and maintenance costs with the pooling parties.

The Bank of Finland has decided to invest in the product packaging and development of the forecast system (Foris) and payment system simulator (BoF-PSS2) and to make these services available to other Eurosystem central banks. As a procuring party, the Bank of Finland is participating in the Eurosystem pooling arrangements through the introduction into Finland of an IT system for currency supply management, developed by the central bank of Belgium.

Bank of Finland's strategy in a nutshell

| Service competence and exercise of influence | Economy of resource use | Efficiency of internal processes | Competence building and working capacity |
|---|--|---|---|
| <i>In the Eurosystem, the Bank's exercise of influence is based on recognised cutting-edge research and analysis activities.</i> | <i>The currency reserve is accommodated to meet the requirements governing crisis management capabilities, and international obligations.</i> | <i>The speed and quality of key processes are subject to systematic evaluation and enhancement.</i> | <i>Personnel level of education is raised through the recruitment policy and by increasing versatile training opportunities. Research activities will be focused on areas that serve to consolidate the Bank's exercise of influence, and the quality of research will be improved.</i> |
| <i>In domestic economic policy, the Bank's exercise of influence is enhanced by drawing from the Bank's ability to integrate macroeconomic and financial market perspectives into forecasts and risk estimates. Methods for evaluating the condition of financial institutions and markets and crisis management capabilities are being enhanced.</i> | <i>The aim is to ensure stable transfer of profits without endangering the Bank's capital adequacy.</i> | <i>The Bank's ICT environment is developed to meet the needs of an increasingly expert-driven organisation.</i> | <i>Leadership and the work of superiors are being enhanced.</i> |
| <i>The Bank of Finland serves financial market counterparties operating in Finland by ensuring that it can provide them with internationally competitive central banking services.</i> | <i>Focus on activities that are in line with the strategy, coupled with improving the efficiency of operations and processes, serves to reduce the need for staff.</i> | | |
| <i>As regards the currency supply system and its customers, the Bank of Finland defines the service level objectives of Finland's currency supply system and establishes a system for supervising the functioning of currency supply.</i> | <i>The real value of operating expenses will reduce from the current level. The Bank of Finland aims to rank among the most efficient central banks within the EU countries.</i> | | |

Bank of Finland activities 2007

Monetary policy and economic policy

Bank of Finland – contribution to preparation of monetary policy

As a member of the Governing Council of the ECB, the Governor of the Bank of Finland participates in monetary policy decision-making. In addition, experts from the Bank of Finland contribute to the preparation of monetary policy decisions and other background work, particularly in the context of the Monetary Policy Committee and its working groups. One of the key tasks is preparation of the economic forecast for Finland as part of the common euro area forecast.

The Bank of Finland acts as an expert on Finnish economy in the Eurosystem and, conversely, as the euro area expert in Finland. Monitoring and forecasting of the Finnish and international economy was emphasised more than usual in 2007 due to the shocks that occurred in the international financial markets. During the year, many reviews were made into economic developments and monetary policy as well as its impacts. An external review was ordered on the level of analysis in the articles presenting forecasts on the Finnish economy. The review was published on the Bank of Finland's internet site. Forecasts on the Finnish economy were published in the Bank of Finland Bulletin in March and October.

The ECB's monetary policy in 2007

Compared with the recent past, growth in the euro area continued at a fairly brisk pace in 2007. Improved employment and the consequent increase in households' disposable income supported private consumption. Exports into new EU

member states and Asia continued to grow rapidly, while the slow-down of US growth and appreciation of the euro against the dollar undermined exports into the United States. Disruptions in the financial markets that began in late summer, the subsequent squeeze of financing conditions in the euro area and increase in general uncertainty, however, slowed down the growth of private investment in the latter half of the year. At the same time, a steep increase in the world market prices for oil and foodstuffs boosted the euro area consumer price inflation from below 2% to a good 3% (Chart 1) despite the fact that appreciation of the euro (Chart 2) kept the channelling of increased world market prices into consumer prices in the euro area in check. Growth of the money supply and lending continued to be brisk throughout the year. Inflation expectations in the financial markets and among consumers increased somewhat in the latter half of the year.

In accordance with its strategy, the ECB's aim in 2007 was to accommodate its monetary policy to keeping the inflation rate below, but close to, 2% over the medium term as measured by the Harmonised Index of Consumer Prices (HICP). The Governing Council of the ECB increased its policy rate twice by $\frac{1}{4}$ percentage point over the year. After these hikes, the policy rate stood at 4%. The policy rate increases were aimed at reducing the easy stance of monetary policy and preventing the growth of inflation expectations from posing a risk to price stability.

Chart 1.
Harmonised Index of Consume Prices for the euro area

Change from year-earlier, %



Source: Eurostat.

Chart 2.
Euro exchange rate against US dollar and exchange rate index

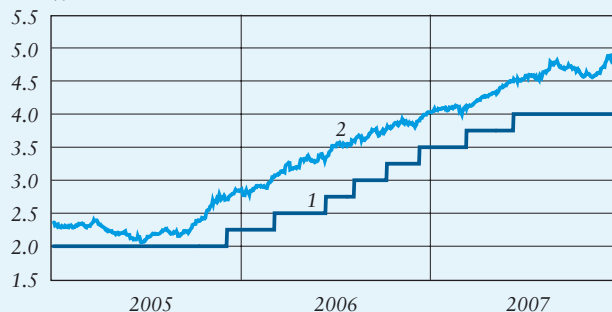
USD/EUR Index, January–March 1999 = 100



1. — USD value of one euro (LHS)
2. — Narrow nominal effective exchange rate index of euro (RHS)
Sources: Reuters and European Central Bank.

Chart 3.
Eurosystem main refinancing rate and 12-month Euribor rate

%



1. — Main refinancing minimum bid rate
2. — 12-month Euribor rate

Sources: European Central Bank and Reuters.

Growth in the euro area continued to be solid in the first quarter of 2007. In the macroeconomic forecast published in March, ECB's experts revised their estimates on GDP growth in 2007 and 2008 and rise of consumer prices in 2008 upwards from their previous forecasts. Growth of the money supply and loans also continued to be strong. Therefore, the Governing Council of the ECB increased its policy rate by $\frac{1}{4}$ percentage point to 3.75% in its March meeting (Chart 3). The Governing Council emphasised that even after the hike, the ECB's monetary policy continued to be on the accommodative side. At the same time, it stated that it would continue to monitor the economy very closely so as to ensure that risks to price stability over the medium term would not materialise.

During the spring, indicator data suggested that growth in the euro area slowed down in the second quarter, but only temporarily. The ECB increased its policy rate by $\frac{1}{4}$ percentage point to 4% in June. It emphasised that risks to the price stability were mainly related to internal factors in the euro area and particularly to stronger-than-expected wage developments in the context of increasing capacity utilisation rates and improving labour market conditions. In the June forecast, the euro system experts' estimates on euro area growth in 2007 were revised towards faster growth, but growth in 2008 was estimated to remain lower than previously forecasted on account of increased oil price. At the same time, estimates of inflation rate in

2007 were revised towards faster inflation than previously forecasted.

During the summer, risks of acceleration in inflation were still perceived in the context of price stability prospects. At the same time, a chain of events emanating from the US housing markets led to a severe disruption in the operation of the global financial markets, which made it difficult to assess the state of the monetary economy. In its communication after the Governing Council meeting in August, the ECB emphasised that strong vigilance remained of the essence in order to ensure that risks to price stability would not materialise. At the same time, the Council also underscored that it would make its decisions concerning monetary policy in its meetings in an independent manner based on the information available at the time and its judgment based on the facts. According to the Governing Council, the state of the financial markets, in particular, required collection of more information before further conclusions could be drawn.

In the ECB experts' estimates published in September, euro area growth was forecasted to remain slightly more subdued in 2007 than previously estimated. In contrast, annual inflation in 2007 and 2008 was forecasted to remain in line with the expert estimate published in June. The Governing Council stated in its communication following the September meeting, that the higher-than-expected rises in indirect taxes, increases in the prices of oil and foodstuffs and wage increase pressures would increase

the risk that inflation might exceed the level consistent with the definition of price stability. The Governing Council emphasised that the anchoring of medium-term inflation expectations to an inflation rate consistent with price stability was even more important than before in the context of unease in the financial markets and increased uncertainty. However, before further conclusions on monetary policy could be drawn, more information was needed on the potential impacts of the disruption in the financial markets on the developments of the real economy.

The annual rate of inflation in the euro area, as measured by the HICP, rose significantly in the last quarter of 2007. Inflation was boosted in particular by the rise in the world market prices of crude oil and foodstuffs. In December, Eurosystem experts revised their estimates of economic growth in 2008 towards slower growth than previously forecasted. However, growth was still expected to continue broadly in line with the estimated potential output growth. At the same time, the estimate of the inflation rate in 2007 and 2008 was revised upwards. Inflation was expected to remain at clearly above 2% in early 2008 but to slow down gradually during 2008 and further in 2009.

In its communication following the meetings of the rest of the year, the Governing Council of the ECB stated that risks to price stability continued to remain primarily on the upside. Therefore the Council underscored that it was prepared to fend off risks to

medium-term price stability with resolve. It emphasised that it would ensure that acceleration of the inflation rate would not result in second-round effects on wage and price-setting decisions. As the reassessment of risks continued in the financial markets, the Council monitored economic developments very closely, paying particular attention to developments in the financial markets.

Through the information issued by the ECB, the markets were generally able to effectively anticipate the interest rate decisions made in the course of the year. Disruptions experienced in the financial markets during the autumn significantly increased the interest rates on non-collateralised interbank loans, including the Euribor rates. In contrast, the interest rates on collateralised interbank loans did not increase, but actually declined in some cases. At the end of 2007, Euribor rates stood clearly above the policy rate, eg the one-year rate at 4.7% (Chart 4).

At the same time, however, the markets expected the Governing Council to keep the policy rate unchanged for the next 12 months.

Slovenia joined the euro area at the beginning of 2007. Following the adoption of the euro by Slovenia, the country's central bank became a full member of the Eurosystem.

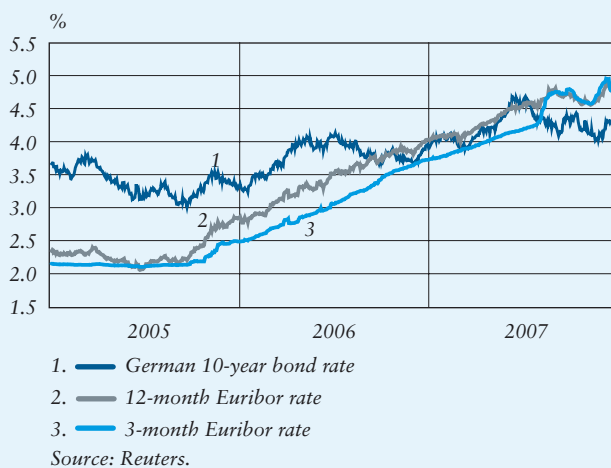
There were no significant pressures on the exchange rates of the currencies belonging to the exchange rate mechanism ERM II, and these currencies oscillated within their fluctuation bands without any hiccups. The ERM II rate of the Slovakian koruna was revalued by 8.5% in March. The currencies belonging to the ERM II throughout the year were those of Cyprus, Denmark, Estonia, Latvia, Lithuania, Malta and Slovakia. In July 2007, the heads of state or government and the ministers of finance of the EU member states concluded that Cyprus and Malta meet the economic and legal criteria applicable to the adoption of the euro, with the effect that those countries joined the euro area at the beginning of 2008. The ERM II central rates of the Cyprus pound and Maltese lira were approved as the peg rates.

The Governing Council's statements on other economic policy issues

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

Because of favourable economic developments, the general government

Chart 4.
Euro area market rates



fiscal positions improved considerably in the member states in 2006 and further in 2007. The Governing Council underscored that member states should make use of the good times to fortify their public finances further, in line with the provisions and regulations of the Stability and Growth Pact. The countries should pay attention to curbing expenditure growth and channelling potential unexpected excess revenue, in their entirety, into the reduction of deficits and debt. All member states should avoid pursuing pro-cyclical fiscal policies. By making use of the favourable economic conditions, most euro area member states could reach their medium-term objectives for public finances in 2008 or 2009. The Governing Council emphasised that all member states should, however, reach their objectives by 2010 at the latest, as agreed by the euro area finance ministers. Achievement of a stable general government budgetary position, as soon as possible, is important in the context of preparation for the imminent challenges that population aging will pose on public finances.

The Governing Council also expressed its support of Eurostat's efforts to improve statistical information on general government finances and the decision by the ECOFIN Council to enhance the preventive arm of the Stability and Growth Pact as well as the desire to emphasise measures aimed at improving the quality and administrative efficiency of public finances.

The Governing Council of the ECB emphasised on several occasions in its

statements that the moderate rise of labour costs and past measures aimed at overhauling labour market structures have contributed to increasing employment and reducing unemployment in the euro area over recent years. However, measures to improve the operation of labour, commodity and financial markets must be continued in line with the Lisbon strategy.

The Governing Council emphasised repeatedly that implementation of a well-functioning Internal Market is of utmost importance to the member states. Successful reforms boost economic growth potential and help member states adjust to the challenges brought about by increasing global competition, population aging and accelerating technological change. At the same time, they promote the preservation of price stability in the euro area.

Of particular importance is progress in the integration of financial markets, the pursuit of effective competition in energy markets and implementation of the Services Directive. In the autumn, the Governing Council paid attention to the need for improvement in the efficiency of global trade and particularly of the agricultural products markets, and it especially underscored the importance of success of the Doha round of world trade negotiations. Furthermore, the Governing Council considered that by reforming tax and benefit systems, further incentives to create jobs and to work could be introduced. In addition, measures to enhance education and the adoption of technological innovations play an

important role in the attempt to increase the growth of productivity in the euro area.

The Bank of Finland and economic policy in Finland

Growth of the Finnish economy continued at a rapid pace in 2007. In its forecast in the autumn, the Bank of Finland estimated GDP growth in 2007 to be 4½%. However, the fastest phase of economic growth has already passed, and growth is expected to dampen further over the next few years. There have been many factors behind the growth. Development of the world economy has been very favourable, which has increased eg the demand for the products of the Finnish machinery and metals industry as well as processed metal products. Finnish GDP growth has also been supported by domestic investments and consumption.

Finland's current account surplus grew in 2007. Most of the current account surplus comes from the trade balance: exports have continued to grow faster than imports. At the same time, however, faster growth of import prices than of export prices, ie weakening of the terms of trade, have subdued the growth of the current account surplus. It has also hampered the development of purchasing power of Finnish households and companies.

Positive employment developments continued in 2007. Part of the increased employment reflected a decrease in the number of the unemployed. The unemployment rate in fact decreased to below 7%. Part of the increase in

employment derived from an increase in the labour participation rate. In particular, there was an increase in the participation of the elderly in the labour markets. A lack of skilled labour has become particularly problematic in the construction sector, but partly also in services and industry. The Bank of Finland paid attention to a clear increase in the problem of employment matching. Although there are ample vacancies and unemployed people in Finland, there is a mismatch due to professional, geographical or other reasons.

The Bank of Finland emphasised that aging of the population will already tighten the labour markets further over the next few years. The changing population structure will also reduce the room for manoeuvre in the public sector by reducing tax revenue and inflating pension and social security expenditure. Therefore, according to the view of the Bank of Finland, it is important that the exercise of the expenditure ceiling framework continues in public finances.

In 2007, new wage agreements were made in many sectors. These were typically two years in duration, and wage rises were clearly higher than in previous years. In some sectors, the wage agreements also include a locally agreed section. Such flexibilities may increase productivity, reduce wage drift and improve the matching of labour supply and demand. However, the Bank of Finland expressed its concern that more tangible wage rises than before may undermine the price competitiveness of Finnish production, unless sufficient

improvements are achieved in the productivity of labour.

Inflation in Finland has been clearly lower than the euro area average for an extended period. However, the rate of growth of the Harmonised Index of Consumer Prices (HICP) rose unmistakably over 2007. Consumer prices in Finland increased an average of 1.6% over the previous year's level. The rise was boosted particularly by increasing services prices. Towards the end of 2007, energy prices also rose steeply in the wake of oil prices on the world markets. In contrast, the prices of industrial products have continued to decrease. The national consumer price index has risen faster than the HICP due to the increase in house prices and interest expenses.

Accelerating income levels, together with the increasing rate of inflation already observed, may lead to raised inflation expectations and ultimately to a spiralling of domestic costs. If materialised, this would significantly undermine the conditions for an improvement of employment and economic growth in Finland. The Bank of Finland indeed highlighted that prevention of the emergence of a cost spiral was one of the key challenges of economic policy.

Research

The Bank of Finland's research activities serve to enhance the Bank's policy preparation, develop its own activities and improve its external influence. The aim is to meet top international standards in areas of research of key importance to the Bank. This ensures that the Bank of Finland makes a strong contribution to the debate on economic policy and financial market developments both domestically and internationally.

Monetary research

Economic research carried out by the Research Unit takes place within the framework of two programmes. The first of these focuses on the modelling of monetary policy, while the focus in the other one is on the future of the financial services sector. The work carried out in these research programmes is initially made public in the form of discussion papers, totalling approximately 30 such reports a year.

In the modelling of monetary policy, research was geared towards the influences of imperfections in the financial markets and formation of expectations on the cyclical dynamics of the economy. Projects under the programme focused for example on the modelling of inflation dynamics in an open economy in context of measured and bias-free expectations, and the significance of the capital buffers of financial institutions for the effectiveness of monetary policy steering. The research findings on the one hand support the view that the mechanisms of formation of expectations by households and companies have a noticeable impact

on the inflation dynamics of the economy, and on the other hand that the impact of capital buffers on the effectiveness of monetary policy steering is relatively low in quantitative terms. Furthermore, projects within the macro programme looked into the impact of credit restrictions on the pricing dynamics of housing, and the interaction of monetary policy, expected inflation and inflation risks in the modern monetary policy macroeconomic model.

One research initiative was related to a reform of the Bank's forecast and simulation model, with the goal of building a modern macroeconomic model well suited to the identification of cyclical economic fluctuations and shocks affecting the economy. The model could also be used in analysing the macroeconomic impact of imperfections of the financial markets and alternative mechanisms of formation of expectations.

The Bank also participated in a comprehensive research project, carried out jointly with the central banks of the Eurosystem, which investigates the interdependency of wage formation and firms' pricing policies. The project makes use of extensive micro and macroeconomic data to find out whether a relatively high proportion of wages in companies' production costs has an impact on how often companies want to change the prices of products they produce. The findings of the project may be utilised eg in seeking to improve the functionalities of the Bank's macroeconomic model by reviewing its labour market component.

Key themes in the research programme geared to analysing the future of the financial sector included financial market structures, innovations and the efficiency and competitiveness of financial markets, analysis of the impact of legislation and other regulation on the financial markets as well as the quantitative analysis of the risk-bearing capacity of the financial systems and the banking sector.

Research projects under the programme looked into banks' efficiency and the determination of pricing power in the Finnish retail banking sector. In this context, a new approach was applied to the measurement of market power, and it was found to provide new and more reliable information on the market structure of retail banking in Finland. The programme also looked into the combination of the supervision systems of the financial markets, monitoring of financial intermediaries and co-operation of supervisory authorities in the context of bankruptcy of a multinational financial institution. Themes related to the risk-bearing capacity of the financial sector were reviewed in three projects in particular: determination of banks' credit and liquidity risks, impact of new, risk-based capital adequacy regulation on the cyclical dynamics of banks' capital buffers and the emergence of contagion risks in the Finnish financial markets. Research on the impact of capital adequacy regulation shows that the new capital adequacy requirements do not necessarily amplify economic cyclicality, although many have feared so.

Research on economies in transition

The research efforts of the Institute for Economies in Transition (BOFIT) concentrate on applied macroeconomics, especially monetary and currency policy issues. The target countries are Russia and China, although the use of a more extensive data on so-called transitional economies is inevitable in certain research settings.

In the operations of the unit, research establishes the basis for monitoring and expert activities, which in turn support the research. Initially, the studies are published as the unit's own discussion papers. In 2007, 21 discussion papers were published. In addition to the effort of the unit's own researchers, the series includes articles by visiting researchers and, on a discretionary basis, studies presented in the unit's seminars and workshops.

In 2007, efforts made within the unit and by its co-operation researchers were combined in a project looking into the integration of Russia and China into the world economy. In the case of Russia, the most relevant question concerns the country's dependence on the exports of commodities, energy in particular. Research on what is sometimes referred to as the 'natural resource curse' continues. In the case of China, the focus was on currency issues. Findings on the connection observed between the exchange rate and trade surplus aroused international public attention. This type of a co-ordinated approach where the research project is launched with a common workshop and completed in a seminar, proved useful. It will be continued in 2008 in a project assessing the countries' long-term growth potential.

Research on trade between Finland and Russia, which has likewise attracted public attention, remained a core area of study. The unit was given access to a unique data set compiled as a result of various authorities' cooperative work, which sheds comprehensive light on trade and enables the production of new information. Reports on this research will be issued in 2008. This also goes for research on the Russian banking sector, based on micro-level data received through international co-operation.

Scientific meetings

As in previous years, the Bank's research units organised a number of international scientific meetings relevant to their field of research. In June, an international conference was held in co-operation with Iftekhar Hasan (Rensselaer Polytechnic Institute) and the Journal of Financial Stability. The topics comprised financial market instability, central banking operations and financial supervision. In September, a conference on the financial markets, innovation and economic growth was held together with the SUERF (Société Universitaire Européenne de Recherches Financières). In November, the eighth annual researcher meeting was held together with the CEPR (Centre for European Policy Research). Its topics were expectations and cyclical dynamics of the economy. In December, to complete its research project, the Institute for Economies in Transition organised an international seminar on the integration of Russia and China into the world economy.

Banking operations

Implementation of monetary policy in the euro area and in Finland

The Eurosystem's monetary policy operations

The European Central Bank's decisions on key interest rates are transmitted to the economy in many different ways and ultimately through to prices. The implementation of monetary policy refers to those central bank tools and procedures that are used to harmonise money market interest rates with policy rates. As the banking system continuously needs central bank financing for example to fulfil the public's demand for cash, the central bank can, by adjusting the interest rate on central bank financing, steer short-term money market interest rates that are important for the transmission of monetary policy.

The Eurosystem conducts monetary policy in a decentralised way: the Governing Council of the ECB makes the decisions and the national central banks (NCBs) carry out the operations, coordinated by the Executive Board of the ECB. The Eurosystem has a set of monetary policy instruments and procedures at its disposal. They form an operational framework for carrying out monetary policy in practice. The main task of the operational framework is to implement the interest rate decisions taken by the Governing Council of the ECB on the money market. The main monetary policy instruments are open market operations, standing facilities and minimum reserves of which the most important instruments belong to open market operations which play a key role in

steering interest rates, communicating the monetary policy stance, and controlling the liquidity of money markets.

The Governing Council of the ECB continued to gradually tighten monetary policy by raising the key policy rate twice in the year under review. In the first half of 2007, the Eurosystem managed to keep short-term money market rates stable and close to the key interest rate, by continuing the more active practical implementation of liquidity management practices already commenced in 2005. This involves virtually regularly carrying out a fine-tuning operation on the last day of the reserve maintenance period. In August 2007 the operational framework for the monetary policy of the Eurosystem was, however, faced with a major challenge as the liquidity conditions of the euro area banking system suddenly tightened, reflecting the heightening of market disturbances, triggered by the US mortgage market.

Liquidity problems emerged when the market for mortgage-backed securities dried up, which caused financing problems for special purpose vehicles relying on short-term market funding. The problems spread to the banking system when the guarantees and credit limits granted by banks to special purpose vehicles were initiated and banks had to honour their funding commitments. The rapid growth in bank lending dramatically increased banks' own funding needs, which was reflected in the abrupt increase in the banking system's liquidity needs.

Due to the rapid decline in the prices of mortgage-backed securities,

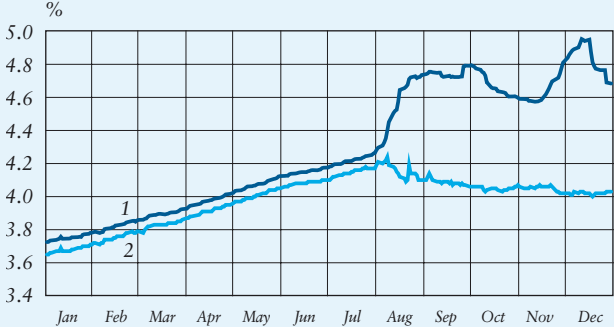
banks also had to make write-downs in their balance sheet, which increased their capital requirements. As a result, the uncertainty regarding money market counterparties' total risks grew, leading to disruptions in the operation of the money markets and a re-pricing of credit risk. This was reflected particularly on the interbank money market as an unparalleled spread between secured and unsecured rates (Chart 5).

In the second half of 2007, the Governing Council of the ECB had to actively adjust its liquidity policy, in response to the rapid increase in demand for short-term liquidity that was triggered on 9 August 2007, and the resulting financial market turmoil, which hampered market conditions considerably. At the start of the turmoil, the overnight rate made an exceptional jump, and was more than half a percentage point higher than the policy rate (Chart 6). In addition to the rise in interest rates, the volatility of interest rates increased considerably as a result of the disturbances. For example, the standard deviation of the overnight rate almost doubled in the last four months of the year, compared to the period prior to the turmoil.

Central banks consider volatility of the overnight rate harmful because it hampers the communication of monetary policy and may spill over to longer-term rates. The volatility of the overnight rate, if protracted, may also be reflected in the other financial market instruments because interest rate swaps, for example, are often tied to the overnight rate. As an initial reaction to the unusual movements

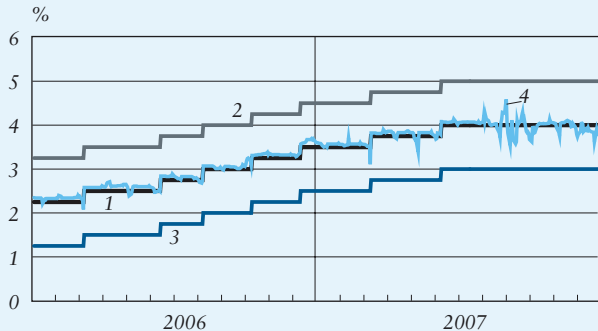
in the markets, the Governing Council of the ECB decided to increase the amount of overnight liquidity to steer the shorter rates closer to the policy rate. As a result of the active provision of liquidity, the Eurosystem managed to steer the overnight market rate close to the policy rate. Throughout the rest of the year,

Chart 5.
Spread between the 3-month unsecured and secured loan



1. — 3-month unsecured interbank rate (Euribor)
2. — 3-month secured interbank rate (Eurepo)
Source: Bloomberg.

Chart 6.
Eurosystem interest rates and overnight rate



1. — Main refinancing minimum bid rate
2. — Marginal lending rate
3. — Deposit rate
4. — Overnight rate (EONIA)
Source: European Central Bank.

volatility of the overnight rate nevertheless remained significantly higher than before.

The financial market turmoil also had a significant impact on the liquidity needs of euro area banks and thus on the Eurosystem's conduct of monetary policy operations. For example, the ECB increased the proportion of longer-term

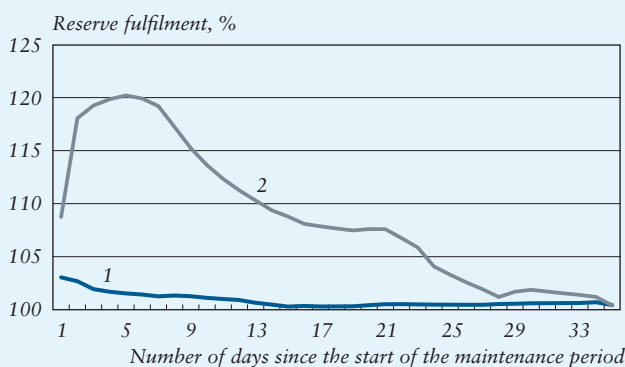
funding of total liquidity and increased the frontloading of reserves. In practice, the ECB conducted supplementary longer-term refinancing operations and, in the main refinancing operations conducted towards the beginning of the maintenance period, allotted an amount of liquidity that was clearly higher than the benchmark amount.¹ The purpose of frontloading was to facilitate credit institutions' compliance with the reserve requirement (Chart 7).

To support the operation of the longer-term money market, the ECB decided to carry out in August and September two supplementary (three-month) longer-term refinancing operations. These operations clearly adjusted the relative proportion of short- and longer-term funding (Chart 8). Despite preliminary signs of a calming down in the market throughout the autumn, the disturbances re-intensified in late November. The situation was made increasingly challenging by the approaching year-end, which caused a spike in the interest rate on loans with a maturity exceeding the turn of the year.

In November and December, the ECB thus decided to renew its supplementary longer-term operations so that their liquidity impact would extend to 2008. On 30 November, the ECB decided on a special measure to extend the maturity of the main refinancing operation allotted on 19 December 2007 from one to two weeks. This was done to cover the banking

¹ Benchmark allotment refers to the amount of liquidity allotted in main refinancing operations that keeps the demand for and supply of central bank financing in balance.

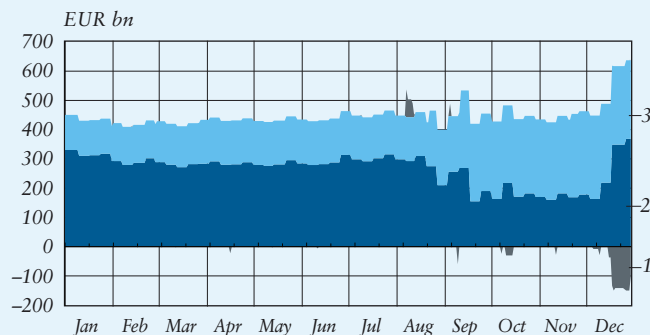
Chart 7.
Average fulfilment of the reserve requirement in the euro area



1. — Maintenance periods 13 Dec 2006 – 31 Jul 2007
2. — Maintenance periods 1 Aug 2007 – 15 Jan 2008

Sources: European Central Bank and Bank of Finland calculations.

Chart 8.
Eurosystem open market operations



1. — Fine-tuning operations (1–5 days)
2. — Main refinancing operations (1 week)
3. — Longer-term refinancing operations (3 months)

Source: European Central Bank.

system's liquidity needs over Christmas and around the year-end. In this operation the amount of liquidity bidden for was so high that the Eurosystem had to reduce the amount of liquidity by conducting a series of liquidity-absorbing fine-tuning operations to prevent the overnight rate from falling close to interest rate on the deposit facility.

The increase in the banking system's liquidity needs was to a large extent due to a lack of dollar-denominated funding, as the majority of the reneged liquidity commitments linked to the US mortgage sector was dollar-denominated. Therefore the Governing Council of the ECB announced on 12 December 2007 that it would provide Eurosystem counterparties with US dollar funding via an operation conducted with the US Federal Reserve. The Federal Reserve made a similar arrangement with the Swiss National Bank. In the euro area, this joint operation was conducted as two separate tenders: the Eurosystem channelled US dollar funding with a maturity of 4 to 5 weeks to its counterparties. At the same time, the Bank of England and the Bank of Canada carried out their own special operations. This was the most significant joint operation of central banks since the follow-up to the terrorist attacks of September 2001.

As a result of the financial market disturbances, the number of monetary policy operations conducted by the Eurosystem increased significantly in the second part of the year. In 2007, the ECB carried out 17 liquidity-absorbing and 7 liquidity-providing fine-tuning operations (Supplementary table 4). Of the fine-

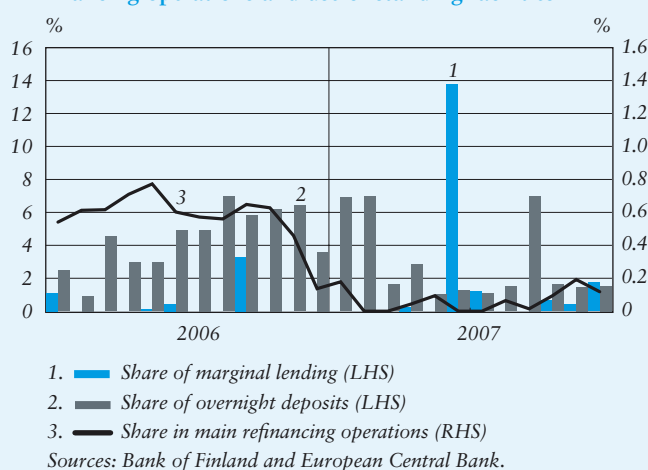
tuning operations, 18 were conducted in the period between August and the turn of the year. As in 2006, the ECB increasingly focused on the development of short-term market rates because one of the key indicators of the efficiency of monetary policy implementation is the spread between the minimum bid rate and the short-term market rates and the stability of the spread. Apart from the market turmoil, the Eurosystem was able to perform a relatively sound estimate of the banking system's liquidity needs.

Overall, the operational framework for the ECB's monetary policy proved its effectiveness in the money market disturbances in the autumn. The flow of information within the Eurosystem was smooth, and the numerous supplementary operations were conducted efficiently, within a decentralised operational framework. The Eurosystem managed to steer the overnight rate quite well, which is often considered the target rate, despite market vulnerabilities and decreasing volumes. In addition, the large number of banks eligible as counterparties and debt securities eligible as collateral supported the conduct of liquidity policy in a disturbance. Therefore, in contrast to several other central banks, the ECB did not have to make major amendments to its operational framework for monetary policy during the financial market crisis in autumn 2007.

Finnish credit institutions' participation in monetary policy operations

The liquidity position of credit institutions operating in Finland was

Chart 9.
Finnish credit institutions' shares in Eurosystem main financing operations and use of standing facilities



relatively good. Therefore their participation in the main refinancing operations (MROs) of the Eurosystem remained fairly low. The banking system's growing demand for liquidity in late 2007 was also evidenced in Finland, where the demand for central bank financing grew in the last quarter of 2007 (Chart 9). The credit institutions' share in the euro area liquidity allocation in MROs was almost EUR 8 billion in 2007. The percentage share of Finnish credit institutions decreased considerably, to 0.06%, from 0.53% in 2006. Finnish credit institutions' abundant liquidity was reflected in the fact that interest in liquidity-tightening fine-tuning operations grew considerably during the year.

Finnish banks' fixed-term deposits increased in 2007 to EUR 19.7 billion, from EUR 2.7 billion in 2006. Based on the use of the marginal lending facility and the deposit facility, Finnish credit institutions continued to maintain

abundant liquidity throughout the year. The recourse to the marginal lending facility was on average 1.51% of euro area marginal lending as a whole, which corresponds to about EUR 2.1 million per day. Finnish credit institutions' share of overnight deposits placed in the euro area as a whole was 2.9% on average, amounting to a daily average of about EUR 15.2 million. Finnish credit institutions' minimum reserve requirements constituted on average 1.47% of the total euro area reserve requirement in 2007.

Single List of collateral 1 January 2007

In order to obtain credit from the central bank via monetary operations and in the form of intraday credit, credit institutions need to have adequate collateral to cover their borrowing. As collateral, credit institutions are able to use securities and other assets located in their own country or another euro area country.

On 1 January 2007, the Eurosystem introduced a Single List of collateral, which means uniform eligibility criteria for assets accepted as collateral for central bank credit in the euro area.

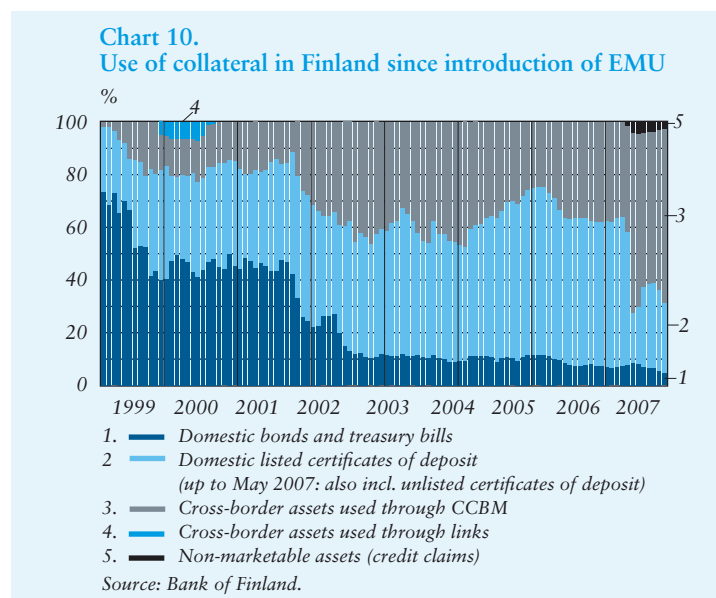
Debt instruments issued by credit institutions and accepted to the Single List must be tradable on regulated markets. Therefore also certificates of deposit issued by banks located in Finland had to be listed on the stock exchange as of 31 May 2007 in order to be eligible as collateral. In the period between June and end of December, 36 certificates of deposit listed on the Helsinki Stock Exchange, totalling over EUR 10 billion, were accepted on the Single List.

With the introduction of the Single List of collateral, all euro area central banks began to accept credit claims, ie loans granted by banks to non-financial corporations and the general government sector, as assets eligible as collateral for central bank credit. Credit claims were also posted with the Bank of Finland as collateral.

During the year, the eligibility criteria for collateral were revised slightly. As of April 2007, the Eurosystem has accepted commercial papers issued by non-financial corporations and international institutions, and traded on the STEP market (Short-Term European Paper) as collateral for central bank credit. Finnish commercial papers were not traded on this market. In late 2007, the Eurosystem accepted the rating agency Dominion Bond Rating Service (DBRS) as one of the external credit rating agencies whose ratings could be utilised in the assessment of collateral used for central bank credit. DBRS's ratings were introduced on 1 January 2008. The other external credit rating agencies already accepted by the Eurosystem are Fitch Ratings, Moody's and Standard & Poor's.

Use of collateral by Finnish credit institutions

In 2007, the total amount of collateral assets of Bank of Finland counterparties increased to EUR 9.5 billion, up by about EUR 0.5 billion compared to 2006. Despite growth in the total amount of collateral, the amount of collateral actually used for collateral



purposes remained virtually unchanged. Thus, the amount of surplus collateral reserves held by counterparties totalled nearly EUR 2 billion.

The proportion of domestic and cross-border collateral used changed in 2007, reflecting for example the fact that unlisted certificates of deposit became ineligible for use as collateral. In 2007, over two thirds of the Bank of Finland's 14 counterparties used cross-border collateral; for more than half of the counterparties cross-border collateral constituted the majority of the total collateral assets. In June 2007, cross-border collateral accounted for nearly two thirds of the counterparties' total collateral, ie for the first time, it exceeded the amount of domestic collateral (Chart 10). Use of collateral in Finland since the start of EMU).

Cross-border collateral used by Finnish counterparties was posted at

several euro area central banks. The collateral was transferred through the correspondent central banking model (CCBM). Links between central securities depositories were not used for transferring collateral, even though it would have been possible. Since the start of the year, Finnish counterparties have also been able to use loans granted by credit institutions to non-financial corporations and the general government sector as collateral.

Foreign counterparties used securities issued in Finland worth over EUR 3 billion for collateral purposes. This collateral was transferred to the Bank of Finland via the correspondent central banking model (CCBM), to be held in custody on behalf of foreign central banks.

In 2007, the ECB decided to review the current Eurosystem collateral management procedures, particularly the correspondent central banking model. The ECB is currently considering the possibility of developing a harmonised collateral central bank management (CCBM2) system. If it materialises, the common system would considerably increase the efficiency of collateral management in the Eurosystem, because all domestic and foreign eligible assets could then be managed cost-efficiently on the same technical platform, using harmonised procedures.

Payments

In 2007, the TARGET system provided by the Eurosystem central banks processed a daily average of 366,500 payments, with a total value of

approximately EUR 2,415 billion. TARGET is used primarily for transferring large-value payments: the average value of inter-Member-State payments was approximately EUR 10.7 million. The volume and turnover of payments processed in TARGET has grown year by year and all major payment systems use TARGET for settling payments in euro (Chart 11).

TARGET was introduced in January 1999 when the euro was adopted as scriptural money. Migration to the new system, TARGET2, is currently underway. TARGET2 is currently the key initiative of the European wholesale money market.

The volume of payments processed in the Finnish TARGET component, ie the Bank of Finland's Real-Time Gross Settlement System (BoF-RTGS), has grown significantly since autumn 2006 when the Bank of Finland's new Nordic system participants started transmitting their euro payments via Finland. This was due to Sveriges Riksbank disconnecting from TARGET at the end of 2006 and taking the decision not to participate in TARGET2. The Bank of England has reached a similar decision: it will provide TARGET services to UK financial institutions only until the launch of TARGET2, after which local monetary institutions will transfer their euro-denominated payments to TARGET as counterparties to the euro area central bank of their choice.

The former decentralised TARGET system will be replaced in three stages by the new, technically centralised

TARGET2 system which will harmonise euro area central banks' large-value payment systems. Migration to TARGET2 started in November 2007, when the first 8 central banks and their banking communities successfully connected to the new Single Shared Platform (SSP). The first migration group consisted of 259 banks from Germany, Austria, Luxembourg, Malta, Latvia, Lithuania, Slovenia, and Cyprus. In addition, 7 ancillary systems started to use services provided by TARGET2.

The Bank of Finland and its customers connected to the new system in the second migration group, on 18 February 2008. At the same time, the Bank of Finland started using all the central banking services provided by the Single Shared Platform and gave up its own RTGS system. According to the migration schedule, the central banks and banking communities of the third migration group will connect to TARGET2 in May 2008. Once the migration process has been completed, TARGET2 will provide services to approximately 1,000 banks (direct participants) and 60 ancillary systems in 21 European countries. A fourth migration window has been reserved for September 2008 in case a country's financial institutions fail to change over to the new system as planned (Table 1).

The new version of TARGET has been subjected to thorough testing since February 2007. Central banks and other monetary institutions have tested not only the functioning of the new Single Shared Platform but also the ability of

their internal systems to connect to the platform.

Throughout 2007 the Bank of Finland, along with the other central banks, cooperated with its customers in preparing for the changeover to the new system. National central banks were responsible for coordinating and supporting their monetary institutions' migration to TARGET2. In addition to regular information, the Bank of Finland

Chart 11.
TARGET's turnover and volume of payments, 1999–2007

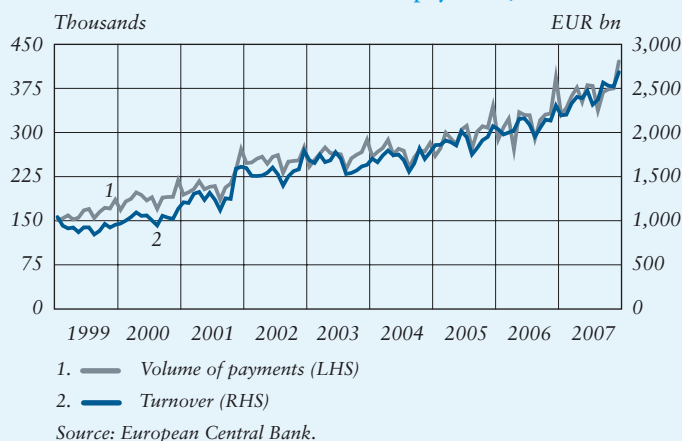


Table 1.
Composition of the migration groups

| Group 1 19 Nov 2008* | Group 2 17 Feb 2008* | Group 3 19 May 2008* | Group 4 15 Sep 2008* |
|-------------------------|-------------------------|-------------------------|--------------------------|
| Austria | Belgium | Denmark | Reserved for contingency |
| Cyprus | Finland | ECB | |
| Germany | France | Estonia | |
| Latvia | Ireland | Greece | |
| Lithuania | Netherlands | Italy | |
| Luxembourg | Portugal | Poland | |
| Malta | Spain | | |
| Slovenia | | | |

*Migration date.

Source: European Central Bank.

provided the participants with assistance in testing activities, guidance and training, as well as coordinated their registration to the new platform. For information exchange purposes, the Bank of Finland established two separate collaboration groups, one for domestic, and one for Nordic customers. The collaboration groups convened regularly, in addition, to bilateral meetings with all the participants held by the Bank of Finland.

The Bank of Finland's own TARGET2 project was already launched in 2004. The purpose of the project was to plan, execute and test the Bank of Finland's migration to the new system. The project also involved technical amendments to the Bank's applications, required by cover bookings in the PMJ interbank payment system for banks operating in Finland.

The TARGET2 system combines an efficient centralised platform with decentralised customer support. Its cost-efficiency is considerably higher than that of the former TARGET system. Each national central bank continues to operate

as a service centre to its counterparties. National special features can be taken into account through support provided by the home country central bank. TARGET2 provides financial institutions with a uniform interface which enables them to receive real-time information on payments and account balances, which in turn will enhance their liquidity management. Another significant improvement is the harmonisation of pricing.

Bank of Finland investment activities

Bank of Finland financial assets and financial asset management in 2007

The Bank of Finland's financial assets comprise foreign reserves (incl. gold and items in Special Drawing Rights, SDRs) and claims denominated in euro. At the end of 2007 the Bank's financial assets totalled approximately EUR 13,717 million. The amount of financial assets was increased by approximately EUR 1.5 billion in 2007. The proportion of claims denominated in euro of total financial assets grew to approximately 55% (Table 2).

As with many other central banks, the Bank of Finland's foreign reserves also comprise gold. The Bank's gold reserves amount to 49 tons. On the basis of the Central Bank Gold Agreement renewed in spring 2004 for five years, the Bank of Finland is permitted to invest a maximum of 25 tons of its gold reserves. This corresponds to the level of its gold deposits in September 1999, when the Bank of Finland, together with other 15

Table 2.
Distribution of Bank of Finland's financial assets by currency, 31 Dec 2007

| | % |
|-----------------------|----|
| <i>US dollar</i> | 17 |
| <i>Pound sterling</i> | 16 |
| <i>Japanese yen</i> | 3 |
| <i>Swiss franc</i> | 3 |
| <i>Euro</i> | 55 |
| <i>Gold</i> | 6 |

Source: Bank of Finland.

European central banks, agreed to restrict their gold sales and deposits.

During the year under review, two external assessments were made on the Bank of Finland's management of financial assets. One of the assessments focused on the implementation of investment activities, and the other focused on risk management. According to the assessments, the Bank of Finland's investment activities and risk management are handled appropriately. The assessments also included useful proposals for the development of operations.

The growth of financial assets and, in particular, the disturbances in the investment markets, which had started in the US markets in the summer, increased the challenges posed by investment activities. In the second half of 2007, the secondary market liquidity of the interest rate market was poor.

The bulk of the Bank of Finland's gold investments are long-term interest rate swaps with a lower credit risk than physical gold deposits.

Objectives for investment activities

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

Table 3a.
Return on the Bank of Finland's financial assets in 2007

| | % |
|--|-------|
| <i>Return on financial assets (excl. gold and items in SDRs)</i> | 0.70 |
| <i>Interest rate return</i> | 4.70 |
| <i>Exchange rate change</i> | -4.00 |

Source: Bank of Finland.

Table 3b.
Interest rate return by currency

| | % |
|-----------------------|------|
| <i>US dollar</i> | 7.46 |
| <i>Pound sterling</i> | 6.70 |
| <i>Japanese yen</i> | 1.52 |
| <i>Swiss franc</i> | 1.78 |
| <i>Euro</i> | 3.58 |
| <i>Gold</i> | 0.53 |

Source: Bank of Finland.

for maintaining the value of its assets, which also requires that the assets generate reasonable return (Tables 3a and 3b). The Bank also emphasises cost-effectiveness in investment activities. According to a calculation made in early 2007, the annual costs of investment activities amount to approximately EUR 6.3 million, ie 0.05% of the market value of financial assets.

The Bank of Finland determines a strategic benchmark for its long-term investment portfolio, aiming at optimal return/risk ratio, within security and liquidity constraints. In addition to strategic investments the Bank also conducts active investment activities with

the aim – considering the given risk limits – of generating return on investment in excess of the strategic benchmark return, and of maintaining market contacts and the expertise of portfolio managers.

Investments

The bulk of the Bank of Finland's financial assets is invested in debt

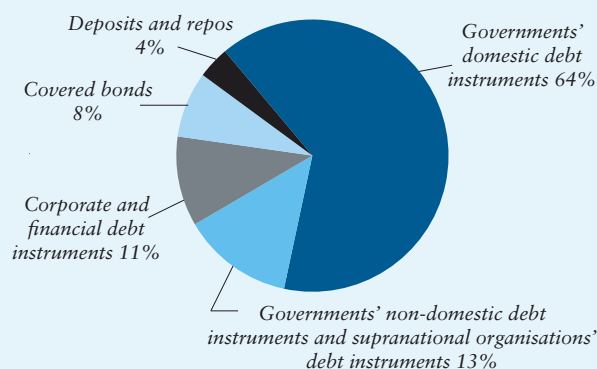
securities issued by well-rated governments in their respective currencies (Chart 12). Approximately half of the financial assets can be invested in debt securities issued by entities operating in developed industrial countries and certain supranational organisations (credit portfolio). The aim of the credit portfolio is to generate additional return and a better return/risk ratio by broadening the range of investment types to investments exposed to credit risk. In managing credit risk, it is essential to determine the minimum credit rating required from issuers, and to reach effective diversification. The average credit rating of issuers in the credit portfolio is AAA (Chart 13).

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

Active management

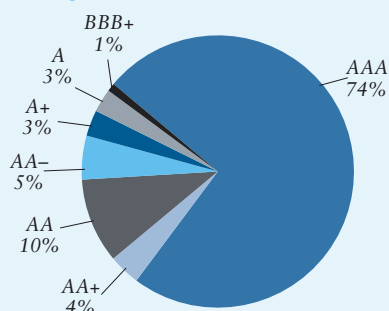
The Bank of Finland's portfolio managers are responsible for the benchmark allocation of investment activities. Active investment activities refer to the possibility of portfolio managers to deviate from the benchmark and thereby generate return higher than the benchmark. The Bank of Finland has defined a profit target and risk limits for active investment activities. Portfolio managers seek higher return by forming a view on the development of interest rate spreads, and credit market developments. Higher return is also generated via securities lending. The Bank of Finland uses automatic securities lending programmes.

Chart 12.
Distribution of the Bank of Finland's financial assets by investment area, as of 31 Dec 2007



Source: Bank of Finland.

Chart 13.
Distribution of the Bank of Finland's credit portfolio by credit rating, as of 31 Dec 2007



Source: Bank of Finland.

Investment risks and risk management

As with all institutions engaged in investment activities, the Bank of Finland's own actions are subject to various risks. The main risks are market risk, credit risk, liquidity risk and operational risk.

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

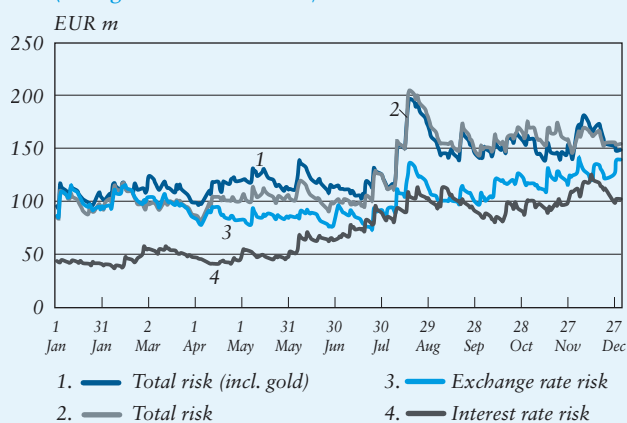
The Bank of Finland's Board decides the risk management principles as well as the main currency distribution of the Bank's foreign reserves and the level of interest rate risk. The Board member responsible for investment activities concretises the Board's decisions by determining the duration of benchmark portfolios, the amount of credit risk and the accepted investment objects. The head of the Banking Operations Department is responsible for establishing detailed limits for the practical investment activities. A risk management unit, separate from the portfolio management function, is responsible for the risk management of investment activities, the setting of benchmark portfolios and monitoring compliance with risk limits as well as the calculation of return. The unit reports on risk management issues to a different Board member, whose responsibilities do not include investment operations. In

addition, a risk committee convenes under the leadership of this Board member, with the purpose of independently assessing and controlling the risks inherent in investment activities and the risk management function.

Risk management measures

The Bank of Finland manages exchange rate risk by spreading its holdings of foreign reserves among different currencies, whereas the scope of foreign reserves is based on requirements set for a central bank by international agreements and crisis management obligations. The interest rate risk on the benchmark portfolio is managed in terms of duration. Duration describes changes in the value of investments resulting from changes in market interest rates. Interest rate risk is also controlled by spreading investments among debt instruments with different maturities. The method

Chart 14.
VaR figures for financial assets in 2007
(incl. gold and SDR items)



Source: Bank of Finland.

used in the analysis of total market risk to financial assets and the comparison of different risks is the Value at Risk (VaR) method (Chart 14). Credit risk arising from securities issuers is limited by a specific credit risk VaR method. In addition to these, risks to financial assets are evaluated with stress and scenario analyses. VaR limits have been set for deviations from the benchmark portfolio in terms of exchange rate and interest rate risks, as well as duration-based limits in terms of interest rate risks.

In order to limit liquidity risk, the financial assets are divided in different parts on the basis of the liquidity of the investment instruments it contains. Part of the financial assets is only invested in instruments that are easily liquidated, and part is invested in instruments for which several counterparties quote a secondary market price under normal circumstances.

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

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

Management of the foreign reserves of the ECB has been distributed among the various Eurosystem national central banks. The foreign reserves managed on behalf of the ECB comprise assets denominated in US dollars and Japanese yen as well as gold. Foreign reserve management is based on the premise that each national central bank may as a rule

manage only one portfolio. The Bank of Finland manages part of the ECB's reserves denominated in Japanese yen. Since any foreign exchange intervention by the Eurosystem is conducted using the assets of the ECB, security and liquidity form the basic requirements for the investment of the foreign reserves. The currency distribution of invested reserves is kept fixed. The ECB sets benchmark portfolios for the currencies in the reserves. The ECB monitors continuously the risks and returns on its foreign reserves. At the end of 2007, the foreign reserves of the ECB amounted to approximately EUR 42.8 billion. The share of the reserves denominated in yen and managed by the Bank of Finland on behalf of the ECB amounted to about EUR 717 million. The ECB's Annual Report provides additional information on the management of its foreign reserves.

Financial markets and statistics

Stability and efficiency of financial markets

The financial system is considered stable and reliable when it is able to smoothly conduct its core tasks. In addition, the risk-bearing capacity of major financial institutions and the financial market infrastructure as well as public confidence in financial institutions and infrastructure must be sufficient to withstand even severe disruptions in the environment. This definition of financial stability entails the Bank of Finland's stability analysis and oversight having the goal of predicting potential disruptions affecting the financial system and which might endanger the operation of the system.

Twice a year, the Bank of Finland publishes its assessment of the stability of the financial market. The stability reviews are a means of informing financial market participants, other authorities and the general public of risks in the financial system, threats to stability and prevention thereof. The reviews also highlight areas in need of improvement

In the December 2007 Financial Stability report, the Bank of Finland considered the Finnish financial system as remaining stable and capable of withstanding even major disturbances. However, risks were found to have increased in comparison with the time of publication of the previous stability report. The most significant threats in the operating environment of financial institutions operating in Finland are external, and in the short term, related to the deepening of financial market shocks

and in the longer term, to risks to global economic growth. The significance of liquidity risks is highlighted since banks and financial groups are now more dependent than before on market financing.

According to the Bank of Finland's assessment, basic structure of the Finnish financial market infrastructure is reliable, and key payment and settlement systems meet the requirements set. However, it must be observed that structural changes together with exceptional liquidity shocks may lead to increased vulnerability of the systems.

Policy recommendations given on the basis of the assessment are on the one hand related to liquidity risks and to the responsibilities and powers of the authorities. Financial corporations must use extreme crisis scenarios in their stress tests to map their vulnerability. In addition, authorities must prepare to respond swiftly to disruptions and potential crisis situations in the operation of the financial markets. The roles of different authorities and co-ordination of their measures in the supervision of multinational banks and crisis management must be developed further (Box 1). Furthermore, the report urged banks to improve the effectiveness of their communication to support the adoption of new payment methods by customers on the eve of implementation of the Single Euro Payments Area, SEPA.

During the review year, the Bank of Finland requested two outside experts to review the special stability issue of the Bank of Finland Bulletin and to make

Development of EU financial supervision

Within the EU, the rapid growth of cross-border banking operations has created pressures for authorities to develop their own activities in order to be able to ensure financial stability, supervision and preparedness for crises in all circumstances. In accordance with EU legislation, the home country supervisor of a banking or financial group operating in many countries is responsible for the supervision of the entire group. According to the view of the Bank of Finland, promotion of cooperation between the authorities of the home and host countries is key in the development of financial supervision.

In Finland Kaupthing Bank merged on 31 December 2007 with its Icelandic parent company and will subsequently operate as a branch. Danske Bank has announced that it would change the status of Sampo Bank from being a subsidiary of the group into a branch. Nordea's intention is to change the structure of its group into a European Company. In which case, its operations in Finland would be conducted at

branch status. Maintenance of financial stability also requires participation of the host country supervisor in the supervision of foreign-owned market participants with significance to the national market, regardless of whether they are subsidiaries or branches. It is important that cooperation between the home and host country supervisors is also promoted in EU legislation. Supervisor cooperation could be developed under the following principles.

First, the home country supervisor of a banking group must have an obligation to submit material information on the financial position of the banking group to the supervisor of its nationally significant branch. A similar obligation is already in place for exchange of information on subsidiaries.

Second, supervision tasks concerning nationally significant branches during normal times should be delegated to the host country supervisor. Present EU legislation provides an opportunity for this, but no obligation.

Third, the supervisors of the home country of a cross-border banking group and its nationally significant branches should establish supervision groups where the supervisors of branches have the right to be heard on significant issues related to the supervision of the entire group. Such groups already exist between home country supervisors and supervisors of nationally significant subsidiaries.

Fourth, the authorities responsible for financial stability in the host country of a nationally significant branch should have the opportunity to participate in the management of crises concerning the entire banking group, since such crises may pose a threat to financial stability in the host countries.

related development suggestions.

Summary of the review and development suggestions was published in the 2007 Financial Stability Report.

The Bank of Finland made active efforts in the context of development projects of the European financial market infrastructure. TARGET2, the next-generation version of the payment system maintained by EU area central banks, was launched successfully in November 2007. From 18 February 2008, Finland's preparedness to change over into the new system was good.

European retail payment systems will change when the Single Euro Payments Area becomes effective. Finnish banks updated their national SEPA transition plans in May 2007. The transitional period of the SEPA began on 28 January 2008, after which it has been possible to use a uniformly defined European credit transfer. The Bank of Finland has sought to facilitate this market-driven initiative eg by highlighting development and specification needs.

In 2007, the Bank of Finland began an extensive national programme to promote the identification of projects significant to efficient payment transfer. A payment forum organised by the Bank provided an opportunity for open discussion between different interest groups and for work at a strategic level to increase international effectiveness. At the same time, changes of payment methods and particularly factors with an influence on electronic billing were studied. During the review year, seminars

were organised on key payment system issues and team work on specific themes.

In addition, the Bank of Finland has, in accordance with its strategy, prepared the TARGET2-Securities system for centralised settlement and clearing of securities transactions in close cooperation with the project group of the European Central Bank, Finnish market participants and other authorities. The national user group organised by the Bank of Finland played an important role in formatting the special characteristics of the Nordic markets. Progress was made in the review year in terms of the background work for assessing the impacts of the project and user definitions. Based on these, a market consultation was organised to support decision making by the Governing Council of the European Central Bank to be made in summer 2008 on the establishment of the TARGET2-Securities system.

The Bank of Finland's objective is to participate in the division of labour between central banks both as a provider and buyer of services. Towards the end of the review year, the Bank of Finland decided, in accordance with its strategy, to put efforts into the productisation and development of the payment system simulator (BoF-PSS2) supporting oversight. The Bank of Finland's expertise is made available to other central banks, while also sharing the costs of development and maintenance of the simulator with cooperation partners. The payment system simulator is used in the evaluation of the functionality and efficiency of the financial market infrastructure in over 60 countries.

Cooperation with authorities

In accordance with its strategy, the Bank of Finland promoted both domestic and international cooperation with authorities over the review year by participating actively in many forums for financial market issues.

The year under review was an important milestone in the development of Finnish financial markets supervision. In March, the Bank of Finland proposed the merger of financial supervision under a single organisation in order that supervision would be efficient and comprehensive enough in the rapidly changing operating environment. In the spring, the Finnish Government decided in its programme that the Financial Supervision Authority (FIN-FSA) and Insurance Supervisory Authority be merged into a single authority.

In June, the Ministry of Finance and the Ministry of Health and Social Affairs set up a working group to draft a proposal on how the financial and insurance supervision organisation, to be established in connection with the Bank of Finland, should be organised. The Bank of Finland is represented in the working group, whose term lasts until the end of March 2008. In addition, the working group will draft proposal on a new legislative act on the financial supervision organisation and other necessary provisions.

A big change in Finland was the entry into force of legislation and other regulation (eg FIN-FSA standards) related to the Markets in Financial Instruments Directive (MiFID) in

November 2007. The objective of the Directive is to promote the functioning of the EU's internal markets by increasing competition in the organisation of trading on securities and other financial instruments. The capital adequacy requirements for credit institutions under the Basel II framework, which have been prepared for a long period of time, entered into force in February in connection with a revision of the Credit Institutions' Act. A major project in the field of payments was the EU's Payment Services Directive adopted in spring 2007 which is aimed at harmonising payment-related legislation in the EU area and to increase competition in the payment markets. At the same time, there is the aim of improving the security and efficiency of payment services.

A joint working group of domestic financial market authorities¹ undertook two surveys in 2007 into the risk factors in financial markets. In addition the Bank of Finland, the Financial Supervision Authority and the Insurance Supervisory Authority undertook joint stress tests in the Finnish financial sector based on an imaginary scenario of weak economic developments. Economic developments in the stress test scenario were found not to endanger the stability of the Finnish financial sector.

In the autumn, financial market authorities signed a cooperation document on financial market crisis

¹ The Bank of Finland, the Ministry of Health and Social Affairs, the Financial Supervision Authority, the Insurance Supervisory Authority and the Ministry of Finance.

management. The objective of the document is to improve the parties' crisis management capabilities by ensuring the exchange of information and cooperation necessitated by the crisis situation.

During the review year, there was a common financial market crisis exercise of the Nordic and Baltic countries ie in eight countries. In connection with the exercise, the organisation of authorities in accordance with valid memoranda of cooperation and cooperation based on a crisis scenario prepared in advance were tested among other things. The exercise helped in identifying areas of development with a view to potential financial crises in the cooperation between authorities of different countries.

The Bank engaged in a notable amount of cooperation related to financial stability analysis as well as integration and infrastructure issues with the Nordic and Baltic central banks and other authorities. During the review year, the first steps were taken towards co-ordinated oversight of the Nordic Central Securities Depository (NCSD) formed by the Finnish and Swedish CSDs. Furthermore, conditions for flow of information between the Bank of Finland, Riksbanken and the NCSD in potential crisis situations were improved.

Stock exchanges in the securities markets are seeking global cooperation, which poses its challenges to the post-trading infrastructure arrangements and oversight of the infrastructure with key importance to the Eurosystem. During the review year, important specifications

were made within the Eurosystem to the assessment process of payment systems.

The Bank of Finland participated in the work of international committees and institutions with key importance to stability analysis as well as payment and settlement system issues. The European Union's finance ministers' ECOFIN Council adopted in October a common set of principles prepared in the Economic and Financial Committee for controlling cross-border financial crises. As a member of the ESCB and working groups of the European Commission, the Bank of Finland participated actively in the EU and euro area financial stability analysis as well as development of payment and settlement system issues eg in relation to the TARGET2-Securities system and the SEPA initiative.

Statistics

The Bank of Finland is responsible for compiling Finnish data for statistics on euro area monetary financial institutions (MFIs) and other financial and balance of payment statistics, together with corresponding national data. Community legislation assigns to the Bank of Finland a public duty to compile statistics for the needs of the ECB by Community legislation. This duty is carried out, partly in cooperation with Statistics Finland, by the Bank's Statistics unit.

The Bank of Finland contributes to joint action aimed at improving the coverage of euro area financial statistics. In the year under review, the Governing Council of the ECB issued a regulation on investment fund statistics, and the

related preparatory national work was commenced. In addition, plans were under way to expand MFI statistics, and future possibilities to compile statistics on insurance corporations were also examined. Furthermore, the means to improve statistical practices in National Central Banks were also explored in a joint euro area working group. The international statistical community stressed the importance of revising recommendations on balance of payments statistics and national accounts, and an agreement was reached on the contents of the related changes. As for domestic statistical activities, the Bank of Finland, Statistics Finland and the National Board of Customs increased their cooperation at expert level to solve statistical challenges relating to multinational corporations and banks.

In the year under review, the Bank of Finland's Statistics unit introduced an Internet-based system for collecting underlying statistical data. The system is provided by an external service provider. Internet-based data collection is gradually to be increased in various statistical fields. Efforts to update data calculation and compilation methods will also be continued. The statistics section of the Bank's website was renewed in

February 2007, and the range of statistics published online, via the Bank's website was broadened throughout the year. The new online statistics are interactive in format, meaning that the user is able to modify the layout and contents of data displayed according to their individual needs. New monthly releases were launched of MFI balance sheet and interest rate statistics as well as balance of payments statistics. The publication *Financial Markets – Statistical Review* ceased to appear in paper format at the end of 2007 and was replaced with a selection of electronic releases.

Maintenance of currency supply

The Bank of Finland's currency supply saw a continuation of its policy of gradual improvements through various measures such as an increase in the storage of cash. Operations of the Turku branch office were discontinued, which served to increase the maximum number of banknotes in storage in regional cash depots, run by cash-in-transit companies. The number of coins in storage was also increased, enabling a cut in cash haulage.

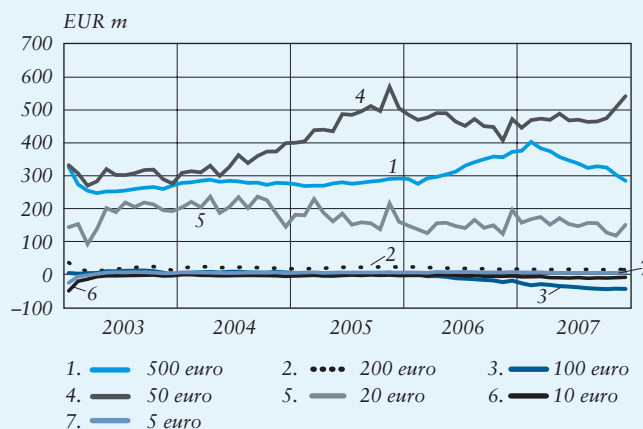
The number of banknotes continues to grow

Growth in the number of euro-denominated banknotes issued in Finland has continued to be brisk for six consecutive years. Annual growth for 2007 was still around EUR 1 billion. The relative annual growth of banknotes has slowed down somewhat, but reached up to 15% in the period under review. In euro terms, growth has been dominated by the issue of EUR 50, 500 and 20 banknotes (Chart 15).

It is estimated that more than a third of the banknotes issued in Finland have ended up outside Finland, so the number of banknotes issued is an increasingly poorer indicator of the volume of banknotes in circulation in Finland and of cash usage (Chart 16). Large amounts are withdrawn from bank branches to be used in other euro countries. Surveys show that the increased use of cash and growth in the volume of banknotes in particular can be attributed to tourism, importation of used cars and other fairly large acquisitions from abroad, such as real

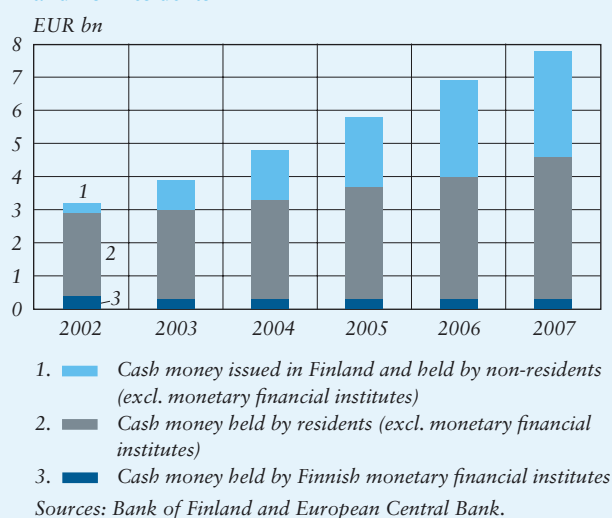
estate acquisitions. Several reasons can be listed as contributing to the increased use of cash in intra-euro area trade, such as bank tariffs for account transfers and use of cards, immediate confirmation of payment to the receiver, limits on card payments and value date practices.

Chart 15.
Net annual issue of euro banknotes in Finland



Source: Bank of Finland.

Chart 16.
Cash money issued in Finland and held by residents and non-residents



Sources: Bank of Finland and European Central Bank.

Cards more popular payment method than cash

Contrary to most other euro area countries, Finnish consumers clearly prefer card payments to cash when paying for daily consumer good purchases, although cash is still dominant for smaller payments.

In February 2007, the Bank of Finland conducted a consumer survey on cash and card payments. The results show that cash was considered the most practical and often a speedier option for smaller payments. Respondents felt that cash is more readily accepted as a means of payment than a card and that expenses can be better controlled when using cash over a card.

The primary reason put forward by card users is that cash is considered more cumbersome owing to the handling of change. The monetary size of purchases and the inconveniences and time constraints related to ATM withdrawals were also given as reasons for preferring cards. The average size of a credit card payment in Finland has already fallen to less than EUR 35.

Turku branch office was closed down

The currency supply management plan for 2007–2009 included a decision closure of the Turku regional branch office on 31 December 2007. There were two key reasons for the discontinuation of operations in Turku. The first reason was inefficiency: the volume of cash circulating through the branch office had diminished in recent years to levels that left some of the employees in the office

underemployed. Second, maintenance of the service level and modernisation of operating procedures would have required substantial investment in real estate and equipment so that effective and safe logistics could have been ensured. Security concerns manifested in a particularly unpleasant manner when a cash-in-transit vehicle owned by the Bank of Finland's client company was robbed in the courtyard of the Turku branch office on 19 February 2007. The international criminal league responsible for the attack was caught red-handed on 31 October 2007 in Lieto, south-western Finland, when attempting another cash-in-transit vehicle robbery, by a team led by the National Bureau of Investigation. Despite these incidents, cash-in-transit vehicle robberies are still very rare in Finland when compared to neighbouring Nordic countries.

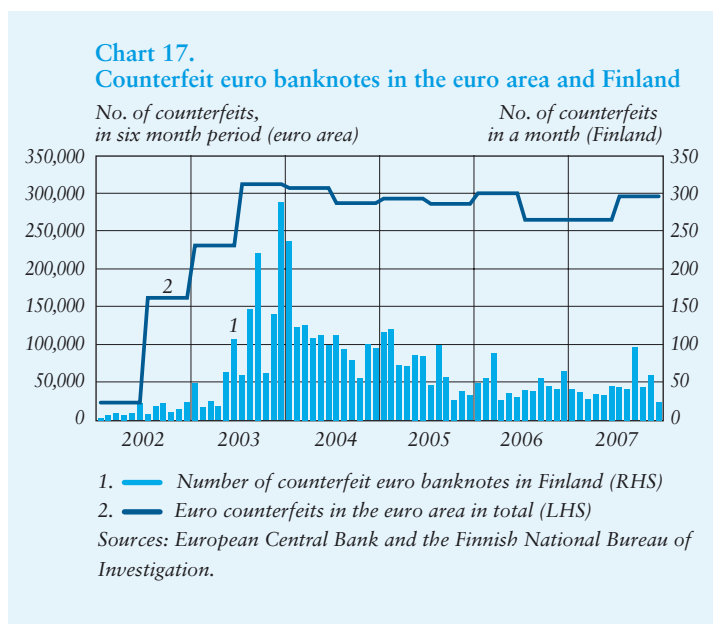
To ensure smooth currency supply operations in the Turku region, the overnight storage volume of banknotes was increased by EUR 7 million to a total of EUR 32 million with effect from the beginning of 2008. In this connection, local limits to storage were lifted in all regional cash depots outside of the Bank of Finland's regional office network. Local limits for the storage of coins had already been lifted in all regional cash depots in spring 2007, and the maximum volume of storage was increased from EUR 1.5 million to EUR 3.5 million.

The Bank of Finland also decided to overhaul the ordering and delivery system for cash and launch new

arrangements in connection with the introduction of TARGET2, the large-value payment system maintained by Eurosystem central banks. Known as CashSSP and developed by the Belgian central bank, the new currency management IT system was introduced in February 2008. It was procured jointly with the Benelux countries and also includes a cash management and storage functionality. The procurement agreement was signed at the Bank of Finland on 16 March 2007.

The number of counterfeit banknotes revealed in Finland remained stable

The number of counterfeit banknotes revealed in the euro area as a whole remained at the same low level of 265,000 counterfeits in the early part of 2007 as it had been at the end of 2006. A slight increase occurred at the end of 2007, but the total number remained under 300,000. The majority of the counterfeits withdrawn from circulation belong to the group of so-called general counterfeits that are distributed in a number of euro countries, which indicates that counterfeiting is a form of organised and professional crime. The majority of the forgeries in the euro area are typically EUR 20, EUR 50 and EUR 100 notes that carry a smaller risk of being exposed as counterfeits relative to the benefits obtained from distributing them. Accordingly, these denominations account for nearly 90% of all counterfeits.



In 2007, a total of 527 euro counterfeits were withdrawn from circulation in Finland so the number of counterfeits remained at the same low level as in 2006. The even development of the early part of the year was disturbed for a while at the end of the summer when a group of foreigners entered Finland and distributed, over a short period, nearly 90 very skilfully counterfeited EUR 200 banknotes. Once the perpetrators left Finland, the number of counterfeits returned to arbitrary levels (Chart 17).

The Bank revamped its website and made the new site available in February 2007. The new interactive statistics section and a wider selection of customer services have been particularly warmly received by the public. A complete overhaul of the Bank's online services continued with reform of the organisation's intranet in order to improve internal communication, work processes and ways of operating. The new intranet was introduced in early 2008.

The Bank made increasingly more publications available electronically. Our new series of online articles, BoF Online, discusses important issues with particular relevance to monetary policy and financial and payment systems. BoF Online aims to arouse public debate about issues with wide social implications. Some sections of the Bank's publications are adapted into articles for the press. Please refer to the appendix for details of key publications in 2007. A more comprehensive list is available online on the Bank's website under 'Publications'.

In 2007, the Bank of Finland Museum had approximately 9,300 visitors. The Museum runs a series of *Studia monetaria* lectures on the national economy and economic history, targeted at the general public. The most popular lectures in this series were the presentations highlighting the recent disturbances affecting the financial markets. In 2007, the Museum hosted 165 guided group visits. The Museum's seasonal exhibition, open through out the year, dealt with advertising in the banking sector over the past 100 years.

International operations

The Bank of Finland in the European System of Central Banks

As Governor of the Bank of Finland, Erkki Liikanen, is a member of the Governing Council, the highest decision-making body of the European Central Bank (ECB). The council is composed of members of the Executive Board of the ECB and of the governors of the national central banks of those EU member states that have introduced the euro. Matti Louekoski, Deputy Governor of the Bank of Finland, was Erkki Liikanen's personal alternate member and assistant at the meetings of the Governing Council in 2007. The Governing Council convened altogether 22 times during the year, including twice outside Frankfurt; in Dublin and Vienna. A telephone conference has held in August.

The Governor of the Bank of Finland is also a member of the General Council of the ECB, which includes the governors of all EU member states as well as the President and Vice-President of the ECB. The General Council convened four times in Frankfurt and held one telephone conference.

The Board members and experts from the Bank of Finland participated in the work of the European System of Central Banks (ESCB) during all preparation stages. The Bank of Finland had representatives in the ESCB committees and in the Budget Committee and Human Resource Conference (altogether 14) as well as in most of the working groups (approximately 60 permanent or fixed-term) (Box 2).

The members of the Board participated in the high-level ad hoc committees in their

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Box 2.

Representatives of the Bank of Finland in the ECB, EU and other international bodies in 2007

Bank of Finland in the Governing Council of the ECB

Erkki Liikanen, member

Matti Louekoski, alternate member and assistant

Bank of Finland in the ESCB committees, the Budget Committee and Human Resources Conference

International Relations Committee

Sinikka Salo
Olli-Pekka Lehmussaari

Accounting and Monetary Income Committee

Esa Ojanen
Tuula Colliander

Legal Committee

Maritta Nieminen
Eija Brusila

Payment and Settlement Systems Committee

Harry Leinonen
Anna-Maija Tikkanen

Market Operations Committee

Pentti Pikkarainen
Tuomas Välimäki

Banking Supervision Committee

Heikki Koskenkylä

Monetary Policy Committee

Antti Suvanto
Veli-Matti Mattila

Banknote Committee

Mauri Lehtinen
Kari Takala

Internal Auditors Committee

Erkki Kurikka
Pertti Ukkonen

Information Technology Committee

Armi Westin
Raimo Parviainen

Statistics Committee

Helka Jokinen
Harri Kuussaari

External Communications Committee

Jouko Marttila
Heli-Kirsti Airisniemi

Budget Committee

Antti Vuorinen

Human Resources Conference

Aura Laento

Representatives of the Bank of Finland on EU committees

Economic and Financial Committee

Pentti Hakkarainen
Hannu Mäkeläinen, alternate member

Economic Policy Committee

Helvi Kinnunen (until 31 July 2007)
Mikko Spolander (with effect from 1 August 2007)

Committee of European Banking Supervisors

Heikki Koskenkylä

Committee on Monetary, Financial and Balance of Payments Statistics

Jorma Hilpinen

Balance of Payments Committee

Jorma Hilpinen

Representatives of the Bank of Finland in the Bank for International Settlements and OECD

Meetings of the governors of the Bank for International Settlements (BIS)

Erkki Liikanen

Economic Policy Committee (OECD)

Antti Suvanto
Mika Pösö

Financial Markets Committee (OECD)

Jyrki Haajanen

respective areas of responsibility, such as banknotes, payment and settlement systems.

Bank of Finland and international economic policy

The Bank of Finland participates in international cooperation through various organisations and cooperation bodies. According to Finnish law, the Bank of Finland is responsible for the contacts of the Finnish Republic with the International Monetary Fund (IMF). In addition, the Bank of Finland participates in the activities of the Bank for International Settlements (BIS), five EU committees and the Organization for Economic Co-operation and Development (OECD).

International Monetary Fund

Finland's representative in the highest authority governing the IMF, the Board of Governors, was the Bank of Finland's Governor Erkki Liikanen, with Matti Louekoski, Deputy Governor of the Bank of Finland, being his alternate. The Board of Governors convened to its annual meeting in Washington in October. The Fund's advisory committee, International Monetary and Financial Committee (IMFC), met twice during the year. In April, the Committee was chaired by Gordon Brown, Chancellor of the Exchequer of the United Kingdom, and in October by Italy's Minister of Finance, Tommaso Padoa-Schioppa. The Nordic-Baltic constituency was represented in the Committee's April meeting by Finland's Minister of Finance, Eero Heinäluoma, who was replaced by his successor Jyrki Katainen in the October meeting,

following the spring parliamentary elections and a change of government.

Responsibility for the Fund's operations rests with the 24-member Executive Board and the Managing Director, who also acts as the Board's Chairman. The duties of the Managing Director were carried out until the end of October by Rodrigo de Rato from Spain, who was followed in the five-year post by Dominique Strauss-Kahn from France. The IMF's comprehensive reform programme progressed during the course of 2007. The most important and difficult part of the programme is the Quota and Voice Reform, which is due to be completed by autumn 2008. Finland acted as a bridge builder to find a solution that would satisfy the vast majority of member countries (Box 3). The reform programme also addressed the decision on the surveillance over the member countries' foreign exchange rate policies, effective since 1977 and considered outdated. The new decision approved by the IMF's Board encompasses the best practices of bilateral surveillance and puts the emphasis in surveillance on member countries' external stability.

The IMF's financial arrangements with the member countries have declined considerably in recent years, resulting in a significant narrowing of the Fund's income base. Mr. de Rato appointed an external group of experts with the task of preparing a proposal for the IMF's income model that would ensure sustainable long-term financing. A decision was also taken to re-evaluate the Fund's operations in order to curb expenditure.

Within the International Monetary Fund, Finland belongs to the Nordic-Baltic

'Compression model Finland' as bridge builder in the IMF's quota and voting rights reform

The quotas of the IMF's member countries have traditionally reflected the economic weight of each member country in the world economy. The quotas together with the basic votes determine the member countries' voting shares in the decision-making bodies of the IMF. For the sake of the IMF's credibility and effective functioning it is of utmost importance that voting shares are perceived as being fairly distributed among the members. As a result of the significant changes having occurred in the world economy the current quotas are viewed as an inadequate reflection of the relative position of the member countries.

In order to rectify the situation, in September 2006 the Board of the IMF approved a resolution which set the annual meeting of 2008 as the deadline for the quota and voice reform to be. The aim of the reform is that the quotas better reflect the member countries' relative position in the world economy. It was also decided to improve the possibilities of poor countries to participate in the decision-making in the IMF by increasing the share of basic votes to total votes. The number of basic votes is not dependent on the size of the economy.

The most controversial element of the quota reform has been the quota formula that determines the relative position of different countries in the world economy and would be used in the assessment of the quota increases in the future. The views among member countries regarding the variables and of their respective weights to be included in the formula have varied greatly.

During Finland's EU presidency in 2006, Finland proposed a so-called compression model to facilitate reaching an agreement on the reform. The basic idea of the model is to compress the distribution derived from the quota formula without altering the order of the countries. Compression lowers the calculated quota shares of the largest countries and increases those of smaller countries in particular. The compression model can be applied irrespective of the variables to be used in the determination of member countries' relative position in the world economy (eg GDP or openness of economy) and their weights in the quota formula. Because the results obtained with the compression model are closer to the quota distribution generally perceived as being more equitable than any of the previ-

ous alternatives, the model seems to offer a possibility for an agreement on the quota formula reform.

Finland's proposal was prepared in cooperation with the Bank of Finland and the Ministry of Finance. The compression model was discussed on several occasions in various EU fora and following several stages of negotiations, the model was eventually supported by all EU member states. In subsequent discussions at the Executive Board of the IMF's Board, the compression model has been widely supported by the representatives of both the developing and the poor countries.

The final solution on the quota and voice reform has not yet been reached. However, the compression model would seem contribute on its part toward a more equitable solution than previous alternatives. The widespread support received by the compression model is manifested in the communiqué issued by the International Monetary and Financial Committee in October 2007, which maintained that compression should be included in the quota reform.

Constituency, which has a common representative on the Executive Board of the Fund. For 2006–2007, the constituency's representative and member of the Executive Board was Tuomas Saarenheimo from Finland. During that period, the Bank of Finland, in cooperation

with the Ministry of Finance, was responsible for coordinating constituency positions for discussions in the Executive Board.

The Nordic-Baltic Monetary and Financial Committee (NBMFC) convened twice in 2007 to prepare constituency

policy positions.¹ Finland's representative on the Committee was Matti Louekoski, Deputy Governor of the Bank of Finland. Work of the NBMFC was prepared by an alternate committee, which also convened twice in 2007 and where the Bank of Finland was represented by Olli-Pekka Lehmussaari, Advisor to the Bank of Finland's Board.

An expert group of economists from the IMF conducted an assessment under the Article IV consultations on the economic situation and policies in Finland. At the end of the consultation, the group published a statement confirming that Finland's economic development has been very good and the economic outlook remains good. The experts noted that future growth demands improved utilisation of the labour force. The challenges posed by population ageing must also be addressed by more efficient provision of public services and fostering the sustainability of public finances.

EU committees

The Economic and Financial Committee (EFC) of the European Union prepares issues related to the economic and monetary union for discussion by the EU Council convening in the composition of *Economic and Finance Ministers (ECOFIN)*. The members of the EFC are representatives of the Ministries of Finance of EU member states and national central banks, as well as of the ECB and the European Commission.

¹ More information on the views presented by the Nordic-Baltic constituency in the Board of the IMF is available in the 'Biannual Report on Recent Policy Developments in the International Monetary Fund'. The Nordic-Baltic Office, IMF (http://www.suomenpankki.fi/en/suomen_pankki/kv_yhteistyö/imf.htm).

The representatives of the national central banks are only present in the meetings of the full composition, where economic conditions, financial markets, statistics and matters related to the IMF are discussed.

In 2007, the EFC arranged two so-called *Financial Stability Table* discussions, which were attended not only by the committee members but also by representatives of the EU's supervisory committees and of the *Financial Services Committee (FSC)*. Among the topics discussed, in addition to the regular financial market reports, was also the development of supervision of European financial markets (examination of the Lamfalussy committee structure).

The EFC prepared the EU's common guidelines on IMF policy matters and analysed issues related to the future of the IMF such as the Quota and Voice Reform, prepared by its own *Sub-Committee on IMF and Related Issues (SCIMF)*.

The EU's *Economic Policy Committee (EPC)* prepares issues for the Council of Ministers concerning broad economic policy guidelines and structural policy issues pertaining to the Lisbon strategy. The EPC is composed of representatives from the member states' Ministries of Finance and central banks as well as from the European Commission and the ECB.

The Committee of European Banking Supervisors (CEBS) composed of the EU's high-level banking supervision authorities or central bank experts, deals with issues concerning regulation and supervision of the banking sector, with special emphasis on convergence of supervisory procedures and development of cross-border supervision.

The *Committee on Monetary, Financial and Balance of Payments Statistics (CMFB)* is composed of representatives of national statistics authorities, Eurostat, national central banks and the ECB. The Committee's task is to improve conditions for statistical cooperation between the ECB and Eurostat and issue statements on statistical matters under its mandate. The most important issues discussed in the review period were specification of statistics for the public sector, development of statistics on economic cycles at the EU and euro area level and finalisation of the updated international recommendations for the compilation of national accounts.

Statistical authorities responsible for balance of payments statistics as well as central banks are members of the Eurostat's *Balance of Payments Committee*. The purpose of the Committee is to assist the Eurostat in the adoption of a regulation on EU balance of payments statistics, set by the European Parliament and the Council.

Bank for International Settlements

The Bank for International Settlements (BIS) convenes six times a year, and these meetings are attended by the Governor of the Bank of Finland. The themes discussed at the meetings in 2007 as a rule included current international economic and financial market matters but also risk management, supervision of financial markets and the work of the so-called Basel Committee with the focus on further development of supervision.

As a shareholder of BIS, the Bank of Finland was also represented at the BIS annual meeting.

OECD

Representatives of the Bank of Finland participated in the activities of the *Organisation for Economic Cooperation and Development (OECD)* through two committees, namely the OECD's Economic Policy Committee (EPC) and the *Committee on Financial Markets*. The topics discussed at the OECD meetings in 2007 included the regular semi-annual economic outlook projections, turmoil in the housing and financial markets and related policy implications, cross-country comparison of differences in hours worked, benefits and challenges of globalisation in view of economic policy as well as the consolidation of public finances.

The bulk of the work of the Committee on Financial Markets consists of analysis on current financial market events and possibly ensuing policy recommendations related to these events. Among the current themes the most discussed during 2007 were the subprime market, hedge funds and private capital as well as structured financial instruments. Topics with a longer-term view included financial market indicators, raising understanding of financial markets, efficiency of prudential regulation and public debt management.

Other international activities

In the course of 2007, The Board members of the Bank of Finland participated in a number of international seminars and conferences. Erkki Liikanen, Governor of the Bank of Finland, chaired a seminar of the Eurosystem and Central African countries in Paris, focusing on regional economic integration and monetary policy cooperation.

Governor Liikanen also chaired the 50th anniversary seminar of the German central bank. He also delivered a presentation on monetary policy under conditions of uncertainty in a conference, arranged in Buenos Aires and in a financial market seminar at the University of Moscow. Furthermore, Governor Liikanen spoke at a world economy forum, which was founded by Mihail Gorbatšov. The conference was held in Budapest under the theme ‘the European dream – promises and reality’. In Stockholm, Sweden, Governor Liikanen attended a meeting of the Finnish-Swedish Chamber of Commerce and the discussion dealt with differences and similarities between the EU economies.

Board member Sinikka Salo delivered the opening address at an international seminar in Helsinki focusing on financial market stability, supervision and central banks. She also opened the SUERF seminar (*Société Universitaire Européenne de Recherches Financières*), arranged in Helsinki and dealt with financial markets, innovations and economic growth, as well as the 8th annual CEPR meeting (*Centre for Economic Policy Research*) focusing on expectations and cyclical dynamics. Dr. Salo also opened a seminar in Helsinki on the integration of Russia and China into the world economy.

Several distinguished foreign guests visited the Bank of Finland in 2007. In March, Governor Liikanen hosted Guy Quaden, Governor of the Belgian central bank, and José Manuel González-Páramo, member of the Governing Council of the ECB, and in April, Axel A. Weber, Governor of the German central bank. In July, Jean-Claude Trichet, President of the ECB was the

keynote speaker at the Bank of Finland’s conference for invited VIP guests, organised at the SuomiAreena forum in connection with the Pori Jazz Festival. In July the Bank had a visit by Sergei M. Ignatjev, Governor of the central bank of Russia and Zhou Xiaochuan, Governor of the central bank of China, visited in September. Around the turn of November - December, Klaus Liebscher, Governor of the central bank of Austria, and Nicholas C. Garganas, Governor of the central bank of Greece visited the Bank.

Nordic central bank cooperation continued at both Governor and expert level. In 2007, the traditional annual meeting of the governors of the Nordic central banks was held in Finland. In addition to the governors, the meeting was also attended by other representatives of the five Nordic central banks. The participants discussed central banks’ core functions. Also experiences with the monetary policy and the flexicurity-model of Denmark were reviewed. As the meeting was held in Saariselkä, Lapland, it was structured around the theme of “Gold and Lapland”. The Nordic governors also met several times during the year at other occasions.

The Bank of Finland also arranged the traditional seminar with the central bank of Estonia in Helsinki. The participants discussed various issues with topical interest in the areas of economic policy, financial markets and supervision.

Management and organisation

Organisation of the Bank Finland

31 December 2007

PARLIAMENTARY SUPERVISORY COUNCIL

Seppo Kääriäinen, Chairman, Antti Kalliomäki, Vice Chairman, Pekka Ravi,
Liisa Jaakonsaari, Martti Korhonen, Mika Lintilä,
Tanja Saarela, Marja Tiura, Ben Zyskowitz

Anton Mäkelä, Secretary to the Parliamentary Supervisory Council

BOARD

| | | | |
|-----------------------------------|---|--|--|
| Erkki Liikanen Governor | Matti Louekoski Deputy Governor | Sinikka Salo Member of the Board | Pentti Hakkarainen Member of the Board |
|-----------------------------------|---|--|--|

Arno Lindgren, Secretary to the Board

DEPARTMENTS

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

The Financial Supervision Authority, headed by Anneli Tuominen, operates in association with the Bank of Finland.

Organisation of the Bank of Finland

7 March 2008

PARLIAMENTARY SUPERVISORY COUNCIL

Timo Kalli, Chairman, Antti Kalliomäki, Vice Chairman, Pekka Ravi,
Liisa Jaakonsaari, Tanja Karpela, Martti Korhonen,
Mika Lintilä, Marja Tiura, Ben Zyskowicz

Anton Mäkelä, Secretary to the Parliamentary Supervisory Council

BOARD

| | | | |
|---|---|---|---|
| <p>Erkki Liikanen Governor</p> <p><i>Monetary policy preparation and implementation, preparation for meetings of the Governing Council and General Council of the ECB.</i></p> <p><i>Member of the Board to whom the Heads of the General Secretariat and Internal Audit report.</i></p> | <p>Pentti Hakkarainen Deputy Governor</p> <p><i>Financial stability issues, Member of the Boards of the Financial Supervision Authority and the Insurance Supervisory Authority.</i></p> <p><i>Member of the Board to whom the Heads of Financial Markets and Statistics, and Administration report.</i></p> | <p>Sinikka Salo Member of the Board</p> <p><i>Banking operations: payments and maintenance of currency supply, Bank of Finland's own investments.</i></p> <p><i>Member of the Board to whom the Heads of Banking Operations and Currency report.</i></p> | <p>Seppo Honkapohja Member of the Board</p> <p><i>Research and information technology.</i></p> <p><i>Member of the Board to whom the Head of Monetary Policy and Research reports.</i></p> |
|---|---|---|---|

Arno Lindgren, Secretary to the Board

DEPARTMENTS

| | | | |
|--|--|--|--|
| <p>Monetary Policy and Research <i>Antti Suvanto</i></p> | <ul style="list-style-type: none"> • Forecasting • Information Services • Economic Development and Analysis | <p>Institute for Economics in Transition (BOFIT)</p> | <p>Research</p> |
| <p>Financial Markets and Statistics <i>Kimmo Virolainen</i></p> | <ul style="list-style-type: none"> • Financial Stability • Oversight of Market Infrastructure | <p>Statistics</p> <ul style="list-style-type: none"> • Balance of Payments • Financial Statistics | <ul style="list-style-type: none"> • Information Management |
| <p>Banking Operations <i>Pentti Pikkarainen</i></p> | <ul style="list-style-type: none"> • Market Operations • Risk Management • Investments | <ul style="list-style-type: none"> • Back Office • TARGET Division | |
| <p>Currency <i>Mauri Lehtinen</i></p> | <ul style="list-style-type: none"> • Regional Offices Kuopio, Oulu, Tampere, Vantaa | | |
| <p>General Secretariat <i>Kjell Peter Söderlund</i></p> | <p>European and International Affairs Legal Affairs Communications</p> | <p>Strategy and Organisation</p> | <p>Senior Secretarial Staff</p> |
| <p>Administration <i>Esa Ojanen</i></p> | <ul style="list-style-type: none"> • Administrative Services • Language Services • Accounting | <p>Personnel Information Technology Security</p> | |
| <p>Internal Audit <i>Erkki Kurikka</i></p> | | | |

The Financial Supervision Authority, headed by Anneli Tuominen, operates in association with the Bank of Finland.

Management system

The Bank of Finland's Board of Governors conducts a semi-annual achievement evaluation of the objectives set in the objectives and results framework. The first evaluation was performed in spring 2007. Alongside the objectives and results framework, the Bank's operations are guided by department-specific objectives and results agreements, geared towards achievement of the goals set in the strategy.

In 2008, the connection between remuneration and performance appraisal will be further enhanced by introducing a revised performance appraisal practice. The new practice is based on the Bank's current management system, setting of objectives and evaluation of past performance.

Bank of Finland objectives and results framework

| | Strategic guideline | Indicator | Objective | Achieved 12/2006 | Achieved 12/2007 |
|--|---|--|--|---|---|
| Service competence and exercise of influence | 1. The Bank of Finland's influence within the Eurosystem is based on widely recognised cutting-edge research and analysis. | Governor's evaluation – by meeting | Good [=4] | 3.8 | 4.01 |
| | 2. The Bank of Finland's influence in domestic economic policy-making is enhanced by drawing on the Bank's ability to produce forecasts and risk assessments combining the macroeconomic and financial market approach. | Media monitoring: Forecast report Stability report | Increased positive coverage for both reports | 3.4 3.0 | 4.3 3.7 |
| | 3. The Bank of Finland serves financial market counterparties operating in Finland by ensuring that it can provide them with internationally competitive central banking services. | Customer satisfaction TARGET TARGET2-migration support | Good [=4] | 4.3 4.4 | 4.5 4.6 |
| | 3. Methods for assessing the current state of financial institutions and financial markets as well as emergency preparedness are improved, as required by financial market integration. | Result of crisis management rehearsal On the basis of self-assessment | Positive evaluation | Good performance | Good |
| | 3. The Bank promotes cooperation between financial market participants and their international influence, with a view to strengthening financial market and payment system infrastructures. | Self-assessment Feedback from counterparties | Good | Good Good | Good 4.1 |
| | 4. As regards the currency supply system and its customers, the Bank of Finland sets the service level requirements to be met by the Finnish currency supply system, putting in place a performance control framework for the system. | Customer service survey among professional cash-handling counterparties Consumer survey, quality of banknotes Coverage of ATM network, percentage of those satisfied | Good [=4] | 3.5 3.4 73% | 3.07 Not asked Not asked |
| | 5. General public confidence in the Bank and awareness of the Bank's activities is promoted through effective and well-targeted communications. | Results of image survey VIP research Omnibus research | In the upper section of benchmark group | 5th/24 3rd/12 | 3rd/24 3rd/12 |
| Economy of resource use | 6. The currency breakdown of the Bank's financial assets and the Bank's investment policy is to be revised. The foreign reserve assets will be accommodated to meet crisis management requirements and international obligations. | Limits on the yield of financial assets taken into account | Market yield of corresponding asset items, at the least. Basis points above the central bank rate | 107 | 43 |
| | 7. Balance sheet policy is to be revised. | Distributed earnings (in euro) Balance of payments risk buffers from currency-denominated net receivables Equity | Even distribution of earnings, more than 40% of currency position EUR 2,168 m | EUR 186 m 46% EUR 2,065 m | EUR 250 m 42% EUR 2,310 m |
| | 8. Controlled personnel reduction in line with identified priorities to be undertaken. | Operational strength: Bank's headcount | 2008: 495 2009: 467 | 514.5 | 490 |
| | 9. The real value of operating expenses to be reduced from the current level. | Departmental operating expenses | 2007: EUR 52.5 m 2008: EUR 57.6 m | EUR 50.0 m | EUR 49.7 m |
| Efficiency of internal processes | 10. The speed and quality of key processes of banking operations, economist functions and support services are to undergo systematic evaluation and enhancement. Achievement of speed and quality objectives set in the departmental objectives and results contracts. | | | Internal processes (see departmental measures) | Internal processes (see departmental measures) |
| | 11. Cooperation between the Bank of Finland units participating in the production of the financial market stability analysis, and between these units and the Financial Supervision Authority, is enhanced in order to make information flow more efficient and eliminate overlapping tasks | Overlapping tasks Through-time | No overlapping tasks 4 weeks | Improvement programme has been designed and launched 5 weeks | Improvement programme has been carried out 4 weeks |
| | 12. The Bank's ICT environment is upgraded to meet the needs of an increasingly expert-driven organisation. | Internal survey External benchmarking | Good [=3.7] At least at par with the benchmark group | 3.2–3.8 No external benchmarking | 3.2–3.9 Not equally good |
| Competence building and working capacity | 13. Personnel level of education is raised via recruitment policy and by providing more versatile training opportunities. | Number of doctoral degrees Education level index | More than 26 doctors (PhD) Education level beyond 5.3 | 29 5.4 | 32 5.5 |
| | 14. Research activities will be focused on areas that serve to consolidate the Bank's exercise of influence, and the quality of research will be improved. | Number of publications Evaluation of the research function | Number increasing (more than 8), good | Evaluation of the Euro & talous publication in 2007 | 22 Good |
| | 15. Leadership and management skills are being enhanced. | Job satisfaction index Absence from work due to sick leave, % | More than 3.4 Below 3.5% | 3.4 3.2% | 3.24 3.19% |

Personnel

In spring 2007, the Bank of Finland's board approved the Bank's long-term HR vision and key HR policy areas and objectives for 2007–2009. HR management is based on common policy decisions, strategic HR objectives and prioritised policy actions. Functional and consistent HR management provides the basis for motivation and wellbeing at work.

In the year under review, the Bank's human resource planning continued to be guided by the staffing ceilings adopted and a tight recruitment policy. Drawing from the Bank's strategy and international comparisons, the middle-term personnel number target until 2011 was set at approximately 440. Achievement of the staffing ceilings is supported with a proactive approach to personnel planning. Key areas in planning for the next three years are management of retirements, exploitation of synergies between departments and personnel competence and structure. HR planning makes use of the SAP HR system, which now has a new functionality that supports superiors in continuous HR planning.

At the end of 2007, the Bank of Finland employed 490 staff, with 433 employed at the head office and 57 in currency supply maintenance. Of the total staff, 49.5% held expert positions. The number of staff in attendance declined by 5% in the year under review. At the end of 2007, the Financial Supervision Authority (FIN-FSA) employed 141 staff of which 73% had expert positions. The FIN-FSA's employees are under a contract of employment with the Bank of Finland and the Bank is responsible for providing

the FIN-FSA with personnel administration functions.

Organisation of HR services

In-house HR services at the Bank of Finland are geared to strategic HR planning and service, with a particular emphasis on tailored services for the organisation. HR experts are responsible for the labour market organisation and service-related matters, remuneration policy, management development as well as support functions related to recruitment and induction training of new employees. The HR unit is also responsible for the maintenance of the SAP HR data system and HR reporting services.

Large-volume HR services applicable to the entire personnel have been outsourced. These services include payroll and pension management, occupational health care, keep fit services, language training and management training.

Professional competence and wellbeing at work

Towards the end of the year, a decision was made to increase job rotation to enhance professional development. Senior manager and expert positions at the Bank of Finland and the Financial Supervision Authority can be filled on a fixed-term basis. This practice will be introduced gradually as new vacancies become available. The fixed-term nature of jobs does not affect employees' existing full-time employment contracts.

The decision was taken to broaden the management training opportunities

with an individual coaching programme. In 2008, the coaching programme will be extended to senior-level experts.

The training for economists was dominated by emphasis on methodological competences in key areas of the bank's strategy. Particular emphasis was placed on tools for the construction and use of macroeconomic models, such as the types of statistical and econometric methods that modelling work requires.

EUR 0.83 million was used for training at the Bank of Finland and EUR 0.18 million at the FIN-FSA. This accounted for 3.0%, and 2.1%, of payroll, respectively. More extensive opportunities for secondment between the central banks of the Eurosystem were offered, and the Bank of Finland employees took an active part in the training offered by the Eurosystem.

Employee job satisfaction is measured with a survey conducted every second year. In latest survey conducted in October 2007, the job satisfaction index was 3.24 (3.35 in 2005).

In early 2007, the Monetary Policy and Research Department introduced a new tailored flexitime scheme on probationary basis. The economists and researchers in the department were pleased with the results and thus, in early autumn, 47 employees in the department adopted the news scheme. Based on mutual trust, tailored flexitime scheme increases flexibility and evens out the work load distribution at peak times.

Labour market issues

Collective bargaining negotiations were conducted at the Bank in the autumn for the period 15 February 2008 – 28 February 2010. A key new feature in the new contract is the so-called wage negotiation model, where an agreed percentage from the negotiated overall wage increase percentage is channelled to personal wage increases based on the employee's performance. The wage negotiation model is also used in the financial sector as a whole. The first bilateral wage negotiations within the context of this new model will be conducted in spring 2008.

Wage increases for the period 2008–2010 amount to a total of 8.0%. The negotiated settlement rates for 2008 and 2009 are 2.9%, and 1.8%, respectively. The percentages channelled for the bilateral wage negotiations in 2008 and 2009 are 1.6% and 1.7%, respectively.

Based on terms in the previous negotiated contract, basic salaries were raised by an additional 0.64% with effect from 1 January 2008.

New limits for flexitime were set in 2007. In the morning, flexihours are from 7.30 am to 9.30 am and in the afternoon from 3.00 pm to 8.00 pm (previously 7.30 am–10.00 am and 2.00 pm–7.30 pm). The daily regular working hours at the Bank of Finland are still 7 hours and 40 minutes.

Table 4.
Highlights of human resource management¹

| | 2006 | 2007 |
|--|------------|------------|
| Staff size | | |
| Operational strength, Bank of Finland | 514.5 | 490 |
| Operational strength, Financial Supervision Authority | 137 | 141 |
| Man years | 542.1 | 527.3 |
| Turnover rate for those leaving the Bank's service | 10% | 8.5% |
| Turnover rate for those entering the Bank's service | 5% | 4.5% |
| Internal mobility | 7.5% | 5% |
| Number of newly retired employees | 29 | 26 |
| Average age of retiring employees | 58 years | 58 years |
| Number of pensions currently paid ² | 983 | 1,036 |
| Staff structure | | |
| Average staff age | 45.7 years | 45.8 years |
| Proportion of experts and superiors | 59.5% | 60.4% |
| Proportion of women | 49% | 48% |
| Education level index ³ | 5.4 | 5.5 |
| Salaries and bonuses | | |
| Salaries in relation to market salaries ⁴ | 105.1% | 102.0% |
| Fixed increases in pay | 2.15% | 2.99% |
| General increase | 2.00% | 2.59 |
| Sectoral allowance | – | – |
| Personal pay increases | 0.15% | 0.4% |
| Bonuses as a proportion of payroll | 0.60% | 0.70% |
| Average pay for women/average pay for men | 98.4% | 98% |
| Pensions | | |
| Pensions paid ⁵ | EUR 17.5 m | EUR 18.8 m |
| Competence | | |
| Training costs/payroll | 2.8% | 3.0% |
| Training days/man-year | 3.6 | 2.7 |
| Wellness at work | | |
| Absence from work due to sick leave | 3.18% | 3.19% |
| Job satisfaction index (employee attitude survey 2007) | – | 3.24 |

¹ Figures refer to the Bank of Finland, unless otherwise method. Figures referring to the Financial Supervision Authority are published in the FIN-FSA Annual Report.

² Includes pensions paid to the retired employees of the FIN-FSA.

³ The education level index is calculated from the basic level of education of staff included in the operational strength. The educational level index varies between 1 and 8.

⁴ The Bank of Finland's reference group in the HAY salary survey is made up of organisations representing the banking and financial sectors, public sector, and industrial and service sectors. The Bank of Finland's remuneration policy is targeted at the median level of the HAY salary survey for all organisations (basic salary + benefits).

⁵ Includes pensions paid to the retired employees of the FIN-FSA.

Budget and operative costs

In autumn 2007, for the third consecutive year, a three-year rolling budget was prepared for the Bank of Finland. However, as a special exception, the Financial Supervision Authority's budget was drafted for only 2008, since the Government Programme states that the authority is to be merged into a new financial and insurance supervisory authority that will commence operations on 1 January 2009. No stand was taken on the new organisation's budget during the budget planning discussions in 2007.

Bank of Finland's budget

The Bank of Finland's operating expenses for 2007 totalled EUR 90.5 million. Staff expenses were higher than usual on account of a contribution of EUR 22.1 million made to the pension fund. The Bank's share of the contribution was EUR 18.8 million. Operating income amounted to approximately EUR 11.8 million. The net operating expenses totalled EUR 78.8 million.

Operating expenses budgeted for 2008 amount to EUR 78.0 million. Staff expenses will remain at the same level as in 2007, once the effect from the pension fund contribution has been eliminated. Staff-related expenses are estimated to increase. Other expenses are also expected to rise slightly.

Completion of important long-term projects and the start of the related depreciation write-downs will increase depreciations by about EUR 0.9 million in 2008.

Operating expenses are expected to remain fairly stable over the medium term, except for banknote procurement costs which will increase from 2009. With falling staff numbers, staff expenses are expected to decrease by 2.5% by 2010 from year 2007 levels.

Investment expenses amounted to EUR 8.0 million in 2007. Investment expenditure on renovations totalled EUR 3.3 million. Other long-term acquisitions totalled EUR 4.7 million.

Investment expenditure in 2008 is estimated to exceed previous-year expenses by approximately EUR 1.5 million. Expenditure on real estate projects is estimated at EUR 4.6 million. Other long-term acquisitions are budgeted at EUR 4.9 million.

Pension fund's budget

The pension fund's operating expenses for 2007 totalled EUR 21.3 million. Pensions paid, amounting to EUR 18.7 million, was clearly the largest cost item. The pension fund's operating income totalled EUR 33.8 million.

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

Investment costs arising from the renovation of pension fund premises totalled EUR 0.6 million. Renovation expenditure in 2008 is estimated at EUR 0.9 million.

Budget for the Financial Supervision Authority

Financial Supervision Authority's operating expenses for 2007 totalled EUR 19.6 million. Staff expenses include a contribution of EUR 3.3 million paid to the pension fund. Income amounted to EUR 19.6 million.

Operating expenses for 2008 are estimated at EUR 17.4 million. Income is estimated at EUR 18.9 million.

Table 5.
Budget for the Bank of Finland, EUR m

| | <i>Outturn 2007</i> | <i>Budget 2008</i> | <i>Budget 2009</i> | <i>Budget 2010</i> |
|---|-------------------------|------------------------|------------------------|------------------------|
| 1. Operating expenses and income | | | | |
| EXPENSES | 78.0 | 63.3 | 63.3 | 63.2 |
| Staff expenses*) | 54.3 | 35.5 | 35.0 | 34.6 |
| Staff-related expenses | 2.9 | 3.8 | 3.8 | 3.7 |
| Other expenses | 20.9 | 24.0 | 24.6 | 25.0 |
| DEPRECIATION | 7.5 | 8.4 | 7.4 | 7.2 |
| IT equipment | 4.1 | 4.5 | 3.2 | 2.8 |
| Money handling machines | 0.9 | 0.9 | 1.0 | 1.0 |
| Buildings | 1.7 | 1.9 | 2.0 | 2.0 |
| Other fixed assets | 0.8 | 1.0 | 1.2 | 1.3 |
| Total | 85.5 | 71.7 | 70.7 | 70.4 |
| Banknote procurement | 3.9 | 4.8 | 9.5 | 9.5 |
| Cash depot system | 1.1 | 1.6 | 1.6 | 1.6 |
| Total operating expenses | 90.5 | 78.0 | 81.8 | 81.5 |
| INCOME | | | | |
| Services to the Financial Supervision Authority | -2.2 | -2.0 | -2.0 | -1.9 |
| Real estate | -7.1 | -7.6 | -8.2 | -8.5 |
| Other income | -2.5 | -2.2 | -2.5 | -2.5 |
| Total income | -11.8 | -11.9 | -12.7 | -12.9 |
| Net | 78.8 | 66.2 | 69.2 | 68.5 |
| 2. Investment | | | | |
| Real estate investments | 3.3 | 4.6 | 2.4 | 1.8 |
| Head office premises | 0.9 | 0.7 | 0.2 | 0.2 |
| Vantaa premises | 2.3 | 3.7 | 2.1 | 1.5 |
| Other premises | 0.2 | 0.2 | 0.1 | 0.1 |
| IT equipment and software | 2.9 | 3.3 | 2.4 | 1.5 |
| Money handling machines | 0.6 | 0 | 0.7 | 0.3 |
| Security equipment | 0.9 | 1.4 | 1.4 | 0.9 |
| Other equipment and machinery | 0.4 | 0.2 | 0.3 | 0.2 |
| Total investment expenditure | 8.0 | 9.5 | 7.1 | 4.6 |

*) Staff expenses for 2007 include a contribution of EUR 18.8 million paid to the Bank of Finland pension fund.

Table 6.
Budget for the Bank of Finland's pension fund, EUR m

| | <i>Outturn 2007</i> | <i>Budget 2008</i> | <i>Budget 2009</i> | <i>Budget 2010</i> |
|---|-------------------------|------------------------|------------------------|------------------------|
| 1. Operating expenses and income | | | | |
| <i>EXPENSES</i> | 1.6 | 1.4 | 1.5 | 1.5 |
| <i>Staff expenses</i> | 0.1 | 0.2 | 0.2 | 0.2 |
| <i>Pension fund activities expenses</i> | 0.9 | 0.6 | 0.6 | 0.6 |
| <i>Pension fund real estates expenses</i> | 0.7 | 0.7 | 0.7 | 0.7 |
| <i>DEPRECIATION</i> | 1.0 | 1.1 | 1.1 | 1.1 |
| <i>Buildings</i> | | | | |
| <i>PENSIONS PAID</i> | 18.7 | 19.5 | 20.2 | 21.0 |
| Total expenses | 21.3 | 22.0 | 22.7 | 23.5 |
| <i>INCOME</i> | | | | |
| <i>Employment pension contributions</i> | -8.7 | -8.4 | -8.4 | -8.4 |
| <i>Pension fund contributions</i> | -22.1 | 0 | 0 | 0 |
| <i>Rents</i> | -1.1 | -1.0 | -1.1 | -1.1 |
| <i>Internal rents</i> | -1.9 | -1.9 | -1.9 | -1.9 |
| Total income | -33.8 | -11.4 | -11.4 | -11.4 |
| Net | -12.4 | 10.6 | 11.3 | 12.1 |
| 2. Investment | | | | |
| <i>Real estate of the pension fund</i> | 0.6 | 0.9 | 0.3 | 0.3 |
| Total investment expenditure | 0.6 | 0.9 | 0.3 | 0.3 |

Table 7.
Budget for the Financial Supervision Authority, EUR m

| | <i>Outturn 2007</i> | <i>Budget 2008</i> |
|---|-------------------------|------------------------|
| 1. Operating expenses and income | | |
| EXPENSES | 17.3 | 14.9 |
| Staff expenses ^{**)} | 14.3 | 11.7 |
| Staff-related expenses | 0.7 | 0.9 |
| Other expenses | 2.3 | 2.3 |
| DEPRECIATION | 0.0 | 0.2 |
| SERVICES FROM THE BANK OF FINLAND | 2.2 | 2.3 |
| <i>Total operating expenses</i> | 19.6 | 17.4 |
| INCOME | | |
| Supervision fees | -18.6 | -18.1 |
| Processing fees | -0.9 | -0.8 |
| Total income | -19.6 | -18.9 |
| Net | 0 | -1.5 |
| 2. Investment | | |
| IT equipment and software | 0 | 0.7 |
| Other equipment and machinery | 0 | 0.1 |
| Total investment expenditure | 0 | 0.7 |

^{**)} Staff expenses for 2007 include a contribution of EUR 3.3 million paid to the Bank of Finland pension fund.

Financial statements

Balance sheet, EUR million

| | 31 Dec 2007 | 31 Dec 2006 |
|--|---------------|---------------|
| ASSETS | | |
| 1 Gold and gold receivables | 896 | 761 |
| 2 Claims on non-euro area residents denominated in foreign currency | 4,515 | 4,750 |
| Receivables from the IMF | 260 | 279 |
| Balances with banks and security investments, external loans and other external assets | 4,254 | 4,470 |
| 3 Claims on euro area residents denominated in foreign currency | 1,394 | 1,061 |
| 4 Claims on non-euro area residents denominated in euro | 394 | 368 |
| 5 Lending to euro area credit institutions related to monetary policy operations denominated in euro | 230 | 1,025 |
| Main refinancing operations | 30 | 500 |
| Longer-term refinancing operations | 200 | 525 |
| 6 Other claims on euro area credit institutions denominated in euro | 3 | 60 |
| 7 Securities of euro area residents denominated in euro | 6,863 | 4,998 |
| 8 Intra-Eurosystem claims | 7,465 | 5,886 |
| Participating interest in ECB | 73 | 74 |
| Claims equivalent to the transfer of foreign reserves | 717 | 717 |
| Claims related to TARGET and correspondent accounts (net) | 2,951 | 1,157 |
| Net claim related to the allocation of euro banknotes within the Eurosystem | 3,724 | 3,938 |
| 9 Other assets | 1,048 | 933 |
| Euro area coins | 24 | 25 |
| Tangible and intangible fixed assets | 196 | 204 |
| Other current assets | 508 | 488 |
| Other | 320 | 216 |
| Total assets | 22,809 | 19,843 |

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

| | 31 Dec 2007 | 31 Dec 2006 |
|---|-------------|-------------|
| LIABILITIES | | |
| 1 <i>Banknotes in circulation</i> | 11,148 | 10,419 |
| 2 <i>Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</i> | 5,910 | 3,766 |
| <i>Current accounts (covering the minimum reserve system)</i> | 2,901 | 3,765 |
| <i>Overnight deposits</i> | 9 | 1 |
| <i>Fixed-term deposits (liquidity-absorbing fine-tuning operation)</i> | 3,000 | – |
| 3 <i>Liabilities to other euro area residents denominated in euro</i> | 0 | 0 |
| 4 <i>Liabilities to non-euro area residents denominated in euro</i> | 4 | 4 |
| 5 <i>Liabilities to euro area residents denominated in foreign currency</i> | 0 | 0 |
| 6 <i>Liabilities to non-euro area residents denominated in foreign currency</i> | 88 | 0 |
| 7 <i>Counterpart of special drawing rights allocated by the IMF</i> | 153 | 163 |
| 8 <i>Intra-Eurosystem liabilities</i> | 0 | 0 |
| 9 <i>Other liabilities</i> | 171 | 162 |
| 10 <i>Revaluation account</i> | 854 | 762 |
| 11 <i>Provisions</i> | 2,368 | 2,676 |
| 12 <i>Capital and reserves</i> | 1,704 | 1 596 |
| <i>Primary capital</i> | 841 | 841 |
| <i>Reserve fund</i> | 863 | 756 |
| 13 <i>Profit for the financial year</i> | 410 | 293 |
| <i>Total liabilities</i> | 22,809 | 19,843 |

Profit and loss account, EUR million

| | 1 Jan–31 Dec 2007 | 1 Jan–31 Dec 2006 |
|---|-------------------|-------------------|
| 1 Interest income | 709 | 528 |
| 2 Interest expense | -146 | -100 |
| 3 NET INTEREST INCOME | 563 | 428 |
| 4 <i>Realised gains/losses related to foreign exchange rate movements</i> | -379 | -56 |
| 5 <i>Realised securities price differences</i> | -34 | -100 |
| 6 <i>Change in foreign exchange rate and price difference provision</i> | 413 | 156 |
| NET RESULT OF FINANCIAL OPERATIONS, WRITE-DOWNS AND RISK PROVISIONS | 563 | 428 |
| 7 <i>Net share of monetary income</i> | 8 | 5 |
| 8 <i>Share in ECB profit</i> | - | - |
| 9 <i>Other central banking income</i> | 3 | 3 |
| CENTRAL BANKING PROFIT | 574 | 437 |
| 10 Other income | 29 | 31 |
| <i>Operating expenses</i> | -108 | -95 |
| 11 <i>Staff costs</i> | -68 | -57 |
| 12 <i>Administrative expenses</i> | -26 | -25 |
| 13 <i>Depreciation of fixed assets</i> | -8 | -7 |
| 14 <i>Banknote procurement costs</i> | -4 | -5 |
| 15 <i>Other expenses</i> | -2 | -1 |
| OPERATING PROFIT | 495 | 373 |
| <i>Profit for the pension fund</i> | 21 | 18 |
| 16 <i>Income of the pension fund</i> | 47 | 39 |
| 17 <i>Expenses of the pension fund</i> | -26 | -21 |
| 18 Changes in provisions | -106 | -98 |
| 19 PROFIT FOR THE FINANCIAL YEAR | 410 | 293 |

Appendices to the financial statements, EUR million

| | 31 Dec 2007 | 31 Dec 2006 |
|--|--------------|--------------|
| Foreign currency futures contracts | | |
| Purchase contracts | 22.6 | 3.0 |
| Sales contracts | 48.5 | 703.9 |
| Shares and other interests, nominal value | | |
| Bank for International Settlements ¹ | 22.4 (1.96%) | 22.4 (1.96%) |
| Shares in housing companies | 6.2 | 6.2 |
| Other shares and interests | 0.1 | 0.1 |
| Total | 28.6 | 28.6 |
| Bank of Finland's liability share in the APK fund | 0.3 | 0.3 |
| Liability arising from pension commitments | | |
| The Bank of Finland's pension liability | 489.5 | 478.0 |
| – of which covered by reserves | 479.1 | 459.2 |
| Customer service office | | |
| Deposits | 17.9 | 18.6 |
| Loans | 5.0 | 4.6 |

¹ In parentheses, the Bank of Finland's relative holding of BIS shares in circulation. Previously, the holding was reported as a percentage of the potential maximum amount of the BIS share capital.

The Bank of Finland's real estate

| <i>Building</i> | <i>Address</i> | <i>Year of completion</i> | <i>Volume m³ (approx.)</i> |
|-----------------|-------------------------------------|---------------------------|---------------------------------------|
| <i>Helsinki</i> | <i>Raubankatu 16</i> | <i>1883/1961/2006</i> | <i>49,500</i> |
| | <i>Raubankatu 19</i> | <i>1954</i> | <i>38,790</i> |
| | <i>Snellmaninkatu 6¹</i> | <i>1857/1892/2001</i> | <i>26,930</i> |
| | <i>Snellmaninkatu 2¹</i> | <i>1901/2003</i> | <i>3,200</i> |
| | <i>Ramsinniementie 34</i> | <i>1920/1983/1998</i> | <i>4,600</i> |
| <i>Kuopio</i> | <i>Puutarhakatu 4</i> | <i>1993</i> | <i>11,900</i> |
| <i>Oulu</i> | <i>Kajaaninkatu 8</i> | <i>1973</i> | <i>17,700</i> |
| <i>Tampere</i> | <i>Hämeenkatu 13 b¹</i> | <i>1942</i> | <i>36,000</i> |
| <i>Turku</i> | <i>Linnankatu 20</i> | <i>1914</i> | <i>10,500</i> |
| <i>Vantaa</i> | <i>Turvalaaksontie 1</i> | <i>1979</i> | <i>311,500</i> |
| <i>Inari</i> | <i>Saariselkä</i> | <i>1968/1976/1998</i> | <i>6,100</i> |

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

The Board proposes to the Parliamentary Supervisory Council that
EUR 160,091,784.20 of the profit of EUR 410,091,784.20
be transferred to the reserve fund according to section 21,
subsection 2 of the Act on the Bank of Finland and
that the remaining EUR 250,000,000
be made available for the needs of the State.

Helsinki, 5 March 2008

THE BOARD OF THE BANK OF FINLAND

Erkki Liikanen, Chairman

Pentti Hakkarainen

Sinikka Salo

Seppo Honkapohja

./. Arno Lindgren

Accounting conventions

1. General accounting conventions

The Bank of Finland observes the economic-based accounting principles and techniques adopted by the Governing Council of the ECB, and the Bank's annual accounts are drawn up in accordance with these harmonised principles. In accordance with section 11 of the Act on the Bank of Finland, the Parliamentary Supervisory Council confirms, on the proposal of the Board, the principles applied in drawing up the annual accounts.

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

2. Revaluation of items denominated in foreign currency and gold

Items denominated in foreign currency and gold are converted into euro at the exchange rate prevailing on the balance sheet date. Foreign currency-denominated items have been revaluated on a currency-by-currency basis. Revaluation differences related to foreign exchange rate movements and securities price movements are treated separately. Unrealised gains are recorded in the revaluation account and unrealised losses are taken to the profit and loss account. In the case of gold, no distinction is made between price and exchange rate differences; rather, a single revaluation is made. Unrealised gains and losses related to foreign exchange rate movements during the financial year are calculated on the basis of the daily net average rate method. Foreign exchange rates used in the financial statements are presented in the following table.

| Currency | 2007 | 2006 |
|-------------------------------|-----------|-----------|
| US dollar | 1.4721 | 1.31700 |
| Japanese yen | 164.93000 | 156.93000 |
| Australian dollar | 1.67570 | 1.66910 |
| Norwegian krone | 7.95800 | 8.23800 |
| Danish krone | 7.45830 | 7.45600 |
| Swedish krona | 9.44150 | 9.04040 |
| Swiss franc | 1.65470 | 1.60690 |
| Pound sterling | 0.73335 | 0.67150 |
| Canadian dollar | 1.44490 | 1.52810 |
| Special Drawing Rights (SDRs) | 0.93110 | 0.87596 |
| Gold | 568.23600 | 482.68800 |

3. Valuation and amortisation of securities etc.

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

Unrealised gains are entered in the revaluation account. Unrealised losses are taken to the profit and loss account if they exceed previous revaluation gains registered in the corresponding revaluation account. Unrealised losses taken to the profit and loss account are not reversed against any future unrealised gains in subsequent years. Both euro-denominated and foreign currency-denominated securities are valued on a security-by-security basis. If unrealised losses are entered in the profit and loss account in respect of a security or a currency, the average price of the security or the net average rate of the currency is adjusted correspondingly before the beginning of the next financial year.

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

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

4. Accounting conventions relating to intra-ESCB balances

Transactions between the national central banks (NCBs) of EU countries are primarily processed via TARGET, the Trans-European Automated Real-time Gross settlement Express Transfer system. These transactions give rise to bilateral balances in accounts held between EU central banks. These bilateral balances are novated

to the ECB daily, leaving each NCB with a single net bilateral position vis-à-vis the ECB only.

5. Valuation of fixed assets

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

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

The economic lifetimes of assets are calculated as follows:

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

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

6. Banknotes in circulation

The ECB and euro area NCBs, which together comprise the Eurosystem, have issued euro banknotes as from 1 January 2002.¹ ² Slovenia joined the Eurosystem in 1 January 2007, after which the Eurosystem consisted of 13 NCBs. The total value of euro banknotes in circulation is allocated to the NCBs on the last banking day of each month in accordance with the banknote allocation key.³ The ECB has been allocated a share of

8% of the total value of euro banknotes in circulation, with the remaining 92% being allocated to NCBs according to the capital key. This is disclosed under the balance sheet liability item 'Banknotes in circulation'.

The difference between the value of euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of euro banknotes that it actually puts into circulation also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest,⁴ are disclosed under the sub-item 'Intra-Eurosystem claims/liabilities: Net claim/liability related to the allocation of euro banknotes within the Eurosystem'. In the Bank of Finland's balance sheet, the item is on the asset side.

From 2002 until 2007 the intra-Eurosystem balances arising on the euro banknotes are to be adjusted in order to avoid significant changes in NCBs' relative income positions as compared to previous years. The adjustments are effected by taking into account the differences between the average value of banknotes in circulation of each NCB in the period from July 1999 to June 2001 and the average value of banknotes that would have been allocated to them during that period under the ECB's capital key. The adjustments will be reduced in annual stages until the end of 2007.

After 2007 the monetary income on euro banknotes will be allocated fully in proportion to the NCBs' paid-up shares in the capital of the ECB. The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under 'Net interest income'. The ECB's capital key is adjusted whenever a new Member State joins the Eurosystem.

The income accruing to the ECB on the share of 8% of the total value of euro banknotes in circulation is generally distributed to the NCBs.⁵ This income was not distributed for 2004, because the ECB's net profit

¹ Decision ECB/2001/15 of 6 December 2001 on the issue of euro banknotes.

² Slovenia joined the Eurosystem on 1 January 2007. Consequently, as from 1 January 2007, the Eurosystem comprised 13 countries.

³ The banknote allocation key is derived from the percentages that result from deducting the ECB's percentage share in the total euro banknote issue and applying the subscribed capital key of the ECB to the NCBs' remaining share.

⁴ Decision ECB/2001/16 of 6 December 2001 on the allocation of monetary income of the national central banks of participating Member States from the financial year 2002.

⁵ Decision ECB/2005/11.

for the year was less than its income on euro banknotes in circulation. The ECB's income on banknotes has not been distributed as from 2005 in order to increase the provision for foreign exchange rate, interest rate and gold price risks.

| <i>Key for subscription of the ECB's capital, 1 January 2007</i> | <i>%</i> |
|--|-----------------|
| <i>Nationale Bank van België/ Banque Nationale de Belgique</i> | 2.4708 |
| <i>Deutsche Bundesbank</i> | 20.5211 |
| <i>Bank of Greece</i> | 1.8168 |
| <i>Banco de España</i> | 7.5498 |
| <i>Banque de France</i> | 14.3875 |
| <i>Central Bank and Financial Services Authority of Ireland</i> | 0.8885 |
| <i>Banca d'Italia</i> | 12.5297 |
| <i>Banque centrale du Luxembourg</i> | 0.1575 |
| <i>De Nederlandsche Bank</i> | 3.8937 |
| <i>Oesterreichische Nationalbank</i> | 2.0159 |
| <i>Banco de Portugal</i> | 1.7137 |
| <i>Suomen Pankki – Finlands Bank</i> | 1.2448 |
| <i>Národná banka Slovenska</i> | 0.3194 |
| <i>Subtotal Eurosystem</i> | 69.5092 |
| <i>Danmarks Nationalbank</i> | 1.5138 |
| <i>Sveriges Riksbank</i> | 2.3313 |
| <i>Bank of England</i> | 13.9337 |
| <i>Česká národní banka</i> | 1.3880 |
| <i>Eesti Pank</i> | 0.1703 |
| <i>Central Bank of Cyprus</i> | 0.1249 |
| <i>Latvijas Banka</i> | 0.2813 |
| <i>Lietuvos bankas</i> | 0.4178 |
| <i>Magyar Nemzeti Bank</i> | 1.3141 |
| <i>Bank Ċentrali ta' Malta/Central Bank of Malta</i> | 0.0622 |
| <i>Narodowy Bank Polski</i> | 4.8748 |
| <i>Národná banka Slovenska</i> | 0.6765 |
| <i>Bulgarian National Bank</i> | 0.8833 |
| <i>Banca Națională a României</i> | 2.5188 |
| <i>Subtotal non-euro area NCBs</i> | 30.4908 |
| <i>Total</i> | 100.0000 |

7. Changes in accounting conventions

There were no changes in accounting conventions in the financial year 2007.

8. Monetary income

Monetary income accruing to NCBs in the performance of monetary policy functions in the ESCB is calculated

and allocated to NCBs in accordance with the Statute and any decisions by the ECB Governing Council.

9. Pension fund

In 2001 the decision was made to create a pension fund in the Bank of Finland's balance sheet for the management of the Bank's pension liability. The purpose of this measure, which came into force from the beginning of 2002, is to ensure that the funds related to the coverage of the pension liability are invested in a lucrative manner. A separate annual report will be prepared on the pension fund of the Bank of Finland. The assets of the pension fund are recorded in the Bank of Finland's balance sheet item 'Other assets'.

The ECB guideline on accounting and financial reporting (ECB/2006/16) does not regulate accounting for the pension fund. The pension fund's financial statements are drafted using market prices prevailing in the last day of the year. The pension fund's real estate is recorded in the balance sheet at value prevailing on transfer date less annual depreciation. If the balance sheet value of real estate has been covered by revaluation, the corresponding depreciation is recorded by reversing the revaluation so that depreciation has no impact on the pension fund's income or expense.

10. Recording of provisions

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

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

11. Off-balance sheet items

Gains and losses arising from off-balance-sheet items are treated in the same manner as gains and losses arising from on-balance sheet items. Forward foreign exchange transactions are taken into account when the net average cost of a currency position is calculated.

Notes on the balance sheet

Assets

1. Gold and gold receivables

The Bank's holdings of gold total 1,576,523 troy ounces (1 troy ounce = 31,103 g). In the annual accounts, gold has been valued at market price. At the beginning of 1999 the Bank of Finland – and the other NCBs participating in the Eurosystem – transferred about 20% of its gold holdings to the ECB.

| Gold | 31 Dec 2007 | 31 Dec 2006 |
|---------------------------------|-------------|-------------|
| Holdings (troy ounces, million) | 1.6 | 1.6 |
| Price: euro per troy ounce | 568.2 | 482.69 |
| Market price value (EUR m) | 895.8 | 760.9 |
| Change in market value (EUR m) | 134.9 | 75.2 |

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

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

| Breakdown of receivables from the IMF denominated in foreign currency | | | | |
|---|--------------|--------------|--------------|--------------|
| | 31 Dec 2007 | | 31 Dec 2006 | |
| | EUR m | SDR m | EUR m | SDR m |
| Reserve tranche in the IMF | 89.0 | 82.9 | 126.3 | 110.6 |
| SDRs | 165.1 | 153.7 | 146.6 | 128.4 |
| Other receivables from the IMF | 6.2 | 5.8 | 6.6 | 5.8 |
| Total | 260.3 | 242.4 | 279.5 | 244.8 |

| EUR/SDR exchange rate in financial years 2006 and 2007 | | |
|--|------|------|
| | 2007 | 2006 |
| End-March | 0.88 | 0.84 |
| End-June | 0.89 | 0.86 |
| End-September | 0.91 | 0.86 |
| End-December | 0.93 | 0.88 |

Finland's quota in the IMF amounts to SDR 1,263.8 million. The reserve tranche is the part of the Bank's

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

The Bank of Finland's SDR allocation amounts to EUR 165.1 million. The SDRs are reserve assets created and allocated by the IMF to its member countries. They are used in currency transactions as normal currency units. The value of 'Receivables from the IMF' changes on the basis of foreign exchange transactions between the member countries. In addition, its value is affected by interests earned and paid as well as remuneration on the Bank's claims in the IMF.

The Bank of Finland's receivables from the IMF total EUR 260.3 million. On 31 December 2007 the exchange rate between SDR and EUR was: SDR 1 = EUR 1.074. In 2007 the market rate of SDR was below the average cost price, and valuation losses were therefore recognised in accordance with accounting rules.

Claims on non-euro area residents denominated in foreign currency

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

| Breakdown of claims on non-euro area residents denominated in foreign currency | | |
|--|----------------|----------------|
| | 31 Dec 2007 | 31 Dec 2006 |
| | EUR m | EUR m |
| Balances with banks | 247.0 | 164.9 |
| Coupon bonds | 3,675.8 | 3,868.5 |
| Discount papers | 331.1 | 338.2 |
| Other | 0.5 | 98.9 |
| Total | 4,254.4 | 4,470.5 |

At the beginning of 1999 the Bank of Finland transferred part of its claims denominated in US dollars and Japanese yen to the ECB.

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

| Currency | 31 Dec 2007 | | 31 Dec 2006 | |
|----------------|----------------|--------------|----------------|--------------|
| | EUR m | % | EUR m | % |
| Pound sterling | 1,490.4 | 37.2 | 1,586.0 | 37.7 |
| Swiss franc | 400.0 | 10.0 | 391.0 | 9.3 |
| US dollar | 1,794.4 | 44.8 | 1,900.6 | 45.2 |
| Japanese yen | 322.0 | 8.0 | 329.1 | 7.8 |
| Total | 4,006.8 | 100.0 | 4,206.7 | 100.0 |

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

| Maturity | 31 Dec 2007 | | 31 Dec 2006 | |
|------------------|----------------|--------------|----------------|--------------|
| | EUR m | % | EUR m | % |
| Less than 1 year | 865.0 | 21.6 | 1,012.4 | 24.1 |
| 1–2 years | 970.6 | 24.2 | 487.2 | 11.6 |
| Over 2 years | 2,171.2 | 54.2 | 2,707.1 | 64.4 |
| Total | 4,006.8 | 100.0 | 4,066.7 | 100.0 |

3. Claims on euro area residents denominated in foreign currency

This item consists of balances with banks, security investments and other claims on euro area residents denominated in foreign currency. The item also includes claims arising from reverse operations with Eurosystem counterparties amounting to EUR 363.8 million, in connection with the US dollar Term Auction Facility. Under this program, USD 20 billion were provided by the Federal Reserve to the ECB by means of a temporary reciprocal currency arrangement (swap line) with the aim of offering short-term US dollar funding to Eurosystem counterparties. The ECB simultaneously entered into back-to-back swap transactions with NCBs that have adopted the euro, which used the resulting funds to conduct liquidity-providing operations with the Eurosystem counterparties.

Off-balance sheet items: foreign exchange swap and forward transactions

Off-balance sheet items include forward liabilities to the ECB with a value of EUR 363.8 million outstanding as

at 31 December 2007. These liabilities arose in connection with the US dollar Term Auction Facility established by the Federal Reserve (see note 3. 'Claims on euro area residents denominated in foreign currency').

Breakdown of claims on euro area residents denominated in foreign currency

| | 31 Dec 2007 | 31 Dec 2006 |
|---------------------|----------------|----------------|
| | EUR m | EUR m |
| Balances with banks | 446.2 | 98.4 |
| Coupon bonds | 932.1 | 787.1 |
| Discount papers | 15.4 | 156.4 |
| Other | 0.7 | 19.5 |
| Total | 1,394.4 | 1,061.4 |

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

| Currency | 31 Dec 2007 | | 31 Dec 2006 | |
|----------------|--------------|--------------|--------------|--------------|
| | EUR m | % | EUR m | % |
| Pound sterling | 392.8 | 41.5 | 303.3 | 32.1 |
| Swiss franc | 10.0 | 1.1 | 28.9 | 3.1 |
| US dollar | 544.7 | 57.5 | 611.3 | 64.8 |
| Total | 947.5 | 100.0 | 943.5 | 100.0 |

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

| Maturity | 31 Dec 2007 | | 31 Dec 2006 | |
|------------------|--------------|--------------|--------------|--------------|
| | EUR m | % | EUR m | % |
| Less than 1 year | 189.0 | 19.9 | 321.1 | 34.0 |
| 1–2 years | 176.7 | 18.6 | 161.3 | 17.1 |
| Over 2 years | 581.8 | 61.4 | 461.0 | 48.9 |
| Total | 947.5 | 100.0 | 943.5 | 100.0 |

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

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

| <i>Claims on non-euro area residents denominated in euro</i> | | |
|--|----------------------|----------------------|
| | 31 Dec 2007 EUR m | 31 Dec 2006 EUR m |
| Balances with banks | 129.0 | 145.5 |
| Coupon bonds | 264.7 | 65.0 |
| Discount papers | 0.0 | 156.8 |
| Other | 0.6 | 0.5 |
| Total | 394.3 | 367.8 |

| <i>Maturity breakdown of securities of non-euro area residents denominated in euro</i> | | | | |
|--|--------------|--------------|--------------|--------------|
| Maturity | 31 Dec 2007 | | 31 Dec 2006 | |
| | EUR m | % | EUR m | % |
| Less than 1 year | 30.0 | 11.3 | 221.8 | 100.0 |
| 1–2 years | 50.0 | 18.9 | 0.0 | 0.0 |
| Over 2 years | 184.7 | 69.8 | 0.0 | 0.0 |
| Total | 264.7 | 100.0 | 221.8 | 100.0 |

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

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

Main refinancing operations are liquidity-providing operations which are conducted weekly in the form of reverse transactions and executed through standard tenders. They play a pivotal role in fulfilling the objectives of Eurosystem's market operations and provide the bulk of refinancing to the banking sector. Claims on the main refinancing operations amounted to EUR 30 million at the end of 2007.

Longer-term refinancing operations are liquidity-providing transactions that are executed once a month in the form of reverse transactions and carried out through standard tenders.

Claims on longer-term refinancing operations totalled EUR 200 million.

| <i>Lending to euro area credit institutions related to monetary policy operations denominated in euro</i> | | |
|---|----------------------|----------------------|
| | 31 Dec 2007 EUR m | 31 Dec 2006 EUR m |
| Main refinancing operations | 30.0 | 500.0 |
| Longer-term refinancing operations | 200.0 | 525.2 |
| Total | 230.0 | 1,025.2 |

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

This item consists of euro-denominated deposits and balances with euro area credit institutions. The balance sheet total for this item was EUR 3.2 million in the financial year 2007, compared with EUR 60 million in the previous year.

7. Securities of euro area residents denominated in euro

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

| <i>Breakdown of securities of euro area residents denominated in euro</i> | | |
|---|----------------------|----------------------|
| | 31 Dec 2007 EUR m | 31 Dec 2006 EUR m |
| Coupon bonds | 6,839.1 | 4,759.7 |
| Discount papers | 24.0 | 238.4 |
| Total | 6,863.1 | 4,998.1 |

| <i>Maturity breakdown of securities of euro area residents denominated in euro</i> | | | | |
|--|----------------|--------------|----------------|--------------|
| Maturity | 31 Dec 2007 | | 31 Dec 2006 | |
| | EUR m | % | EUR m | % |
| Less than 1 year | 1,423.2 | 20.7 | 957.5 | 19.2 |
| 1–2 years | 1,540.2 | 22.4 | 1,096.9 | 21.9 |
| Over 2 years | 3,899.7 | 56.8 | 2,943.7 | 58.9 |
| Total | 6,863.1 | 100.0 | 4,998.1 | 100.0 |

8. Intra-Eurosystem liabilities

This balance sheet includes the following claims:

- Participating interest in ECB
- claims equivalent to the transfer of foreign reserves
- claims related to TARGET and correspondent accounts (net)
- Net claim related to the allocation of euro banknotes within the Eurosystem.

The share in the ECB's capital of each NCB participating in the Eurosystem is determined on the basis of a so-called capital key. The capital key is calculated relative to the population and gross domestic product of each country. It is adjusted every five years and when new members join the EU. The Bank of Finland's percentage share in the ECB's capital has been 1.2448% since 1 January 2007.

Item 'Claims equivalent to the transfer of foreign reserves' includes the share of foreign reserve assets transferred by the Bank of Finland to the ECB when Finland joined the Eurosystem. The claims are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component. They are denominated in euro at a value fixed at the time of their transfer.

This item also consists of net balances of NCBs' TARGET accounts if the Bank of Finland has had a liability against the Eurosystem in the period under review.

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

9. Other assets

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

| <i>Tangible fixed assets</i> | | | | |
|--|-------------------|---------------------|-------------------|---------------------|
| | 31 Dec 2007 | | 31 Dec 2006 | |
| | Book value, EUR m | Depreciation, EUR m | Book value, EUR m | Depreciation, EUR m |
| <i>Land</i> | 11.4 | – | 11.4 | – |
| <i>Buildings</i> | 167.2 | 1.7 | 173.7 | 0.9 |
| <i>Machinery and equipment</i> | 10.9 | 2.8 | 11.4 | 2.7 |
| <i>Art and numismatic collection</i> | 0.4 | – | 0.3 | – |
| <i>Pension fund's land and buildings</i> | 40.2 | 1.0 | 41.4 | 1.0 |
| Total | 230.1 | 5.5 | 238.2 | 4.6 |

| <i>Intangible fixed assets</i> | | | | |
|--------------------------------|-------------------|----------------|-------------------|----------------|
| | 31 Dec 2007 | | 31 Dec 2006 | |
| | Book value, EUR m | Deprec., EUR m | Book value, EUR m | Deprec., EUR m |
| <i>IT systems</i> | 6.10 | 3.10 | 6.80 | 3.10 |
| Total | 6.10 | 3.10 | 6.80 | 3.10 |

| <i>Other holdings and sundry assets</i> | | |
|---|----------------------|----------------------|
| | 31 Dec 2007 EUR m | 31 Dec 2006 EUR m |
| <i>Euro area coins</i> | 24.2 | 25.5 |
| <i>Shares and other equity</i> | 29.2 | 29.2 |
| <i>Pension fund's investments</i> | 438.9 | 417.8 |
| <i>Accruals</i> | 312.3 | 212.5 |
| Other sundry assets | 7.8 | 3.5 |
| Total | 812.4 | 688.5 |

Liabilities

1. Banknotes in circulation

This item consists of the Bank of Finland's share, in accordance with the banknote allocation key and adjusted for the share allocated to the ECB, of the total amount of euro banknotes in circulation. In 2007 the Bank's share of euro banknotes in circulation was EUR 11,147.6 million.

| <i>Banknotes in circulation</i> | <i>31 Dec 2007 EUR m</i> | <i>31 Dec 2006 EUR m</i> |
|--|------------------------------|------------------------------|
| <i>EUR 5</i> | 97.7 | 92.5 |
| <i>EUR 10</i> | 75.1 | 84.1 |
| <i>EUR 20</i> | 1,764.7 | 1,614.3 |
| <i>EUR 50</i> | 3,066.4 | 2,524.1 |
| <i>EUR 100</i> | 150.0 | 194.3 |
| <i>EUR 200</i> | 281.6 | 266.6 |
| <i>EUR 500</i> | 1,995.7 | 1,710.9 |
| Total | 7,431.2 | 6,487.0 |
| <i>ECB issue</i> | -969.4 | -906.0 |
| <i>CSM figure</i> | 4,685.8 | 4,838.4 |
| <i>Banknotes in circulation in accordance with the capital key</i> | 11,147.6 | 10,419.4 |

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

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

3. Liabilities to other euro area residents denominated in euro

This item consists of euro-denominated liabilities to credit institutions other than those subject to the reserve requirement.

4. Liabilities to non-euro area residents denominated in euro

This item consists of balances of international organisations and non-euro area banks with the Bank of Finland.

5. Liabilities to euro area residents denominated in foreign currency

This item consists of assets denominated in foreign currency deposited by the State Treasury for its own payments.

6. Liabilities to non-euro area residents denominated in foreign currency

This item includes repurchase agreements entered into for the purpose of managing foreign reserve assets.

7. Counterpart of special drawing rights allocated by the IMF

This item is the counteritem of SDRs (cf. item on the asset side). Originally the amount of SDRs and their counteritem were equal. As a result of transactions, the Bank of Finland's claims related to SDRs were smaller than their counteritem at the end of 2007. The counteritem has remained at SDR 142.7 million for several years, since it is not used for trading purposes.

8. Intra-Eurosystem liabilities

This item includes the net balances of TARGET accounts if the Bank of Finland has a net liability against the Eurosystem. Intra-Eurosystem liabilities and claims have been elaborated on in more detail in the notes to the balance sheet under assets item 'Intra-Eurosystem claims'.

9. Other liabilities

| <i>Other liabilities</i> | <i>31 Dec 2007 EUR m</i> | <i>31 Dec 2006 EUR m</i> |
|--|------------------------------|------------------------------|
| <i>Finnish markka banknotes in circulation</i> | 132.0 | 134.2 |
| <i>Accruals</i> | 15.0 | 16.6 |
| <i>Accounts payable</i> | 0.8 | 1.3 |
| <i>Other</i> | 23.0 | 9.4 |
| Total | 170.8 | 161.5 |

10. Revaluation account

This item includes revaluations of land and buildings and other valuation differences arising from changes in accounting practices. The item also includes unrealised valuation gains arising from the market valuation of foreign currency-denominated items and securities. Compared with the previous year, the revaluation account increased by EUR 91 million, of which EUR 81 million accounted for a rise in the value of securities. The euro's appreciation against other currencies decreased the revaluation account by EUR 117 million, which was compensated by a rise in the gold price (EUR 135 million). This item also includes a downward adjustment of EUR 8 million arising from the counteritem of depreciation of buildings.

11. Provisions

Under section 20 of the Act on the Bank of Finland, provisions can be made in the annual accounts, if they are necessary for safeguarding the real value of the Bank's funds or for smoothing out variations in profit and loss arising from changes in exchange rates or market values of securities. These provisions totalled EUR 1,888.6 million. The net change in the provisions is attributable to the profit and loss account items 'Change in foreign exchange rate and price difference provision', which was reduced by EUR 413.4 million, and 'Change in the provision for safeguarding the real value of capital', which was increased by EUR 85 million.

| Provisions (EUR m) | Provision against real value loss | Foreign exchange rate and price difference provision | Pension liability provision | Other | Total |
|------------------------------|-----------------------------------|--|-----------------------------|-------|-------|
| Provisions as at 1 Jan 2006 | 281 | 794 | 434 | 1,220 | 2,728 |
| Increase | 80 | 0 | 25 | 0 | 105 |
| Decrease | 0 | -156 | 0 | 0 | -156 |
| Total change | 80 | -156 | 25 | 0 | -51 |
| Provisions as at 31 Dec 2006 | 361 | 638 | 459 | 1,220 | 2,676 |
| Provisions as at 1 Jan 2007 | 361 | 638 | 459 | 1,220 | 2,676 |
| Increase | 85 | 0 | 21 | 0 | 106 |
| Decrease | 0 | -413 | 0 | 0 | -413 |
| Total change | 85 | -413 | 21 | 0 | -308 |
| Provisions as at 31 Dec 2007 | 446 | 224 | 479 | 1,220 | 2,368 |

In addition, a provision is made in the annual accounts to cover Bank of Finland's pension liabilities. The Bank's pension liabilities total EUR 489 million: 97.9% of this amount is covered by the pension provision, ie EUR 479 million.

12. Capital and reserves

This item consists of the Bank's primary capital and reserve fund. Under section 21 of the Act on the Bank of Finland, the loss shall be covered from the reserve fund, if the annual accounts of the Bank show a financial loss. If the reserve fund is insufficient to cover part of the loss, the uncovered part may be left temporarily uncovered. Any profits in subsequent years shall be used first to cover such uncovered losses.

| Capital and reserves (EUR m) | 31 Dec 2007 | 31 Dec 2006 |
|------------------------------|-------------|-------------|
| Primary capital | 840.9 | 840.9 |
| Reserve fund | 862.7 | 755.5 |
| Capital and reserves, total | 1,703.6 | 1,596.4 |

| Profit for the financial year (EUR m) | 2007 | 2006 |
|---|-------|-------|
| Transferred for the needs of the State | 250.0 | 186.0 |
| Bank of Finland's share of profit (transferred to reserve fund) | 160.1 | 107.2 |
| Total | 410.1 | 293.2 |

13. Profit for the financial year

The profit for the financial year 2007 totalled EUR 410.1 million.

Notes to the profit and loss account

1. Interest income

| <i>Interest income received outside the euro area (EUR m)</i> | 2007 | | | 2006 | | |
|---|-------------------------|-------------------------------------|--------------|-------------------------|-------------------------------------|--------------|
| | <i>Euro-denominated</i> | <i>Foreign currency-denominated</i> | <i>Total</i> | <i>Euro-denominated</i> | <i>Foreign currency-denominated</i> | <i>Total</i> |
| <i>Gold investments</i> | 0.0 | 1.9 | 1.9 | 0.0 | 2.2 | 2.2 |
| <i>Non-euro area coupon bonds</i> | 7.5 | 171.4 | 178.9 | 0.8 | 178.7 | 179.4 |
| <i>Non-euro area discount papers</i> | 2.6 | 10.2 | 12.8 | 2.4 | 11.8 | 14.2 |
| <i>Non-euro area deposits</i> | 7.9 | 10.3 | 18.2 | 3.3 | 12.3 | 15.7 |
| <i>Other interest income outside the euro area</i> | 0.7 | 8.7 | 9.4 | 0.0 | 8.5 | 8.5 |
| Total | 18.8 | 202.5 | 221.3 | 6.5 | 213.6 | 220.1 |

| <i>Interest income received from the euro area (EUR m)</i> | 2007 | | | 2006 | | |
|--|-------------------------|-------------------------------------|--------------|-------------------------|-------------------------------------|--------------|
| | <i>Euro-denominated</i> | <i>Foreign currency-denominated</i> | <i>Total</i> | <i>Euro-denominated</i> | <i>Foreign currency-denominated</i> | <i>Total</i> |
| <i>Euro area coupon bonds</i> | 245.1 | 55.0 | 300.1 | 92.9 | 40.6 | 133.5 |
| <i>Euro area discount bonds</i> | 5.2 | 4.8 | 10.0 | 9.0 | 7.9 | 16.9 |
| <i>Euro area deposits</i> | 2.6 | 1.9 | 4.5 | 1.4 | 2.9 | 4.3 |
| <i>ESCB items</i> | 148.6 | 0.0 | 148.6 | 87.9 | 0.0 | 87.9 |
| <i>Monetary policy items</i> | 22.1 | 0.0 | 22.1 | 63.2 | 0.0 | 63.2 |
| <i>Other interest income from the euro area</i> | 0.0 | 2.1 | 2.1 | 0.0 | 1.8 | 1.8 |
| Total | 423.7 | 63.8 | 487.5 | 254.4 | 53.3 | 307.7 |

Interest income from and outside the euro area totalled EUR 708.8 million. Of this EUR 266.3 million consisted of interest income on foreign reserve assets and EUR 271.8 million on the euro-denominated portfolio.

The remaining interest income accrued on euro-denominated claims. Of this EUR 22.1 million consisted of interest income on monetary policy operations and

EUR 24.3 million on foreign reserves transferred to the ECB. Interest income due to the claims and liabilities pertaining to the ECB's share of euro banknotes the application of the ECB's capital key and the adjustments, EUR 112.8 million, is entered on a net basis. Interest income on TARGET balances totalled EUR 11.5 million.

2. Interest expense

| <i>Interest expense paid outside the euro area (EUR m)</i> | 2007 | | | 2006 | | |
|--|-------------------------|-------------------------------------|--------------|-------------------------|-------------------------------------|--------------|
| | <i>Euro-denominated</i> | <i>Foreign currency-denominated</i> | <i>Total</i> | <i>Euro-denominated</i> | <i>Foreign currency-denominated</i> | <i>Total</i> |
| <i>Non-euro area deposits</i> | 0.0 | -2.2 | -2.2 | 0.0 | -2.0 | -2.0 |
| <i>Other</i> | 0.0 | -7.2 | -7.2 | 0.0 | -6.9 | -6.9 |
| Total | 0.0 | -9.4 | -9.4 | 0.0 | -8.8 | -8.8 |

| <i>Interest expense paid in the euro area (EUR m)</i> | 2007 | | | 2006 | | |
|---|-------------------------|-------------------------------------|---------------|-------------------------|-------------------------------------|--------------|
| | <i>Euro-denominated</i> | <i>Foreign currency-denominated</i> | <i>Total</i> | <i>Euro-denominated</i> | <i>Foreign currency-denominated</i> | <i>Total</i> |
| <i>ESCB items</i> | -20.7 | 0.0 | -20.7 | -18.1 | 0.0 | -18.1 |
| <i>Monetary policy items</i> | -115.3 | 0.0 | -115.3 | -72.1 | 0.0 | -72.1 |
| <i>Other</i> | -0.1 | -0.5 | -0.6 | 0.0 | -0.6 | -0.6 |
| Total | -136.1 | -0.5 | -136.5 | -90.2 | -0.6 | -90.8 |

Interest expense paid in and outside the euro area totalled EUR 145.9 million. Of this, EUR 110.6 million was paid on minimum reserve deposits. Interest expense paid on TARGET balances of Eurosystem central banks totalled EUR 20.7 million.

3. Net interest income

| <i>Net interest income</i> | <i>31 Dec 2007 EUR m</i> | <i>31 Dec 2007 EUR m</i> |
|--------------------------------|------------------------------|------------------------------|
| <i>Interest income</i> | | |
| <i>Financial assets</i> | 538.2 | 376.7 |
| <i>Money market deposits</i> | 22.0 | 63.2 |
| <i>Claims on the ESCB</i> | 148.6 | 87.9 |
| <i>Total</i> | 708.8 | 527.8 |
| <i>Interest expense</i> | | |
| <i>Financial assets</i> | -9.8 | -9.4 |
| <i>Current accounts</i> | -115.3 | -72.1 |
| <i>Liabilities to the ESCB</i> | -20.7 | -18.1 |
| <i>Total</i> | -145.9 | -99.7 |
| NET INTEREST INCOME | 563.0 | 428.1 |

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

This item includes realised gains and losses arising from the sale of currency positions. In 2007 realised losses related to foreign exchange rate movements amounted to EUR 379.2 million.

5. Realised securities price differences

This item includes realised gains and losses arising from the sale of securities. In the accounts, securities are treated on an item-by-item basis. In 2007 the realised losses related to securities price movements totalled EUR 34.2 million.

6. Change in foreign exchange rate and price difference provision

In 2007 the provision was decreased by EUR 413.4 million in accordance with the financial reporting policy.

7. Net result of pooling of monetary income

This item shows the net sum of monetary income paid to and redistributed from the Eurosystem. The amount of

each NCB's monetary income is determined by using the actual income that derives from the ' earmarkable assets ' that are held against the liability base. The liability base consists of the following items: banknotes in circulation; liabilities to credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem liabilities resulting from TARGET transactions, and net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled.

'Earmarkable assets' consist of the following items: lending to credit institutions related to monetary policy operations denominated in euro; euro-denominated claims equivalent to the transfer of foreign reserves to the ECB; net claims resulting from TARGET transactions; net claims related to the allocation of euro banknotes; and the proportion of gold that corresponds to the application of capital key from the total amount of gold of each NCB. Gold is not considered to generate income. If the value of NCB's ' earmarkable assets ' exceeds or falls short of the value of its liability base, income is calculated for the difference by applying the average rate of return on the ' earmarkable assets ' of all NCBs taken together. The monetary income pooled by the Eurosystem is to be allocated among the NCBs according to the subscribed capital key. The actual net result of pooling of monetary income totalled EUR 7.6 million in 2007.

8. Share in ECB profit

The ECB did not distribute any profit for the financial year 2006.

9. Other central banking income

This item includes dividend income, EUR 3.1 million, consisting primarily of shares in the Bank for International Settlements (BIS).

10. Other income

This item consists of the Financial Supervision Authority's supervision fees, EUR 19.6 million. It also includes rental income, gains from the sale of fixed assets, commissions and fees.

11. Staff costs

| <i>Staff costs</i> | <i>31 Dec 2007</i> | <i>31 Dec 2006</i> |
|--|--------------------|--------------------|
| | <i>EUR m</i> | <i>EUR m</i> |
| <i>Salaries and fees</i> | 36.3 | 37.1 |
| <i>Employer's payments to the pension fund</i> | 28.9 | 16.9 |
| <i>Other staff-related costs</i> | 3.0 | 3.2 |
| Total | 68.3 | 57.3 |

| <i>Average staff size</i> | <i>2007</i> | <i>2006</i> |
|--|------------------------|------------------------|
| | <i>Number of staff</i> | <i>Number of staff</i> |
| <i>Bank of Finland</i> | 504 | 523 |
| <i>Financial Supervision Authority</i> | 139 | 140 |
| Total | 643 | 663 |

Salaries and fees totalled EUR 36.3 million and staff-related costs EUR 3.0 million. Employer's payments to the pension fund include a contribution of EUR 22.1 million (EUR 10 million in 2006) and an employer's pension insurance contribution.

12. Administrative expenses

| <i>Administrative expenses</i> | <i>2007</i> | <i>2006</i> |
|--------------------------------|--------------|--------------|
| | <i>EUR m</i> | <i>EUR m</i> |
| <i>Supplies and purchases</i> | 1.7 | 1.6 |
| <i>Machinery and equipment</i> | 3.1 | 3.3 |
| <i>Real estates</i> | 8.5 | 8.4 |
| <i>Staff-related expenses</i> | 3.6 | 3.5 |
| <i>Purchase of services</i> | 8.3 | 7.4 |
| <i>Other</i> | 1.2 | 0.9 |
| Total | 26.4 | 25.1 |

This item includes rents, meetings and interest group-related costs, expenses arising from the purchase of services and cost of equipment.

Expenses involved in training, travel and recruitment of staff are also recorded under this item.

13. Depreciation of fixed assets

Depreciations of fixed assets have been specified on the assets side of the Notes on the balance sheet, under 'Other assets'.

14. Banknote procurement costs

Banknote procurement costs totalled EUR 3.9 million.

15. Other expenses

The bulk of other expenses is related to the use and maintenance of property.

16. Income of the pension fund

This item includes income of the Bank of Finland pension fund's investment activities, EUR 11 million. The item also includes the Bank of Finland's and Financial Supervision Authority's employer contributions as well as employee's share of premium income, EUR 8.7 million. The contribution of EUR 22.1 million paid by the Bank of Finland to the pension fund is also included in this item.

17. Expenses of the pension fund

This item includes expenses of the Bank of Finland pension fund's investment activities, EUR 1 million, pensions paid, EUR 18.9 million, management costs and depreciations of the fixed assets managed by the pension fund.

18. Changes in provisions

Provisions have been specified on the liabilities side of the Notes on the balance sheet, under 'Provisions'.

19. Profit for the financial year

Profit for the financial year 2007 totalled EUR 410.1 million. The Board proposes to the Parliamentary Supervisory Council that EUR 250 million of the profit would be made available for the needs of the State.

Five-year review

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

| BALANCE SHEET (EUR m) | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---------------|---------------|---------------|---------------|---------------|
| Assets | | | | | |
| <i>Gold and gold receivables</i> | 896 | 761 | 686 | 507 | 521 |
| <i>Claims on non-euro area residents denominated in foreign currency</i> | 4,515 | 4,750 | 8,719 | 8,790 | 8,131 |
| <i>Receivables from the IMF</i> | 260 | 279 | 384 | 591 | 776 |
| <i>Balances with banks and security investments, external loans and other external assets</i> | 4,254 | 4,470 | 8,336 | 8,199 | 7,355 |
| <i>Claims on euro area residents denominated in foreign currency</i> | 1,394 | 1,061 | 854 | 755 | 790 |
| <i>Claims on non-euro area residents denominated in euro</i> | 394 | 368 | 0 | 0 | 0 |
| <i>Lending to euro area credit institutions related to monetary policy operations denominated in euro</i> | 230 | 1,025 | 1,692 | 2,450 | 2,850 |
| <i>Main refinancing operations</i> | 30 | 500 | 1,200 | 1,800 | 2,850 |
| <i>Longer-term refinancing operations</i> | 200 | 525 | 492 | 650 | – |
| <i>Other claims on euro area credit institutions denominated in euro</i> | 3 | 60 | 0 | 2 | 1 |
| <i>Securities of euro area residents denominated in euro</i> | 6,863 | 4,998 | 0 | – | – |
| Intra-Eurosystem claims | 7,465 | 5,886 | 6,407 | 4,639 | 4,071 |
| <i>Participating interest in ECB</i> | 73 | 74 | 74 | 74 | 70 |
| <i>Claims equivalent to the transfer of foreign reserves</i> | 717 | 717 | 717 | 717 | 699 |
| <i>Claims related to TARGET and correspondent accounts (net)</i> | 2,951 | 1,157 | 1,686 | – | – |
| <i>Net claim related to the allocation of euro banknotes within the Eurosystem</i> | 3,724 | 3,938 | 3,930 | 3,848 | 3,303 |
| Other assets | 1,048 | 933 | 840 | 786 | 767 |
| <i>Euro area coins</i> | 24 | 25 | 31 | 17 | 30 |
| <i>Tangible and intangible fixed assets</i> | 196 | 204 | 209 | 210 | 211 |
| <i>Other current assets</i> | 508 | 488 | 471 | 425 | 386 |
| <i>Other</i> | 320 | 216 | 129 | 134 | 141 |
| Total assets | 22,809 | 19,843 | 19,198 | 17,948 | 17,132 |

| BALANCE SHEET (EUR m) | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|--------|--------|--------|--------|--------|
| <i>Liabilities</i> | | | | | |
| <i>Banknotes in circulation</i> | 11,148 | 10,419 | 9,374 | 8,313 | 6,923 |
| <i>Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</i> | 5,910 | 3,766 | 3,536 | 3,156 | 2,146 |
| <i>Current accounts (covering the minimum reserve system)</i> | 2,901 | 3,765 | 3,535 | 3,156 | 2,146 |
| <i>Overnight deposits</i> | 9 | 1 | 1 | 0 | 0 |
| <i>Fixed-term deposits (liquidity-absorbing fine-tuning operation)</i> | 3,000 | – | – | – | – |
| <i>Liabilities to other euro area residents denominated in euro</i> | 0 | 0 | 1 | 0 | 1 |
| <i>Liabilities to non-euro area residents denominated in euro</i> | 4 | 4 | 1 | 1 | 0 |
| <i>Liabilities to euro area residents denominated in foreign currency</i> | 0 | 0 | 0 | 0 | – |
| <i>Liabilities to non-euro area residents denominated in foreign currency</i> | 88 | – | 509 | 930 | 248 |
| <i>Counterpart of special drawing rights allocated by the IMF</i> | 153 | 163 | 173 | 163 | 168 |
| <i>Intra-Eurosystem liabilities</i> | 0 | – | 11 | 526 | 2,777 |
| <i>Other liabilities</i> | 171 | 162 | 153 | 179 | 166 |
| <i>Revaluation account</i> | 854 | 762 | 974 | 514 | 530 |
| <i>Provisions</i> | 2,368 | 2,676 | 2,735 | 2,580 | 2,610 |
| <i>Capital and reserves</i> | 1,704 | 1,596 | 1,530 | 1,474 | 1,386 |
| <i>Primary capital</i> | 841 | 841 | 841 | 841 | 841 |
| <i>Reserve fund</i> | 863 | 756 | 689 | 633 | 545 |
| <i>Profit for the financial year</i> | 410 | 293 | 200 | 112 | 177 |
| <i>Total liabilities</i> | 22,809 | 19,843 | 19,198 | 17,948 | 17,132 |

| PROFIT AND LOSS ACCOUNT (EUR m) | 2007 | 2006 | 2005 | 2004 | 2003 |
|--|-------------|-------------|-------------|-------------|-------------|
| <i>Interest income</i> | 709 | 528 | 403 | 397 | 366 |
| <i>Interest expense</i> | -146 | -100 | -73 | -115 | -119 |
| Net interest income | 563 | 428 | 331 | 282 | 247 |
| <i>Realised gains/losses related to foreign exchange rate movements</i> | -379 | -56 | 67 | -196 | -662 |
| <i>Realised securities price differences</i> | -34 | -100 | 1 | 29 | 72 |
| <i>Change in foreign exchange rate and price difference provision</i> | 413 | 156 | -68 | 167 | 590 |
| Net result of financial operations, write-downs and risk provisions | 563 | 428 | 331 | 282 | 247 |
| <i>Net share of monetary income</i> | 8 | 5 | 3 | -22 | 6 |
| <i>Share in ECB profit</i> | - | - | - | - | 11 |
| <i>Other central banking income</i> | 3 | 3 | 3 | 3 | 6 |
| Central banking profit | 574 | 437 | 336 | 263 | 269 |
| Other income | 29 | 31 | 23 | 24 | 54 |
| Operating expenses | -108 | -95 | -83 | -101 | -82 |
| <i>Staff costs</i> | -68 | -57 | -49 | -69 | -49 |
| <i>Administrative expenses</i> | -26 | -25 | -17 | -18 | -19 |
| <i>Depreciation of fixed assets</i> | -8 | -7 | -6 | -4 | -3 |
| <i>Banknote procurement costs</i> | -4 | -5 | -3 | -1 | -1 |
| <i>Other expenses</i> | -2 | -1 | -8 | -9 | -9 |
| Operating profit | 495 | 373 | 277 | 186 | 242 |
| Profit for the pension fund | 21 | 18 | 36 | 40 | 16 |
| Changes in provisions | -106 | -98 | -113 | -114 | -81 |
| Profit for the financial year | 410 | 293 | 200 | 112 | 177 |

Auditors' report

In our capacity as the auditors elected by Parliament, we have audited the accounting records, financial statements and administration of the Bank of Finland for the financial year 2007 in accordance with generally accepted auditing standards.

During the financial year the Bank's Internal Audit audited the Bank's accounting records and activities. We have examined the internal audit reports.

We have read the Bank's annual report and received representations from the Board concerning the Bank's activities.

The financial statements have been drawn up in accordance with the principles of financial statements approved by the Parliamentary Supervisory Council and current rules and regulations. The financial statements give a true and fair view of the Bank's financial position and results.

We propose that the profit and loss account and balance sheet for the financial year audited by us be approved. We recommend that the profit for the financial year be disposed of as proposed by the Board.

Helsinki, 14 March 2008

Olli Nepponen

Eero Heinäluoma

Esko Kiviranta

Markku Koskela
Authorised Public Accountant

Kari Manner
Authorised Public Accountant

. / . Kalervo Virtanen
Authorised Public Accountant

Statement regarding the audit as defined in Article 27 of the European System of Central Banks Statute

In our capacity as independent auditors as defined in Article 27 of the European System of Central Banks Statute, recommended by the Governing Council of the European Central Bank and appointed by the Council of the European Union, we have audited the accounting records and the financial statements of the Bank of Finland for the period 1 January–31 December 2007. The financial statements, which comprise the profit and loss account, balance sheet and notes on the financial statements, have been prepared by the Board.

The financial statements have been audited to the extent necessary to obtain reasonable assurance that the financial statements are free of material misstatement.

In our opinion, the financial statements have been prepared in accordance with the Accounting Principles and Methods approved by the Governing Council of the European Central Bank on 10 November 2006. The financial statements present a true and fair view of the profitability and financial position of the Bank of Finland.

Helsinki, 29 February 2008

Ernst & Young Oy
Authorised Public Accounting Firm

Jarmo Lohi
Authorised Public Accountant
Chartered Public Finance Auditor

Appendices

Monetary policy measures of the Eurosystem in 2007

| | |
|--------------|---|
| March | In accordance with the decision of the Governing Council of the ECB on 8 March 2007, the minimum bid rate on the main refinancing operations was increased by 0.25 percentage point to 3.75%, starting from the operation settled on 14 March 2007. The interest rates on both the marginal lending facility and the deposit facility were also increased by 0.25 percentage point, to 4.75% and 2.75%, respectively. |
| June | In accordance with the decision of the Governing Council of the ECB on 6 June 2007, the minimum bid rate on the main refinancing operations was increased by 0.25 percentage point to 4.00%, starting from the operation settled on 13 June 2007. The interest rates on both the marginal lending facility and the deposit facility were also increased by 0.25 percentage point, to 5.00% and 3.00%, respectively. |

Key measures affecting the financial markets in 2007

| Measures by the European System of Central Banks | |
|--|---|
| January | Slovenia joined the euro area on 1 January 2007. The country became the 13th euro area country, with the currency changeover from the tolar to the euro. Euro area central banks exchanged tolar banknotes into euro in the period of January–February. |
| February | The ECB issued remarks on a resolution passed by the European Parliament relating to a potential release of payment data of SWIFT (Society for Worldwide Interbank Financial Telecommunication) to outsiders (in this case, the US authorities). The ECB emphasised that oversight of SWIFT payment data belonged to central banks as part of payment system oversight. The ECB did not share the Parliament’s recommendation to bring data protection within the oversight of SWIFT, as it would conflict with the competencies allocated to data protection authorities. |
| March | <p>The Governing Council of the ECB concluded that it was feasible to implement the Eurosystem’s project for a securities settlement platform (TARGET2-Securities, T2S), and decided to launch the next phase of the project, where the governance arrangements will be specified. User requirements will be defined based on the assumption that the project is implemented using the TARGET2 platform. Stakeholders will be provided with a wide range of opportunities to be heard on these arrangements and requirements.</p> <p>The ECB published a report on financial integration in Europe. The report is intended to help the ECB and the Eurosystem contribute to advancing European financial integration according to the European Union objectives. Another aim is to raise the public’s awareness of the ECB’s and Eurosystem’s role in promoting financial market integration. The report mainly focuses on the euro area, but integration is also reviewed from the perspective of the EU as a whole. The ECB will release a corresponding integration report each year in the future. This report and other publications dealing with financial stability may be accessed from the ECB’s website, under ‘Publications/Publications by activity/Financial Stability and Supervision’.</p> |
| April | <p>The ECB and the European Commission issued a joint statement welcoming the European Parliament’s adoption of the Payment Services Directive.</p> <p>The Governing Council of the ECB decided to launch a public consultation on the general principles and proposals defining the nature and scope of TARGET2-Securities. Comments were also invited on the principles for the development of a common platform for Eurosystem collateral management (Collateral Central Bank Management, CCBM2).</p> <p>The Governing Council of the ECB decided to launch a public consultation on the oversight framework for card payment schemes within the Eurosystem.</p> |

| | |
|-----------------|--|
| May | <p>The Governing Council of the ECB decided to launch a public consultation on Eurosystem common methodology for the assessment of euro systemically and prominently important payment systems against the Core Principles. At the same time, common guidelines for the Eurosystem's oversight function for the assessment of payment systems were published.</p> <p>The Governing Council of the ECB decided that marketable assets issued prior to 31 May 2007 and traded on non-regulated markets that currently fulfil the Eurosystem's requirements for safety and accessibility, but not for transparency, will remain eligible until 31 December 2009. The uncovered marketable Tier two assets issued by credit institutions became ineligible on 31 May 2007.</p> |
| June | <p>Based on the (fourth) progress report on TARGET2, the Governing Council of the ECB made decisions on remaining TARGET2 pricing and financing issues. The report contained the final version of the General Functional Specifications. It also provided information on legal issues concerning the envisaged functionality of the Single Shared Platform and system testing and migration activities.</p> |
| July | <p>The ECB published its fifth progress report on the Single Euro Payments Area (SEPA). The report focuses on those areas in which greater efforts are needed in order to make the SEPA project a success.</p> <p>The Governing Council of the ECB updated its assessment of euro area securities settlement systems eligible for the settlement of collateral for Eurosystem credit operations.</p> |
| August | <p>The new Member States of the European Union, Bulgaria and Romania, joined two EU-wide Memoranda of Understanding: the Memorandum of Understanding on high-level principles of cooperation in crisis management situations and the memorandum of understanding on cooperation between payment systems overseers and banking supervisors.</p> |
| October | <p>The Governing Council of the ECB made decisions on remaining legal, operational and communication issues related to the introduction of TARGET2, acting on the basis of the (fifth) progress report on TARGET2.</p> |
| December | <p>The Governing Council of the ECB reviewed the TARGET2-Securities user requirements and decided to launch a public consultation on related documentation, on which comments are invited by 2 April 2008.</p> |

EU regulatory projects and their implementation in Finland

| | |
|------------------------|---|
| <p>February</p> | <p>Amendment of the Securities Markets Act became effective. The amendment transposes the ‘Transparency Directive’ concerning harmonisation of information on issuers of securities traded on regulated markets.</p> <p>The revised Credit Institutions Act came into force. It transposed into Finnish national law the worldwide bank capital adequacy reform (Basel II framework), prepared by the Basel Committee on Banking Supervision, and related European Union directives. The new capital requirements will also concern investment firms. The revision took account of developments in credit institutions’ risk management procedures in recent years. Among other things, the new capital adequacy requirements seek to encourage introduction of more advanced risk management systems. In connection with the revision, regulations other than those related to financial monitoring of credit institutions mainly remained unchanged.</p> |
| <p>November</p> | <p>The former Investment Firms Act was replaced by a new act, with the same name. Meanwhile, changes and revisions were made to a number of acts concerning the operations of financial markets. The new legislation implements the Markets in Financial Instruments Directive (MiFID) and has a wider scope of application. Provision of investment services became activity subject to authorisation. Investment advice, mediation and implementation of transactions, and asset management, for instance, require authorisation.</p> <p>The Ministry of Finance set up a working group to prepare legislation on payment services. Members of the working group include representatives from the authorities (such as the Bank of Finland and the Financial Supervision Authority) and from business and industry. The working group is responsible for preparing a proposal for the national transposition of the EU’s Payment Services Directive in respect of payment services provision. The Directive lays the legal foundation for the Single Euro Payments Area. The proposal of the working group is due to reach completion on 1 December 2008.</p> |
| <p>December</p> | <p>The Companies Act, the Cooperatives Act and acts on companies engaged in financial activities were supplemented with provisions on cross-border mergers and divisions, thereby enabling Finnish and other EEA limited liability companies and cooperatives to undertake corporate rearrangements across national borders. A cross-border merger may often enable a multinational company to abandon its group structure. The acts transposed into Finnish national legislation the Directive of the European Parliament and of the Council on cross-border mergers of limited liability companies, and became effective on 31 December 2007.</p> |

Other key regulatory projects and measures

| | |
|-----------------|--|
| April | The new Government programme set an objective for combining the existing Financial Supervision Authority and Insurance Supervisory Authority into a single new supervisory authority. |
| June | The Ministry of Finance and the Ministry of Social Affairs and Health set up a working group to prepare a proposal on the organisation of the new financial and insurance supervision authority to operate in connection with the Bank of Finland. Participating in the working group are also representatives from the Ministry of Justice, the Bank of Finland, the Financial Supervision Authority and the Insurance Supervisory Authority. The working group was set up for a period extending from 19 June 2007 to 31 March 2008. |
| October | <p>The Government proposed legislative amendments aimed at bringing legislation on the Finnish deposit guarantee scheme in line with evolving Finnish financial markets. According to the Government bill, the size of contributions paid to the Deposit Guarantee Fund should be based exclusively on the member bank's capital adequacy. The aim of the bill is to emphasise the risk-sensitivity and insurance-premium nature of Fund contributions, enhance the functionality of depositor protection in internationally integrating banking markets, ensure adequacy of contributions and secure the Fund's ongoing ability to make payments under all circumstances. The legislative amendments entered into force on 27 December 2007.</p> <p>The Ministry of Justice set up a working group to prepare a proposal for amending legislation on quick loans. The objective is to revise the relevant legislation in order to remove problems and drawbacks encountered in lending.</p> <p>The ECOFIN Council made decisions on improving the stability of EU financial markets on the basis of preparatory work done by the Economic and Financial Committee (EFC). Underlying the decisions were a rapid increase in cross-border financial activity and financial integration. The ECOFIN Council adopted common principles for management of cross-border financial crises and a strategic roadmap, under which joint EU agreements on financial stability are to be upgraded. The roadmap is used as a basis for preparing eg a new extended EU-wide Memorandum of Understanding (MoU) on crisis management. In addition, the EU's Financial Services Committee and the European Commission are to review and examine the tools needed for prevention, management and resolution of cross-border financial crises.</p> |
| November | The ECOFIN Council dealt with the conclusions of the Lamfalussy framework aimed at enhancing financial market regulation and supervision. The discussions mainly focused on the legal status, financing of operations and working methods of level 3 committees consisting mainly of national authorities with financial market responsibility. |

Main opinions issued by the Bank of Finland 2007

| Opinions concerning legislation on and development of the financial markets | |
|---|---|
| Opinion | |
| To the Financial Supervision Authority concerning | <ul style="list-style-type: none"> – the following draft standards: <ul style="list-style-type: none"> 1.3 Internal governance 1.6 Outsourcing of operations RA1.6 Reporting of outsourced operations 2.1 Code of conduct for the provision of financial services 2.2 Marketing of financial services and financial instruments 3.1 Financial statements and annual report 4.3a Own funds and minimum level of own funds 4.4b Management of operational risk 4.4c Management of market risk RA4.8 Reporting of own funds as well as own funds to cover credit risk, counterparty risk, market risk and operational risk 5.1 Listed companies' regular reporting requirements RA5.1 Reporting of trades 5.2b The obligations of issuers and shareholders to provide information |
| To the Ministry of Finance concerning | <ul style="list-style-type: none"> – confirmation of trading rules of the Helsinki Stock Exchange, 15 January – a bill on monitoring cross-border cash movements, 21 March – confirmation of trading rules of the Helsinki Stock Exchange, 23 March – an application for confirmation of an amendment to the rules of the Investor Compensation Fund, 3 July – a proposal for amendment of certain provisions related to taxation of securities, 13 August – a proposal on taxation of shareholders in controlled foreign companies, 13 August – confirmation of contributions payable to the Investor Compensation Fund, 6 September – a draft bill on handling government pay data and certain penalties, 14 September – a proposal on amendment of the Credit Institutions Act and the Act on the Operation of a Foreign Credit Institution or a Financial Institution in Finland, 2 October – amendments to the rules of OMX Nordic Exchange Helsinki, 24 October – confirmation of an amendment to the rules of the Finnish Central Securities Depository (APK), 12 December – a decree concerning corporate governance practices and implementing amendments to the Directive on Annual Accounts, 19 December |

| | |
|--|---|
| To the Ministry of Justice concerning | <ul style="list-style-type: none"> – a report submitted by a working group on regulation under company law of cross-border mergers and divisions, 5 March – a proposed amendment of the Third Council Directive concerning mergers of public limited liability companies and the Sixth Council Directive concerning the division of public limited liability companies (Government report), 21 March |
| To the Ministry of the Interior concerning | <ul style="list-style-type: none"> – a proposal for revision of Finnish anti-money laundering legislation and for amendment of the Act on the public disclosure and confidentiality of tax information, 7 May |
| To the Ministry of Social Affairs and Health concerning | <ul style="list-style-type: none"> – a report submitted by the Insurance Companies Act 2005 working group, 26 January – a final report on the competitive environment of the employee pension scheme, 28 February – an amendment of the act on the Finnish Centre for Pensions, 23 May |
| To the Ministry for Foreign Affairs concerning | <ul style="list-style-type: none"> – the Agreement between Finland and Mauritius on the promotion and protection of investments, 13 June – the Agreement between Finland and Tajikistan on the promotion and protection of investments, 5 October – the Agreement between Finland and Honduras on the promotion and protection of investments, 20 November |
| To the European Commission concerning | <ul style="list-style-type: none"> – the Green Paper on Retail Financial Services, 13 July |
| To the Nordic Central Securities Depository (NCSD) concerning | <ul style="list-style-type: none"> – NCSD account structure, 7 February – processing of payments in connection with NCSD corporate actions, 10 May – the amendment of a decision by the Managing Director of the Finnish Central Securities Depository (APK), 11 September – national transposition of the Markets in Financial Instruments Directive and amendment of self-regulation of the Finnish Central Securities Depository, 31 October |
| To the Investor Compensation Fund concerning | <ul style="list-style-type: none"> – an application for additional protection by the Finnish branch of Kaupthing Bank hf., 31 October – an application submitted by the Finnish branch of Danske Bank for membership of the Investor Compensation Fund, 12 November |
| To the Deposit Guarantee Fund concerning | <ul style="list-style-type: none"> – an application for additional protection by the Finnish branch of Kaupthing Bank hf., 23 August – an application submitted by the Finnish branch of Danske Bank for membership of the Deposit Guarantee Fund, 5 November |
| To Nordea concerning | <ul style="list-style-type: none"> – a request by the Finnish Competition Authority related to cooperation between banks in the event of bank card products being withdrawn from the Finnish payment card market, 28 August |
| OKO Bank Group Central Cooperative concerning | <ul style="list-style-type: none"> – a request by the Finnish Competition Authority related to cooperation between banks in the event of bank card products being withdrawn from the Finnish payment card market, 3 August |

Bank of Finland publications in 2007

| | |
|--------------------------------------|--|
| Euro & talous | (in Finnish) Four quarterly issues and one annual special issue on the stability of the financial system. |
| Bank of Finland Bulletin | Four quarterly issues and one annual special issue on the stability of the financial system. |
| Bank of Finland Annual Report | Published separately in Finnish, Swedish and English. |
| Research publications | |
| Scientific monographs | E:39 Harry Leinonen (ed.), Simulation studies of liquidity needs, risks and efficiency in payment networks. |
| Discussion Papers | 33 online studies and reports were published in the Discussion Paper series. |
| Studies and reports | 20 online studies and reports were published in the BoF online series. 4 quarterly issues of the Financial Market Report were published (in Finnish and in English). Corporate funding survey, published in November (in Finnish only). |
| Statistical publications | Financial markets, a quarterly publication (in Finnish, Swedish and English). Finland's balance of payments, a monthly online publication (in Finnish, Swedish and English). Finland's balance of payments, annual statistics, published online in March and September (in Finnish, Swedish and English). Portfolio investment in Finland's balance of payments, an annual online publication (in Finnish, Swedish and English). Direct investment in Finland's balance of payments, an annual online publication (in Finnish, Swedish and English). Finnish bond issues, an annual online publication (in Finnish, Swedish and English). Monetary and banking statistics, a monthly online publication (in Finnish, Swedish and English). Currency reserve and currency-denominated liquidity, a monthly publication (in English). |

Publications of the Institute for Economies in Transition

| | |
|--------------------------------|---|
| Research publications | <p>22 online studies were published in the BOFIT Discussion Papers series (in English).</p> <p>10 publications appeared in the BOFIT Online series (in Finnish or in English).</p> |
| Monitoring publications | <p>BOFIT Viikkokatsaus, a weekly online publication (in Finnish).</p> <p>BOFIT Weekly, a weekly online publication (in English).</p> <p>BOFIT Venäjä-ennuste, a bi-annual online publication (in Finnish).</p> <p>BOFIT Russia Forecast, a bi-annual online publication (in English).</p> <p>BOFIT Venäjä-tilastot, an online publication (in Finnish).</p> <p>BOFIT Russia Statistics, an online publication (in English).</p> <p>BOFIT Kiina-tilastot, an online publication (in Finnish).</p> <p>BOFIT China Statistics, an online publication (in English).</p> <p>Focus/Opinion – Asiantuntijan näkemys series, 7 online articles were published (in Finnish).</p> <p>Focus/Opinion – Expert view series, 7 online articles were published (in English).</p> |

| | |
|---------------------------------|--|
| Orders and subscriptions | <p>A comprehensive list of publications is available on the Bank of Finland website (www.suomenpankki.fi).</p> <p>The Bank has made increasingly more publications available electronically. Of studies and reports, discussion papers as well as the Expository Studies (A series) and the Scientific Monographs (E series) are only published electronically.</p> <p>The Bank of Finland website offers a service where these publications can be subscribed to free of charge. The subscriber will be alerted by email of the publication of their desired publication.</p> <p>Online subscriptions can be made at www.bof.fi/en > Publications > Order and subscribe to electronic publications and reports.</p> <p>The Bank's publications Euro & talous (in Finnish) and Bank of Finland Bulletin and their special issues as well as the Bank's and ECB's annual reports also appear in print. Online subscriptions to the printed copies can be made at www.bof.fi/en > Publications > Order and subscriptions, printed publications. Back copies of printed publications can also be ordered from that same website address.</p> |
|---------------------------------|--|

Supplementary tables

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

0 *less than half the final digit shown*

. *logically impossible*

.. *data not available*

– *nil*

– *change in contents of series*

Table 1.
Monthly balance sheet of the Bank of Finland, EUR m

| <i>Assets</i> | <i>Jan</i> | <i>Feb</i> | <i>Mar</i> |
|--|---------------|---------------|---------------|
| 1 <i>Gold and gold receivables</i> | 761 | 761 | 761 |
| 2 <i>Claims on non-euro area residents denominated in foreign currency</i> | 4,747 | 4,646 | 4,560 |
| 2.1 <i>Receivables from the IMF</i> | 279 | 280 | 264 |
| 2.2 <i>Balances with banks and security investments, external loans and other external assets</i> | 4,468 | 4,366 | 4,295 |
| 3 <i>Claims on euro area residents denominated in foreign currency</i> | 1,079 | 1,243 | 1,362 |
| 4 <i>Claims on non-euro area residents denominated in euro</i> | 477 | 475 | 632 |
| 4.1 <i>Balances with banks, security investments and loans</i> | 477 | 475 | 632 |
| 4.2 <i>Claims arising from the credit facility under ERM II</i> | – | – | – |
| 5 <i>Lending to euro area credit institutions related to monetary policy operations denominated in euro</i> | 875 | 895 | 846 |
| 5.1 <i>Main refinancing operations</i> | 350 | – | – |
| 5.2 <i>Longer-term refinancing operations</i> | 525 | 895 | 846 |
| 5.3 <i>Fine-tuning reverse operations</i> | – | – | – |
| 5.4 <i>Structural reverse operations</i> | – | – | – |
| 5.5 <i>Marginal lending facility</i> | – | – | – |
| 5.6 <i>Credits related to margin calls</i> | – | – | – |
| 6 <i>Other claims on euro area credit institutions denominated in euro</i> | 111 | 97 | 174 |
| 7 <i>Securities of euro area residents denominated in euro</i> | 5,172 | 5,499 | 5,569 |
| 8 <i>General government debt denominated in euro</i> | – | – | – |
| 9 <i>Intra-Eurosystem claims</i> | 4,672 | 4,437 | 4,552 |
| 9.1 <i>Participating interest in ECB</i> | 74 | 74 | 73 |
| 9.2 <i>Claims equivalent to the transfer of foreign reserves</i> | 717 | 717 | 717 |
| 9.3 <i>Claims related to the issuance of ECB debt certificates</i> | – | – | – |
| 9.4 <i>Claims related to TARGET and correspondent accounts (net)</i> | – | – | 124 |
| 9.5 <i>Claims related to other operational requirements within the Eurosystem</i> | 3,881 | 3,646 | 3,638 |
| 10 <i>Other assets</i> | 886 | 892 | 905 |
| Total assets | 18,781 | 18,945 | 19,360 |

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

| <i>Apr</i> | <i>May</i> | <i>Jun</i> | <i>Jul</i> | <i>Aug</i> | <i>Sep</i> | <i>Oct</i> | <i>Nov</i> | <i>Dec</i> |
|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| 785 | 785 | 785 | 757 | 757 | 757 | 820 | 820 | 820 |
| 4,352 | 4,405 | 4,387 | 4,424 | 4,699 | 4,732 | 4,587 | 4,474 | 4,649 |
| 262 | 291 | 290 | 277 | 277 | 275 | 269 | 266 | 266 |
| 4,090 | 4,114 | 4,097 | 4,148 | 4,421 | 4,457 | 4,319 | 4,208 | 4,382 |
| 1,356 | 1,345 | 1,391 | 1,317 | 997 | 990 | 1,008 | 1,131 | 1,416 |
| 659 | 269 | 363 | 598 | 522 | 440 | 571 | 451 | 358 |
| 659 | 269 | 363 | 598 | 522 | 440 | 571 | 451 | 358 |
| - | - | - | - | - | - | - | - | - |
| 836 | 632 | 35 | - | 210 | 422 | 535 | 757 | 230 |
| 475 | 272 | - | - | 70 | 10 | 123 | 485 | 30 |
| 361 | 361 | - | - | 140 | 412 | 412 | 272 | 200 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | 35 | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 38 | 63 | 77 | 44 | 0 | 160 | 84 | 39 | 40 |
| 6,164 | 6,526 | 6,717 | 6,496 | 6,613 | 6,544 | 6,594 | 6,767 | 6,860 |
| - | - | - | - | - | - | - | - | - |
| 4,455 | 4,433 | 5,151 | 4,420 | 5,298 | 4,304 | 4,304 | 5,654 | - |
| 73 | 73 | 73 | 73 | 73 | 73 | 73 | 73 | 73 |
| 717 | 717 | 717 | 717 | 717 | 717 | 717 | 717 | 717 |
| - | - | - | - | - | - | - | - | - |
| 26 | - | 731 | - | 911 | - | - | 1,405 | 4,403 |
| 3,638 | 3,643 | 3,629 | 3,629 | 3,596 | 3,513 | 3,513 | 3,459 | 3,459 |
| 931 | 972 | 997 | 1,118 | 1,157 | 1,169 | 1,160 | 1,180 | 1,187 |
| 19,575 | 19,432 | 19,904 | 19,175 | 20,252 | 19,517 | 19,663 | 21,273 | 24,213 |

Table 1.
(cont.)

| <i>Liabilities</i> | <i>Jan</i> | <i>Feb</i> | <i>Mar</i> |
|---|---------------|---------------|---------------|
| 1 Banknotes in circulation | 10,165 | 9,985 | 10,108 |
| 2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro | 1,823 | 2,587 | 3,439 |
| 2.1 Current accounts (covering the minimum reserve system) | 1,822 | 2,585 | 3,438 |
| 2.2 Deposit facility | 1 | 2 | 1 |
| 2.3 Fixed-term deposits | – | – | – |
| 2.4 Fine-tuning reverse operations | – | – | – |
| 2.5 Deposits related to margin calls | – | – | – |
| 3 Other liabilities to euro area credit institutions denominated in euro | – | – | – |
| 4 Liabilities to other euro area residents denominated in euro | 22 | 15 | 11 |
| 4.1 General government | – | – | – |
| 4.2 Other liabilities | 22 | 15 | 11 |
| 5 Liabilities to non-euro area residents denominated in euro | 2 | 3 | 3 |
| 6 Liabilities to euro area residents denominated in foreign currency | 0 | 0 | 0 |
| 7 Liabilities to non-euro area residents denominated in foreign currency | – | 50 | 65 |
| 7.1 Deposits, balances and other liabilities | – | 50 | 65 |
| 7.2 Liabilities arising from the credit facility under ERM II | – | – | – |
| 8 Counterpart of special drawing rights allocated by the IMF | 163 | 163 | 163 |
| 9 Intra-Eurosystem liabilities | 1,094 | 606 | – |
| 9.1 Liabilities related to promissory notes backing the issuance of ECB debt certificates | – | – | – |
| 9.2 Liabilities related to TARGET and correspondent accounts (net) | 1,094 | 606 | – |
| 9.3 Liabilities related to other operational requirements within the Eurosystem | – | – | – |
| 10 Other liabilities | 418 | 443 | 242 |
| 11 Revaluation account | 762 | 762 | 762 |
| 12 Capital and reserves | 4,331 | 4,331 | 4,566 |
| 12.1 Primary capital | 841 | 841 | 841 |
| 12.2 Reserve fund | 756 | 756 | 863 |
| 12.3 Pension provisions | 441 | 441 | 459 |
| 12.4 Other provisions | 2,293 | 2,293 | 2,217 |
| Total liabilities | 18,781 | 18,945 | 19,360 |

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

| <i>Apr</i> | <i>May</i> | <i>Jun</i> | <i>Jul</i> | <i>Aug</i> | <i>Sep</i> | <i>Oct</i> | <i>Nov</i> | <i>Dec</i> |
|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| 10,216 | 10,267 | 10,429 | 10,528 | 10,497 | 10,499 | 10,549 | 10,637 | 10,935 |
| 3,695 | 3,232 | 3,755 | 2,655 | 3,981 | 2,049 | 2,991 | 4,757 | 7,313 |
| 3,693 | 3,232 | 3,754 | 2,654 | 3,978 | 2,028 | 2,989 | 4,755 | 3,570 |
| 2 | 1 | 0 | 1 | 3 | 21 | 2 | 2 | 4 |
| - | - | - | - | - | - | - | - | 3,739 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| 11 | 9 | 0 | 14 | 9 | 9 | 6 | 5 | 0 |
| - | - | - | - | - | - | - | - | - |
| 11 | 9 | 0 | 14 | 9 | 9 | 6 | 5 | 0 |
| 3 | 3 | 4 | 3 | 3 | 15 | 3 | 2 | 6 |
| 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 64 | 62 | 71 | 127 | 60 | 61 | 32 | 23 | 89 |
| 64 | 62 | 71 | 127 | 60 | 61 | 32 | 23 | 89 |
| - | - | - | - | - | - | - | - | - |
| 162 | 162 | 162 | 160 | 160 | 160 | 157 | 157 | 157 |
| - | 233 | - | 180 | - | 1,153 | 271 | - | - |
| - | - | - | - | - | - | - | - | - |
| - | 233 | - | 180 | - | 1,153 | 271 | - | - |
| - | - | - | - | - | - | - | - | - |
| 293 | 332 | 353 | 403 | 437 | 467 | 529 | 568 | 589 |
| 751 | 751 | 751 | 725 | 725 | 725 | 744 | 744 | 744 |
| 4,380 | 4,380 | 4,380 | 4,380 | 4,380 | 4,380 | 4,380 | 4,380 | 4,380 |
| 841 | 841 | 841 | 841 | 841 | 841 | 841 | 841 | 841 |
| 863 | 863 | 863 | 863 | 863 | 863 | 863 | 863 | 863 |
| 459 | 459 | 459 | 459 | 459 | 459 | 459 | 459 | 459 |
| 2,217 | 2,217 | 2,217 | 2,217 | 2,217 | 2,217 | 2,217 | 2,217 | 2,217 |
| 19,575 | 19,432 | 19,904 | 19,175 | 20,252 | 19,517 | 19,663 | 21,273 | 24,213 |

Table 2.
Main refinancing operations of the Eurosystem

| Date of settlement | Bids, EUR m | Allotment, EUR m | Allotment to Finnish credit institutions, EUR m | Participating credit institutions, number | Variable rate tenders | | | Running for (...) days |
|--------------------|-------------|------------------|---|---|-----------------------|------------------|--------------------------|------------------------|
| | | | | | Minimum bid rate, % | Marginal rate, % | Weighted average rate, % | |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 2007 | | | | | | | | |
| 4 Jan | 395,644 | 330,500 | 482 | 348 | 3.50 | 3.57 | 3.58 | 6 |
| 10 | 381,305 | 310,500 | 958 | 375 | 3.50 | 3.55 | 3.56 | 7 |
| 17 | 412,215 | 312,500 | 541 | 381 | 3.50 | 3.55 | 3.56 | 7 |
| 24 | 428,181 | 317,500 | 350 | 395 | 3.50 | 3.55 | 3.56 | 7 |
| 31 | 399,269 | 292,500 | 283 | 352 | 3.50 | 3.56 | 3.56 | 7 |
| 7 Feb | 381,952 | 279,500 | 0 | 346 | 3.50 | 3.54 | 3.55 | 7 |
| 14 | 402,912 | 286,500 | 0 | 363 | 3.50 | 3.55 | 3.56 | 8 |
| 22 | 425,650 | 301,500 | 0 | 361 | 3.50 | 3.55 | 3.56 | 6 |
| 28 | 380,816 | 289,000 | 0 | 343 | 3.50 | 3.56 | 3.56 | 7 |
| 7 Mar | 364,245 | 280,000 | 0 | 333 | 3.50 | 3.55 | 3.56 | 7 |
| 14 | 375,459 | 271,500 | 0 | 352 | 3.75 | 3.81 | 3.81 | 7 |
| 21 | 372,414 | 282,000 | 0 | 370 | 3.75 | 3.80 | 3.81 | 7 |
| 28 | 365,416 | 283,500 | 0 | 357 | 3.75 | 3.82 | 3.83 | 7 |
| 4 Apr | 382,753 | 291,500 | 0 | 356 | 3.75 | 3.83 | 3.83 | 7 |
| 11 | 364,037 | 280,000 | 0 | 346 | 3.75 | 3.81 | 3.82 | 7 |
| 18 | 397,484 | 281,500 | 0 | 366 | 3.75 | 3.81 | 3.82 | 7 |
| 25 | 392,541 | 288,500 | 475 | 350 | 3.75 | 3.82 | 3.83 | 7 |
| 2 May | 371,510 | 279,500 | 557 | 306 | 3.75 | 3.82 | 3.83 | 7 |
| 9 | 353,181 | 276,000 | 413 | 325 | 3.75 | 3.81 | 3.82 | 6 |
| 15 | 360,720 | 281,000 | 0 | 307 | 3.75 | 3.82 | 3.82 | 8 |
| 23 | 364,192 | 295,500 | 272 | 359 | 3.75 | 3.82 | 3.82 | 7 |
| 30 | 360,182 | 284,500 | 0 | 331 | 3.75 | 3.82 | 3.83 | 7 |
| 6 Jun | 331,056 | 279,000 | 0 | 322 | 3.75 | 3.75 | 3.77 | 7 |
| 13 | 363,785 | 282,000 | 0 | 344 | 4.00 | 4.06 | 4.07 | 7 |
| 20 | 365,298 | 288,000 | 0 | 361 | 4.00 | 4.06 | 4.07 | 7 |
| 27 | 340,137 | 313,500 | 0 | 341 | 4.00 | 4.07 | 4.08 | 7 |
| 4 Jul | 357,489 | 298,000 | 0 | 334 | 4.00 | 4.03 | 4.05 | 7 |
| 11 | 382,686 | 292,000 | 0 | 352 | 4.00 | 4.06 | 4.06 | 7 |
| 18 | 375,272 | 301,500 | 0 | 376 | 4.00 | 4.06 | 4.06 | 7 |
| 25 | 370,371 | 315,500 | 0 | 358 | 4.00 | 4.06 | 4.07 | 7 |
| 1 Aug | 373,286 | 298,000 | 100 | 329 | 4.00 | 4.04 | 4.06 | 7 |
| 8 | 391,978 | 292,500 | 0 | 319 | 4.00 | 4.06 | 4.07 | 7 |
| 15 | 426,994 | 310,000 | 448 | 344 | 4.00 | 4.08 | 4.10 | 7 |
| 22 | 439,747 | 275,000 | 252 | 355 | 4.00 | 4.08 | 4.09 | 7 |
| 29 | 352,724 | 210,000 | 70 | 320 | 4.00 | 4.08 | 4.09 | 7 |
| 5 Sep | 426,352 | 256,000 | 85 | 356 | 4.00 | 4.15 | 4.19 | 7 |
| 12 | 406,119 | 269,000 | 40 | 381 | 4.00 | 4.14 | 4.17 | 7 |
| 19 | 356,281 | 155,000 | 0 | 371 | 4.00 | 4.15 | 4.16 | 7 |
| 26 | 368,995 | 190,000 | 10 | 378 | 4.00 | 4.27 | 4.29 | 7 |

Sources: European Central Bank and Bank of Finland.

| Date of settlement | Bids, EUR m | Allotment, EUR m | Allotment to Finnish credit institutions, EUR m | Participating credit institutions, number | Variable rate tenders | | | Running for (...) days |
|--------------------|-------------|------------------|---|---|-----------------------|------------------|--------------------------|------------------------|
| | | | | | Minimum bid rate, % | Marginal rate, % | Weighted average rate, % | |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 3 Oct | 298,721 | 163,000 | 0 | 316 | 4.00 | 4.14 | 4.16 | 7 |
| 10 | 322,684 | 218,000 | 1 | 342 | 4.00 | 4.12 | 4.16 | 7 |
| 17 | 283,439 | 171,000 | 268 | 349 | 4.00 | 4.11 | 4.14 | 7 |
| 24 | 304,089 | 182,000 | 123 | 348 | 4.00 | 4.11 | 4.14 | 7 |
| 31 | 287,241 | 170,000 | 372 | 308 | 4.00 | 4.14 | 4.16 | 7 |
| 7 Nov | 275,580 | 160,000 | 86 | 300 | 4.00 | 4.14 | 4.15 | 7 |
| 14 | 280,458 | 182,000 | 690 | 298 | 4.00 | 4.15 | 4.16 | 7 |
| 21 | 277,051 | 169,000 | 25 | 299 | 4.00 | 4.17 | 4.19 | 7 |
| 28 | 257,966 | 178,000 | 485 | 283 | 4.00 | 4.18 | 4.20 | 7 |
| 5 Dec | 253,519 | 163,000 | 526 | 273 | 4.00 | 4.18 | 4.20 | 7 |
| 12 | 280,565 | 218,500 | 0 | 284 | 4.00 | 4.18 | 4.21 | 7 |
| 19 | 377,148 | 348,607 | 30 | 390 | 4.00 | 4.21 | 4.21 | 16 |
| 28 | 47,652 | 20,000 | 0 | 118 | 4.00 | 4.20 | 4.27 | 7 |

Table 3.
Longer-term refinancing operations of the Eurosystem

| Date of settlement | Bids, EUR m | Allotment, EUR m | Allotment to Finnish credit institutions, EUR m | Number of participants | Marginal rate, % | Weighted average rate, % | Running for (...) days |
|--------------------|-------------|------------------|---|------------------------|------------------|--------------------------|------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2007 | | | | | | | |
| 1 Feb | 79,099 | 50,000 | 486 | 164 | 3.72 | 3.74 | 85 |
| 1 Mar | 80,110 | 50,000 | 164 | 143 | 3.80 | 3.81 | 91 |
| 29 Mar | 76,498 | 50,000 | 196 | 148 | 3.87 | 3.87 | 91 |
| 27 Apr | 71,294 | 50,000 | 0 | 148 | 3.96 | 3.97 | 90 |
| 31 May | 72,697 | 50,000 | 0 | 147 | 4.06 | 4.07 | 91 |
| 28 Jun | 66,319 | 50,000 | 0 | 139 | 4.11 | 4.12 | 91 |
| 26 Jul | 78,703 | 50,000 | 0 | 144 | 4.20 | 4.20 | 98 |
| 24 Aug | 125,787 | 40,000 | 90 | 146 | 4.49 | 4.61 | 91 |
| 30 Aug | 119,755 | 50,000 | 50 | 168 | 4.56 | 4.62 | 91 |
| 13 Sep | 139,021 | 75,000 | 210 | 140 | 4.35 | 4.52 | 90 |
| 27 Sep | 85,353 | 50,000 | 62 | 159 | 4.50 | 4.63 | 84 |
| 1 Nov | 87,587 | 50,000 | 0 | 157 | 4.45 | 4.53 | 91 |
| 23 Nov | 147,977 | 60,000 | 0 | 130 | 4.55 | 4.61 | 90 |
| 29 Nov | 132,386 | 50,000 | 0 | 175 | 4.65 | 4.70 | 91 |
| 12 Dec | 105,126 | 60,000 | 50 | 122 | 4.81 | 4.88 | 92 |
| 20 Dec | 48,476 | 48,476 | 150 | 97 | 4.00 | 4.56 | 98 |

Source: European Central Bank.

Table 4.
Other tender operations

| Date of settlement | Type of operation | Bids, EUR m | Allotment, EUR m | Number of participants | Fixed rate tenders | Variable rate tenders | | |
|--------------------|---|-------------|------------------|------------------------|--------------------|-----------------------|--------------------------|------------------------|
| | | | | | Fixed rate, % | Marginal rate, % | Weighted average rate, % | Running for (...) days |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 2007 | | | | | | | | |
| 13 Feb | Variable rate liquidity-providing fine-tuning operation | 26,269 | 2,000 | 25 | – | 3.55 | 3.57 | 1 |
| 13 Mar | Fixed rate liquidity-absorbing fine-tuning operation | 2,300 | 2,300 | 2 | 3.50 | 3.50 | – | 1 |
| 17 Apr | Fixed rate liquidity-absorbing fine-tuning operation | 42,245 | 22,500 | 35 | 3.75 | 3.75 | – | 1 |
| 14 May | Fixed rate liquidity-absorbing fine-tuning operation | 2,460 | 2,460 | 7 | 3.75 | 3.75 | – | 1 |
| 12 Jun | Fixed rate liquidity-absorbing fine-tuning operation | 12,960 | 6,000 | 11 | 3.75 | 3.75 | – | 1 |
| 10 Jul | Variable rate liquidity-providing fine-tuning operation | 17,385 | 2,500 | 18 | – | 4.06 | 4.07 | 1 |
| 9 Aug | Variable rate liquidity-providing fine-tuning operation | 94,841 | 94,841 | 49 | – | 4.00 | 4.00 | 1 |
| 10 Aug | Variable rate liquidity-providing fine-tuning operation | 110,035 | 61,050 | 62 | – | 4.05 | 4.08 | 1 |
| 13 Aug | Variable rate liquidity-providing fine-tuning operation | 84,452 | 47,665 | 59 | – | 4.06 | 4.07 | 1 |
| 14 Aug | Variable rate liquidity-providing fine-tuning operation | 45,967 | 7,700 | 41 | – | 4.07 | 4.07 | 1 |
| 6 Sep | Variable rate liquidity-providing fine-tuning operation | 90,895 | 42,245 | 46 | – | 4.06 | 4.13 | 1 |
| 11 Sep | Fixed rate liquidity-absorbing fine-tuning operation | 66,388 | 60,000 | 37 | 4.00 | 4.00 | – | 1 |
| 9 Oct | Fixed rate liquidity-absorbing fine-tuning operation | 40,235 | 24,500 | 18 | 4.00 | 4.00 | – | 1 |
| 12 Oct | Fixed rate liquidity-absorbing fine-tuning operation | 40,080 | 30,000 | 22 | 4.00 | 4.00 | – | 1 |
| 13 Nov | Fixed rate liquidity-absorbing fine-tuning operation | 27,750 | 27,750 | 10 | 4.00 | 4.00 | – | 1 |
| 7 Dec | Fixed rate liquidity-absorbing fine-tuning operation | 37,615 | 8,000 | 30 | 4.00 | 4.00 | – | 1 |
| 11 Dec | Fixed rate liquidity-absorbing fine-tuning operation | 23,550 | 21,000 | 20 | 4.00 | 4.00 | – | 1 |
| 17 Dec | Fixed rate liquidity-absorbing fine-tuning operation | 36,610 | 36,610 | 25 | 4.00 | 4.00 | – | 1 |
| 19 Dec | Fixed rate liquidity-absorbing fine-tuning operation | 133,610 | 133,610 | 52 | 4.00 | 4.00 | – | 1 |
| 20 Dec | Fixed rate liquidity-absorbing fine-tuning operation | 165,815 | 150,000 | 58 | 4.00 | 4.00 | – | 1 |
| 21 Dec | Fixed rate liquidity-absorbing fine-tuning operation | 141,565 | 141,565 | 55 | 4.00 | 4.00 | – | 1 |
| 27 Dec | Fixed rate liquidity-absorbing fine-tuning operation | 145,640 | 145,640 | 49 | 4.00 | 4.00 | – | 1 |
| 28 Dec | Fixed rate liquidity-absorbing fine-tuning operation | 160,450 | 150,000 | 52 | 4.00 | 4.00 | – | 1 |
| 31 Dec | Fixed rate liquidity-absorbing fine-tuning operation | 101,580 | 101,580 | 44 | 4.00 | 4.00 | – | 1 |

Source: European Central Bank.

Table 5.
Key interest rates of the Eurosystem

| <i>Fixed rate tenders</i> | | | <i>Variable rate tenders</i> | | |
|---|------------------|----------|---|------------------|----------|
| <i>Interest rate on main refinancing operations</i> | | | <i>Minimum bid rate</i> | | |
| <i>Decision date</i> | <i>Effective</i> | <i>%</i> | <i>Decision date</i> | <i>Effective</i> | <i>%</i> |
| 22 Dec 1998 | 1 Jan 1999 | 3.00 | 8 Jun 2000 | 28 Jun 2000 | 4.25 |
| 8 Apr 1999 | 14 Apr 1999 | 2.50 | 31 Aug 2000 | 6 Sep 2000 | 4.50 |
| 4 Nov 1999 | 10 Nov 1999 | 3.00 | 5 Oct 2000 | 11 Oct 2000 | 4.75 |
| 3 Feb 2000 | 9 Feb 2000 | 3.25 | 10 May 2001 | 15 May 2001 | 4.50 |
| 16 Mar 2000 | 22 Mar 2000 | 3.50 | 30 Aug 2001 | 5 Sep 2001 | 4.25 |
| 27 Apr 2000 | 4 May 2000 | 3.75 | 17 Sep 2001 | 19 Sep 2001 | 3.75 |
| 8 Jun 2000 | 15 Jun 2000 | 4.25 | 8 Nov 2001 | 14 Nov 2001 | 3.25 |
| | | | 5 Dec 2002 | 11 Dec 2002 | 2.75 |
| | | | 6 Mar 2003 | 7 Mar 2003 | 2.50 |
| | | | 5 Jun 2003 | 6 Jun 2003 | 2.00 |
| | | | 1 Dec 2005 | 6 Dec 2005 | 2.25 |
| | | | 2 Mar 2006 | 8 Mar 2006 | 2.50 |
| | | | 8 Jun 2006 | 15 Jun 2006 | 2.75 |
| | | | 3 Aug 2006 | 9 Aug 2006 | 3.00 |
| | | | 5 Oct 2006 | 11 Oct 2006 | 3.25 |
| | | | 7 Dec 2006 | 13 Dec 2006 | 3.50 |
| | | | 8 Mar 2007 | 14 Mar 2007 | 3.75 |
| | | | 7 Jun 2007 | 13 Jun 2007 | 4.00 |
| <i>Standing facilities</i> | | | | | |
| <i>Interest rate on deposit facility</i> | | | <i>Interest rate on marginal lending facility</i> | | |
| <i>Decision date</i> | <i>Effective</i> | <i>%</i> | <i>Decision date</i> | <i>Effective</i> | <i>%</i> |
| 22 Dec 1998 | 1 Jan 1999 | 2.00 | 22 Dec 1998 | 1 Jan 1999 | 4.50 |
| 22 Dec 1998 | 4 Jan 1999 | 2.75 | 22 Dec 1998 | 4 Jan 1999 | 3.25 |
| 21 Jan 1999 | 22 Jan 1999 | 2.00 | 21 Jan 1999 | 22 Jan 1999 | 4.50 |
| 8 Apr 1999 | 9 Apr 1999 | 1.50 | 8 Apr 1999 | 9 Apr 1999 | 3.50 |
| 4 Nov 1999 | 5 Nov 1999 | 2.00 | 4 Nov 1999 | 5 Nov 1999 | 4.00 |
| 3 Feb 2000 | 4 Feb 2000 | 2.25 | 3 Feb 2000 | 4 Feb 2000 | 4.25 |
| 16 Mar 2000 | 17 Mar 2000 | 2.50 | 16 Mar 2000 | 17 Mar 2000 | 4.50 |
| 27 Apr 2000 | 28 Apr 2000 | 2.75 | 27 Apr 2000 | 28 Apr 2000 | 4.75 |
| 8 Jun 2000 | 9 Jun 2000 | 3.25 | 8 Jun 2000 | 9 Jun 2000 | 5.25 |
| 31 Aug 2000 | 1 Sep 2000 | 3.50 | 31 Aug 2000 | 1 Sep 2000 | 5.50 |
| 5 Oct 2000 | 6 Oct 2000 | 3.75 | 5 Oct 2000 | 6 Oct 2000 | 5.75 |
| 10 May 2001 | 11 May 2001 | 3.50 | 10 May 2001 | 11 May 2001 | 5.50 |
| 30 Aug 2001 | 31 Aug 2001 | 3.25 | 30 Aug 2001 | 31 Aug 2001 | 5.25 |
| 17 Sep 2001 | 18 Sep 2001 | 2.75 | 17 Sep 2001 | 18 Sep 2001 | 4.75 |
| 8 Nov 2001 | 9 Nov 2001 | 2.25 | 8 Nov 2001 | 9 Nov 2001 | 4.25 |
| 5 Dec 2002 | 6 Dec 2002 | 1.75 | 5 Dec 2002 | 6 Dec 2002 | 3.75 |
| 6 Mar 2003 | 7 Mar 2003 | 1.50 | 6 Mar 2003 | 7 Mar 2003 | 3.50 |
| 5 Jun 2003 | 6 Jun 2003 | 1.00 | 5 Jun 2003 | 6 Jun 2003 | 3.00 |
| 1 Dec 2005 | 6 Dec 2005 | 1.25 | 1 Dec 2005 | 6 Dec 2005 | 3.25 |
| 2 Mar 2006 | 8 Mar 2006 | 1.50 | 2 Mar 2006 | 8 Mar 2006 | 3.50 |
| 8 Jun 2006 | 15 Jun 2006 | 1.75 | 8 Jun 2006 | 15 Jun 2006 | 3.75 |
| 3 Aug 2006 | 9 Aug 2006 | 2.00 | 3 Aug 2006 | 9 Aug 2006 | 4.00 |
| 5 Oct 2006 | 11 Oct 2006 | 2.25 | 5 Oct 2006 | 11 Oct 2006 | 4.25 |
| 7 Dec 2006 | 13 Dec 2006 | 2.50 | 7 Dec 2006 | 13 Dec 2006 | 4.50 |
| 8 Mar 2007 | 14 Mar 2007 | 2.75 | 8 Mar 2007 | 14 Mar 2007 | 4.75 |
| 7 Jun 2007 | 13 Jun 2007 | 3.00 | 7 Jun 2007 | 13 Jun 2007 | 5.00 |

Source: European Central Bank.

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

| Maintenance period ending in ¹ | Liquidity-providing factors | | | | | Liquidity-absorbing factors | | | | | Credit institutions' current accounts | Base money |
|---|---|--|-------------------------------------|---------------------------|--------------------------------------|-----------------------------|--|--------------------|------------------|--------------------------------------|---------------------------------------|------------|
| | Euro-system's net assets in gold and foreign currency | Monetary policy operations of the Eurosystem | | | | Banknotes in circulation | Central government deposits with the Euro-system | Other factors, net | | | | |
| | | Main re-financing operations | Longer-term re-financing operations | Marginal lending facility | Other liquidity-providing operations | | | | Deposit facility | Other liquidity-absorbing operations | | |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 2006 | | | | | | | | | | | | |
| Dec | 327.0 | 313.1 | 120.0 | 0.1 | 0.1 | 0.1 | 0.0 | 598.6 | 54.9 | -66.4 | 173.2 | 771.8 |
| 2007 | | | | | | | | | | | | |
| Jan ¹ | 325.8 | 322.3 | 120.0 | 0.1 | 0.0 | 0.2 | 1.0 | 619.5 | 45.0 | -72.7 | 175.3 | 794.9 |
| Feb | 322.1 | 300.5 | 124.6 | 0.1 | 0.1 | 0.1 | 1.5 | 604.6 | 47.9 | -83.1 | 176.5 | 781.2 |
| Mar | 321.6 | 288.7 | 134.6 | 0.0 | 0.0 | 0.5 | 0.8 | 606.2 | 47.1 | -90.0 | 180.6 | 787.2 |
| Apr | 323.6 | 281.7 | 145.7 | 0.5 | 0.0 | 0.3 | 0.9 | 614.8 | 48.2 | -95.2 | 182.6 | 797.7 |
| May | 326.1 | 281.6 | 150.0 | 0.3 | 0.0 | 0.5 | 0.1 | 620.0 | 51.3 | -97.2 | 183.2 | 803.8 |
| Jun | 326.4 | 284.9 | 150.0 | 0.3 | 0.0 | 0.2 | 0.2 | 625.2 | 49.1 | -99.4 | 186.2 | 811.7 |
| Jul | 323.0 | 295.4 | 150.0 | 0.2 | 0.1 | 0.3 | 0.0 | 631.3 | 53.9 | -106.4 | 189.6 | 821.2 |
| Aug | 316.7 | 301.7 | 150.0 | 0.1 | 0.0 | 0.4 | 0.0 | 639.7 | 52.3 | -115.8 | 192.0 | 832.1 |
| Sep | 317.3 | 268.7 | 171.7 | 0.2 | 10.7 | 0.4 | 1.7 | 639.2 | 52.3 | -117.8 | 192.7 | 832.4 |
| Oct | 321.9 | 194.3 | 262.3 | 0.3 | 0.0 | 1.6 | 0.9 | 637.3 | 63.7 | -118.0 | 193.4 | 832.3 |
| Nov | 327.6 | 180.2 | 265.0 | 0.1 | 0.0 | 0.6 | 5.1 | 640.1 | 55.9 | -123.3 | 194.4 | 835.1 |
| Dec | 327.5 | 173.0 | 278.6 | 0.3 | 0.0 | 0.4 | 2.2 | 644.6 | 61.9 | -126.6 | 196.8 | 841.9 |
| 2008 | | | | | | | | | | | | |
| Jan | 343.8 | 255.7 | 268.8 | 0.3 | 0.0 | 1.1 | 68.4 | 668.2 | 46.4 | -116.4 | 200.9 | 870.2 |

¹ Each month refers to the reserve maintenance period ending in the month in question. For example, January 2007 refers to the maintenance period starting on 31 December 2006 and ending on 16 January 2007.
Source: European Central Bank.

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

| Maintenance period ending in ¹ | Liquidity-providing factors | | | | | | Liquidity-absorbing factors | | | | Credit institutions' current accounts 1 + 2 + 3 + 4 + 5 - 6 - 7 - 8 - 9 - 10 | Base money 6 + 8 + 11 |
|---|---|--|-------------------------------------|---------------------------|--------------------------------------|------------------|-----------------------------|--|--------------------|--------------------------------------|---|-----------------------------|
| | Bank of Finland's net assets in gold and foreign currency | Monetary policy operations of the Eurosystem | | | | | Banknotes in circulation | Central government deposits with the Bank of Finland | Other factors, net | | | |
| | | Main re-financing operations | Longer-term re-financing operations | Marginal lending facility | Other liquidity-providing operations | Deposit facility | | | | Other liquidity-absorbing operations | | |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 2006 | | | | | | | | | | | | |
| Dec | 6,496.4 | 1105.0 | 579.3 | 0.0 | 0.0 | 3.5 | 0.0 | 9,935.0 | 0.0 | -4,310.6 | 2,553.0 | 12,491.5 |
| 2007 | | | | | | | | | | | | |
| Jan ¹ | 6,473.6 | 486.3 | 563.1 | 0.0 | 0.0 | 3.4 | 0.0 | 10,190.8 | 0.0 | -5,293.0* | 2,621.8 | 12,816.1 |
| Feb | 6,426.1 | 293.4 | 696.7 | 0.0 | 0.0 | 12.1 | 0.0 | 10,059.6 | 0.0 | -5,216.8 | 2,561.3 | 12,633.0 |
| Mar | 6,440.0 | 0.0 | 801.5 | 0.0 | 0.0 | 23.2 | 0.0 | 9,983.6 | 0.0 | -5,407.5 | 2,642.2 | 12,649.0 |
| Apr | 6,369.2 | 0.0 | 781.1 | 3.5 | 0.0 | 2.3 | 0.0 | 10,091.0 | 0.0 | -5,619.2 | 2,679.8 | 12,773.0 |
| May | 6,268.0 | 359.2 | 522.5 | 0.0 | 0.0 | 9.3 | 0.0 | 10,195.0 | 0.0 | -5,767.4 | 2,712.7 | 12,917.1 |
| Jun | 6,307.2 | 65.5 | 286.9 | 0.0 | 0.0 | 8.8 | 3.2 | 10,290.6 | 0.0 | -6,516.0 | 2,873.1 | 13,172.5 |
| Jul | 6,285.9 | 0.0 | 105.1 | 19.2 | 0.0 | 4.1 | 0.0 | 10,424.3 | 0.0 | -6,823.3 | 2,805.1 | 13,233.5 |
| Aug | 6,217.1 | 25.0 | 0.0 | 0.0 | 0.0 | 5.7 | 0.0 | 10,525.3 | 0.0 | -7,177.9 | 2,888.9 | 13,420.0 |
| Sep | 6,231.2 | 170.9 | 67.4 | 0.0 | 42.9 | 59.5 | 54.2 | 10,537.2 | 0.0 | -6,879.3 | 2,740.8 | 13,337.5 |
| Oct | 6,243.9 | 12.5 | 371.1 | 0.0 | 0.0 | 12.9 | 6.5 | 10,513.3 | 0.0 | -6,629.5 | 2,724.4 | 13,250.6 |
| Nov | 6,225.7 | 141.6 | 411.6 | 0.5 | 0.0 | 3.2 | 0.0 | 10,529.4 | 0.0 | -6,725.1 | 2,971.9 | 13,504.4 |
| Dec | 6,239.8 | 363.6 | 354.1 | 1.9 | 0.0 | 24.1 | 21.7 | 10,654.6 | 0.0 | -6,478.4 | 2,737.3 | 13,416.1 |
| 2008 | | | | | | | | | | | | |
| Jan | 6,516.3 | 13.7 | 179.8 | 0.0 | 0.0 | 11.6 | 1,250.2 | 10,922.5 | 0.0 | -8,408.7 | 2,934.3 | 13,868.4 |

¹ Each month refers to the reserve maintenance period ending in the month in question. For example, January 2007 refers to the maintenance period starting on 31 December 2006 and ending on 16 January 2007.

* Revised figure.

Source: Bank of Finland.

Table 7.
Reserve base of euro area credit institutions subject to reserve requirements, EUR bn

| Reserve base as of: | Total | Liabilities to which a 2% reserve coefficient is applied | | Liabilities to which a 0% reserve coefficient is applied | | |
|---------------------|----------|--|--|--|---------|---|
| | | Deposits (overnight, up to 2 years' agreed maturity and notice period) | Debt securities up to 2 years' agreed maturity | Deposits (over 2 years' agreed maturity and notice period) | Repos | Debt securities over 2 years' agreed maturity |
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 2006 | | | | | | |
| Dec | 15,648.3 | 8,411.7 | 601.9 | 1,968.4 | 1,180.3 | 3,486.1 |
| 2007 | | | | | | |
| Jan | 15,889.0 | 8,478.5 | 638.8 | 1,984.4 | 1,278.8 | 3,508.5 |
| Feb | 16,033.9 | 8,490.3 | 645.9 | 1,990.6 | 1,350.2 | 3,556.9 |
| Mar | 16,253.0 | 8,634.2 | 657.4 | 2,009.9 | 1,358.8 | 3,592.8 |
| Apr | 16,456.1 | 8,764.2 | 677.6 | 2,021.0 | 1,387.2 | 3,606.1 |
| May | 16,718.7 | 8,886.3 | 701.9 | 2,044.3 | 1,439.8 | 3,646.4 |
| Jun | 16,753.3 | 8,940.5 | 677.6 | 2,066.6 | 1,383.5 | 3,685.1 |
| Jul | 16,822.3 | 8,955.9 | 694.0 | 2,089.3 | 1,392.1 | 3,690.9 |
| Aug | 16,890.0 | 8,994.1 | 713.9 | 2,086.8 | 1,407.8 | 3,687.5 |
| Sep | 16,968.2 | 9,073.2 | 745.5 | 2,075.7 | 1,424.9 | 3,649.0 |
| Oct | 17,242.4 | 9,255.8 | 799.4 | 2,098.1 | 1,425.0 | 3,664.2 |
| Nov | 17,338.9 | 9,302.0 | 804.7 | 2,096.9 | 1,489.0 | 3,646.4 |
| Dec | 17,394.7 | 9,438.8 | 815.0 | 2,143.1 | 1,364.0 | 3,633.9 |

Source: European Central Bank.

Table 8.
Reserve maintenance of euro area credit institutions subject to reserve requirements, EUR bn

| Maintenance period ending in | Required reserves | Actual reserves | Excess reserves | Deficiencies | Interest rate on minimum reserves, % |
|------------------------------|-------------------|-----------------|-----------------|--------------|--------------------------------------|
| | 1 | 2 | 3 | 4 | 5 |
| 2006 | | | | | |
| Dec | 172.5 | 173.2 | 0.7 | 0.0 | 3.30 |
| 2007 | | | | | |
| Jan | 174.3 | 175.3 | 1.0 | 0.0 | 3.57 |
| Feb | 175.8 | 176.5 | 0.8 | 0.0 | 3.55 |
| Mar | 179.8 | 180.6 | 0.8 | 0.0 | 3.55 |
| Apr | 181.8 | 182.6 | 0.8 | 0.0 | 3.81 |
| May | 182.2 | 183.2 | 1.0 | 0.0 | 3.82 |
| Jun | 185.3 | 186.2 | 0.9 | 0.0 | 3.80 |
| Jul | 188.3 | 189.6 | 1.2 | 0.0 | 4.06 |
| Aug | 191.3 | 192.0 | 0.7 | 0.0 | 4.06 |
| Sep | 191.9 | 192.7 | 0.9 | 0.0 | 4.09 |
| Oct | 192.5 | 193.4 | 0.9 | 0.0 | 4.18 |
| Nov | 193.7 | 194.4 | 0.7 | 0.0 | 4.12 |
| Dec | 195.9 | 196.8 | 1.0 | 0.0 | 4.17 |
| 2008 | | | | | |
| Jan | 199.8 | 200.9 | 1.1 | 0.0 | 4.20 |

Source: European Central Bank.

Reserve base of Finnish credit institutions subject to reserve requirements, EUR m

| Reserve base as of: | Total | Liabilities to which a 2% reserve coefficient is applied | | Liabilities to which a 0% reserve coefficient is applied | | |
|---------------------|---------|--|--|--|-------|---|
| | | Deposits (overnight, up to 2 years' agreed maturity and notice period) | Debt securities up to 2 years' agreed maturity | Deposits (over 2 years' agreed maturity and notice period) | Repos | Debt securities over 2 years' agreed maturity |
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 2006 | | | | | | |
| Dec | 166,361 | 114,007 | 19,720 | 5,672 | 336 | 26,627 |
| 2007 | | | | | | |
| Jan | 167,533 | 114,738 | 20,869 | 5,535 | 0 | 26,391 |
| Feb | 168,920 | 112,972 | 23,821 | 5,619 | 0 | 26,508 |
| Mar | 177,521 | 123,058 | 22,224 | 5,500 | 0 | 26,738 |
| Apr | 174,403 | 118,993 | 22,906 | 5,637 | 0 | 26,867 |
| May | 179,147 | 123,210 | 22,880 | 5,244 | 0 | 27,813 |
| Jun | 172,282 | 115,649 | 23,054 | 5,227 | 0 | 28,352 |
| Jul | 170,032 | 112,967 | 23,177 | 5,218 | 0 | 28,671 |
| Aug | 179,800 | 120,164 | 25,395 | 5,251 | 266 | 28,724 |
| Sep | 177,178 | 120,536 | 22,671 | 5,330 | 276 | 28,365 |
| Oct | 181,903 | 123,785 | 24,566 | 5,346 | 349 | 27,857 |
| Nov | 186,671 | 129,830 | 23,876 | 5,286 | 0 | 27,678 |
| Dec | 191,636 | 135,978 | 22,598 | 5,461 | 0 | 27,599 |

Source: Bank of Finland.

Reserve maintenance of Finnish credit institutions subject to reserve requirements, EUR m

| Maintenance period ending in | Required reserves | Actual reserves | Excess reserves | Deficiencies | Interest rate on minimum reserves, % |
|------------------------------|-------------------|-----------------|-----------------|--------------|--------------------------------------|
| | 1 | 2 | 3 | 4 | 5 |
| 2006 | | | | | |
| Dec | 2,551 | 2,553 | 1.9 | 0.0 | 3.30 |
| 2007 | | | | | |
| Jan | 2,620 | 2,622 | 1.6 | 0.0 | 3.57 |
| Feb | 2,560 | 2,561 | 1.1 | 0.0 | 3.55 |
| Mar | 2,640 | 2,642 | 1.3 | 0.0 | 3.55 |
| Apr | 2,678 | 2,679 | 1.0 | 0.0 | 3.81 |
| May | 2,702 | 2,703 | 1.7 | 0.0 | 3.82 |
| Jun | 2,871 | 2,873 | 1.5 | 0.0 | 3.80 |
| Jul | 2,804 | 2,805 | 0.9 | 0.0 | 4.06 |
| Aug | 2,888 | 2,889 | 1.3 | 0.0 | 4.06 |
| Sep | 2,740 | 2,741 | 0.8 | 0.0 | 4.09 |
| Oct | 2,689 | 2,692 | 3.0 | 0.0 | 4.18 |
| Nov | 2,877 | 2,878 | 0.7 | 0.0 | 4.12 |
| Dec | 2,830 | 2,831 | 0.7 | 0.0 | 4.17 |
| 2008 | | | | | |
| Jan | 2,933 | 2,934 | 1.2 | 0.0 | 4.20 |

Source: Bank of Finland.

Table 9.
Euro area monetary aggregate M3 and corresponding items of Finnish monetary financial institutions¹

| | Euro area monetary aggregate M3 | | | Liabilities of Finnish monetary financial institutions included in M3 ² | | |
|-------------|---------------------------------|---------------------------------------|--|--|-------------------------------------|--|
| | Stock ³ , EUR bn | 12-month change ^{3,4} , % | 3-month mov avg of 12-month change ^{3,4} , % | Stock, EUR bn | 12-month change ⁴ , % | 3-month mov avg of 12-month change ⁴ , % |
| | 1 | 2 | 3 | 4 | 5 | 6 |
| 2003 | 6,145.7 | 7.1 | 7.0 | 83.1 | 11.0 | 10.2 |
| 2004 | 6,538.1 | 6.6 | 6.5 | 88.2 | 6.3 | 6.4 |
| 2005 | 7,072.0 | 7.3 | 7.5 | 95.7 | 8.2 | 7.8 |
| 2006 | 7,732.3 | 9.9 | 9.8 | 103.2 | 8.3 | 8.7 |
| 2007 | 8,630.8 | 11.4 | 11.7 | 124.1 | 20.7 | 19.6 |
| 2007 | | | | | | |
| Jan | 7,812.1 | 10.1 | 10.0 | 104.4 | 9.3 | 9.9 |
| Feb | 7,868.4 | 10.1 | 10.4 | 106.0 | 12.0 | 10.7 |
| Mar | 8,002.0 | 11.0 | 10.4 | 108.6 | 10.8 | 10.5 |
| Apr | 8,033.5 | 10.2 | 10.6 | 107.8 | 8.7 | 11.2 |
| May | 8,114.1 | 10.6 | 10.6 | 112.6 | 14.1 | 12.6 |
| Jun | 8,184.0 | 11.0 | 11.1 | 115.0 | 14.9 | 14.8 |
| Jul | 8,272.9 | 11.7 | 11.4 | 115.2 | 15.3 | 15.5 |
| Aug | 8,340.2 | 11.5 | 11.5 | 117.0 | 16.4 | 16.7 |
| Sep | 8,399.5 | 11.3 | 11.7 | 118.7 | 18.3 | 17.6 |
| Oct | 8,529.4 | 12.3 | 12.0 | 119.4 | 18.1 | 18.2 |
| Nov | 8,620.8 | 12.4 | 12.0 | 119.1 | 18.3 | 19.0 |
| Dec | 8,630.8 | 11.4 | 11.7 | 124.1 | 20.7 | 19.6 |

¹ Excl. negotiable instruments held by central governments and non-euro area residents.
² Excl. notes and coins held by the public.
³ Seasonally and calendar effect adjusted.
⁴ Calculated from monthly differences in stocks adjusted for reclassifications, other revaluations, exchange rate variations and any other changes which do not arise from transactions.
Sources: European Central Bank and Bank of Finland.

Table 10.
Key market interest rates

| | Eonia rate | Euribor rates (actual/360) | | | | | | Yields on Finnish government bonds | |
|-------------|---------------|----------------------------|---------|---------|---------|---------|----------|---------------------------------------|---------|
| | | 1-month | 2-month | 3-month | 6-month | 9-month | 12-month | 5-year | 10-year |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
| 2003 | 2.32 | 2.346 | 2.338 | 2.330 | 2.304 | 2.310 | 2.334 | 3.28 | 4.13 |
| 2004 | 2.05 | 2.081 | 2.094 | 2.107 | 2.149 | 2.203 | 2.274 | 3.25 | 4.11 |
| 2005 | 2.09 | 2.144 | 2.166 | 2.186 | 2.236 | 2.283 | 2.335 | 2.85 | 3.35 |
| 2006 | 2.84 | 2.945 | 3.018 | 3.083 | 3.238 | 3.353 | 3.440 | 3.59 | 3.78 |
| 2007 | 3.87 | 4.078 | 4.192 | 4.274 | 4.349 | 4.404 | 4.448 | 4.18 | 4.29 |
| 2007 | | | | | | | | | |
| Jan | 3.56 | 3.616 | 3.669 | 3.752 | 3.890 | 3.990 | 4.064 | 3.96 | 4.05 |
| Feb | 3.57 | 3.651 | 3.766 | 3.818 | 3.944 | 4.032 | 4.094 | 3.98 | 4.08 |
| Mar | 3.69 | 3.844 | 3.864 | 3.891 | 3.996 | 4.061 | 4.106 | 3.91 | 3.98 |
| Apr | 3.82 | 3.859 | 3.895 | 3.972 | 4.095 | 4.189 | 4.249 | 4.13 | 4.20 |
| May | 3.79 | 3.917 | 4.018 | 4.069 | 4.194 | 4.296 | 4.370 | 4.27 | 4.33 |
| Jun | 3.96 | 4.098 | 4.118 | 4.148 | 4.283 | 4.403 | 4.505 | 4.56 | 4.62 |
| Jul | 4.06 | 4.105 | 4.140 | 4.216 | 4.359 | 4.470 | 4.564 | 4.55 | 4.59 |
| Aug | 4.05 | 4.308 | 4.436 | 4.544 | 4.594 | 4.631 | 4.666 | 4.28 | 4.39 |
| Sep | 4.03 | 4.434 | 4.572 | 4.742 | 4.751 | 4.733 | 4.725 | 4.20 | 4.34 |
| Oct | 3.94 | 4.236 | 4.430 | 4.687 | 4.663 | 4.651 | 4.647 | 4.22 | 4.38 |
| Nov | 4.02 | 4.216 | 4.633 | 4.639 | 4.630 | 4.615 | 4.607 | 4.00 | 4.22 |
| Dec | 3.88 | 4.711 | 4.807 | 4.848 | 4.819 | 4.800 | 4.793 | 4.12 | 4.34 |

Sources: European Central Bank, Reuters and Bloomberg.

Table 11.
Nominal competitiveness indicators for Finland and the effective exchange rate of the euro calculated by the ECB

| | Narrow indicator ¹ | Narrow plus euro area indicator ¹ | Broad indicator ¹ | Effective exchange rate of the euro, narrow group of countries ¹ |
|-------------|-------------------------------|--|------------------------------|---|
| | January–March 1999 = 100 | | | |
| | 1 | 2 | 3 | 4 |
| 2003 | 100.1 | 100.1 | 101.1 | 103.2 |
| 2004 | 103.1 | 101.6 | 103.1 | 107.4 |
| 2005 | 103.0 | 101.6 | 102.7 | 107.5 |
| 2006 | 103.7 | 101.9 | 102.8 | 108.4 |
| 2007 | 108.0 | 104.0 | 104.8 | 114.1 |
| 2007 | | | | |
| Jan | 105.0 | 102.6 | 103.4 | 110.4 |
| Feb | 105.6 | 102.9 | 103.6 | 111.0 |
| Mar | 106.5 | 103.3 | 104.1 | 111.8 |
| Apr | 107.5 | 103.8 | 104.5 | 113.2 |
| May | 107.7 | 103.8 | 104.6 | 113.4 |
| Jun | 107.5 | 103.8 | 104.4 | 112.9 |
| Jul | 108.0 | 104.0 | 104.7 | 113.9 |
| Aug | 107.6 | 103.8 | 104.6 | 113.4 |
| Sep | 108.5 | 104.2 | 105.0 | 114.9 |
| Oct | 109.6 | 104.7 | 105.5 | 116.6 |
| Nov | 111.3 | 105.5 | 106.4 | 118.5 |
| Dec | 112.0 | 105.9 | 106.5 | 118.9 |

¹ An upward movement of the index represents an appreciation of the euro. The narrow indicator comprises 12 countries, 1999, the narrow plus euro area indicator 23 countries, and the broad indicator 37 countries.
Sources: European Central Bank and Bank of Finland.

Table 12.
Harmonised Index of Consumer Prices for euro area and Finland, annual change, %

| | Euro area | Finland |
|-------------|-----------|---------|
| | 1 | 2 |
| 2003 | 2.1 | 1.3 |
| 2004 | 2.1 | 0.1 |
| 2005 | 2.2 | 0.8 |
| 2006 | 2.2 | 1.3 |
| 2007 | 2.1 | 1.6 |
| 2007 | | |
| Jan | 1.8 | 1.3 |
| Feb | 1.8 | 1.2 |
| Mar | 1.9 | 1.6 |
| Apr | 1.9 | 1.5 |
| May | 1.9 | 1.3 |
| Jun | 1.9 | 1.4 |
| Jul | 1.8 | 1.6 |
| Aug | 1.7 | 1.3 |
| Sep | 2.1 | 1.7 |
| Oct | 2.6 | 1.9 |
| Nov | 3.1 | 2.2 |
| Dec | 3.1 | 1.9 |

Sources: Eurostat and Statistics Finland.

Table 13.
General government fiscal position and debt,
% of GDP

| Country | Gen gov surplus (+)/ deficit (-) | | Gen gov debt, year-end | |
|-------------|-------------------------------------|------|---------------------------|-------|
| | 2006 | 2007 | 2006 | 2007 |
| | 1 | 2 | 3 | 4 |
| Belgium | 0.4 | -0.3 | 88.2 | 84.6 |
| Germany | -1.6 | 0.1 | 67.5 | 64.7 |
| Greece | -2.5 | -2.9 | 95.3 | 93.7 |
| Spain | 1.8 | 1.8 | 39.7 | 36.3 |
| France | -2.5 | -2.6 | 64.2 | 64.3 |
| Ireland | 2.9 | 0.9 | 25.1 | 25.2 |
| Italy | -4.4 | -2.3 | 106.8 | 104.3 |
| Luxembourg | 0.7 | 1.2 | 6.6 | 6.6 |
| Netherlands | 0.6 | -0.4 | 47.9 | 46.8 |
| Austria | -1.4 | -0.8 | 61.7 | 60.0 |
| Portugal | -3.9 | -3.0 | 64.8 | 64.4 |
| Slovenia | -1.2 | -0.7 | 27.1 | 25.6 |
| Finland | 4.1 | 5.3 | 39.2 | 35.4 |
| Euro area | -1.5 | -0.8 | 68.6 | 66.6 |

Sources: Statistics Finland and European Commission.

Table 14.
Irrevocable euro conversion rates as
from 1 Jan 1999

| Country | Currency | Units of currency per euro |
|-------------|-----------|----------------------------------|
| Austria | schilling | 13.7603 |
| Belgium | franc | 40.3399 |
| Germany | mark | 1.95583 |
| Spain | peseta | 166.386 |
| Finland | markka | 5.94573 |
| France | franc | 6.55957 |
| Ireland | pound | 0.787564 |
| Italy | lira | 1936.27 |
| Luxembourg | franc | 40.3399 |
| Netherlands | guilder | 2.20371 |
| Portugal | escudo | 200.482 |
| Greece* | drakma | 340.750 |
| Slovenia** | tolar | 239.640 |

* As from 1 Jan 2001.
** As from 1 Jan 2007.
Source: European Union.

Table 15.
Exchange rate mechanism ERM II

| Currency | Central rate EUR 1 = | Fluctuation band, % | Upper rate* | Lower rate* | Valid from |
|------------------|-------------------------|------------------------|-------------|-------------|-------------|
| | 1 | 2 | 3 | 4 | 5 |
| Danish krone | 7.46038 | ± 2.25 | 7.62824 | 7.2925 | 1 Jan 1999 |
| Estonian kroon | 15.6466 | ± 15 | 17.9936 | 13.2996 | 28 Jun 2004 |
| Lithuanian litas | 3.4528 | ± 15 | 3.97072 | 2.9349 | 28 Jun 2004 |
| Cyprus pound | 0.585274 | ± 15 | 0.673065 | 0.4975 | 2 May 2005 |
| Latvian lats | 0.702804 | ± 15 | 0.808255 | 0.5974 | 2 May 2005 |
| Maltese lira | 0.4293 | ± 15 | 0.493695 | 0.3649 | 2 May 2005 |
| Slovak koruna | 35.4424 | ± 15 | 40.7588 | 30.1260 | 19 Mar 2007 |

* Intervention at the margin is, in principle, automatic and unlimited.
Source: European Central Bank.

Table 16.
Key euro exchange rates, currency-value of one euro

| | <i>US dollar</i> | | | <i>Japanese yen</i> | | |
|-------------|-----------------------|----------------|-------------|----------------------|----------------|-------------|
| | <i>Low</i> | <i>Average</i> | <i>High</i> | <i>Low</i> | <i>Average</i> | <i>High</i> |
| | <i>1</i> | <i>2</i> | <i>3</i> | <i>4</i> | <i>5</i> | <i>6</i> |
| 2003 | 1.0377 | 1.1312 | 1.2630 | 124.40 | 130.97 | 140.31 |
| 2004 | 1.1802 | 1.2439 | 1.3633 | 126.34 | 134.44 | 141.03 |
| 2005 | 1.1667 | 1.2441 | 1.3507 | 130.88 | 136.85 | 143.47 |
| 2006 | 1.1826 | 1.2556 | 1.3331 | 137.50 | 146.02 | 156.93 |
| 2007 | 1.2893 | 1.3705 | 1.4874 | 150.93 | 161.25 | 168.68 |
| 2007 | | | | | | |
| <i>Jan</i> | 1.2893 | 1.2999 | 1.3270 | 154.42 | 156.56 | 158.06 |
| <i>Feb</i> | 1.2925 | 1.3074 | 1.3230 | 155.56 | 157.60 | 159.35 |
| <i>Mar</i> | 1.3083 | 1.3242 | 1.3352 | 150.93 | 155.24 | 157.91 |
| <i>Apr</i> | 1.3352 | 1.3516 | 1.3649 | 157.35 | 160.68 | 162.82 |
| <i>May</i> | 1.3420 | 1.3511 | 1.3615 | 161.46 | 163.22 | 164.23 |
| <i>Jun</i> | 1.3287 | 1.3419 | 1.3532 | 162.40 | 164.55 | 166.75 |
| <i>Jul</i> | 1.3588 | 1.3716 | 1.3833 | 161.58 | 166.76 | 168.68 |
| <i>Aug</i> | 1.3405 | 1.3622 | 1.3818 | 152.74 | 159.05 | 164.50 |
| <i>Sep</i> | 1.3580 | 1.3896 | 1.4180 | 156.64 | 159.82 | 163.55 |
| <i>Oct</i> | 1.4037 | 1.4227 | 1.4447 | 161.40 | 164.95 | 167.52 |
| <i>Nov</i> | 1.4423 | 1.4684 | 1.4874 | 159.55 | 162.89 | 166.90 |
| <i>Dec</i> | 1.4349 | 1.4570 | 1.4741 | 161.55 | 163.55 | 166.22 |
| | <i>Pound sterling</i> | | | <i>Swedish krona</i> | | |
| | <i>Low</i> | <i>Average</i> | <i>High</i> | <i>Low</i> | <i>Average</i> | <i>High</i> |
| | <i>7</i> | <i>8</i> | <i>9</i> | <i>10</i> | <i>11</i> | <i>12</i> |
| 2003 | 0.64950 | 0.69199 | 0.7235 | 8.8848 | 9.1242 | 9.3148 |
| 2004 | 0.65560 | 0.67866 | 0.7088 | 8.8992 | 9.1243 | 9.2810 |
| 2005 | 0.66240 | 0.68380 | 0.7073 | 8.9758 | 9.2822 | 9.6325 |
| 2006 | 0.66800 | 0.68173 | 0.7006 | 8.9661 | 9.2544 | 9.4733 |
| 2007 | 0.65485 | 0.68434 | 0.7348 | 9.0190 | 9.2501 | 9.4754 |
| 2007 | | | | | | |
| <i>Jan</i> | 0.65485 | 0.66341 | 0.67470 | 9.0190 | 9.0795 | 9.1431 |
| <i>Feb</i> | 0.65780 | 0.66800 | 0.67510 | 9.0395 | 9.1896 | 9.3155 |
| <i>Mar</i> | 0.67365 | 0.68021 | 0.68535 | 9.2625 | 9.2992 | 9.3462 |
| <i>Apr</i> | 0.67610 | 0.67934 | 0.68270 | 9.1435 | 9.2372 | 9.3670 |
| <i>May</i> | 0.67670 | 0.68136 | 0.68485 | 9.1413 | 9.2061 | 9.2965 |
| <i>Jun</i> | 0.67210 | 0.67562 | 0.67925 | 9.2415 | 9.3290 | 9.4345 |
| <i>Jul</i> | 0.66905 | 0.67440 | 0.67830 | 9.1448 | 9.1842 | 9.2655 |
| <i>Aug</i> | 0.67325 | 0.67766 | 0.68105 | 9.2137 | 9.3231 | 9.4130 |
| <i>Sep</i> | 0.67520 | 0.68887 | 0.70050 | 9.1815 | 9.2835 | 9.3948 |
| <i>Oct</i> | 0.69125 | 0.69614 | 0.70100 | 9.0923 | 9.1735 | 9.2191 |
| <i>Nov</i> | 0.69240 | 0.70896 | 0.72025 | 9.2225 | 9.2889 | 9.3715 |
| <i>Dec</i> | 0.71070 | 0.72064 | 0.73480 | 9.3775 | 9.4319 | 9.4754 |

Source: European Central Bank.

Table 17.
Other euro exchange rates, currency-value of one euro, average

| | <i>Cyprus pound</i> | <i>Czech koruna</i> | <i>Danish krone</i> | <i>Estonian kroon</i> | <i>Hungarian forint</i> | <i>Lithuanian litas</i> | <i>Latvian lats</i> | <i>Maltese lira</i> |
|-------------|-----------------------|---------------------|--------------------------|------------------------|------------------------------|-------------------------|--------------------------|-------------------------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 2003 | 0.58409 | 31.846 | 7.4307 | 15.6466 | 253.62 | 3.4527 | 0.6407 | 0.4261 |
| 2004 | 0.58185 | 31.891 | 7.4399 | 15.6466 | 251.66 | 3.4529 | 0.6652 | 0.4280 |
| 2005 | 0.57683 | 29.782 | 7.4518 | 15.6466 | 248.05 | 3.4528 | 0.6962 | 0.4299 |
| 2006 | 0.57578 | 28.342 | 7.4591 | 15.6466 | 264.26 | 3.4528 | 0.6962 | 0.4293 |
| 2007 | 0.58263 | 27.766 | 7.4506 | 15.6466 | 251.36 | 3.4528 | 0.7001 | 0.4293 |
| 2007 | | | | | | | | |
| <i>Jan</i> | 0.57842 | 27.840 | 7.4539 | 15.6466 | 253.88 | 3.4528 | 0.6975 | 0.4293 |
| <i>Feb</i> | 0.57918 | 28.233 | 7.4541 | 15.6466 | 253.30 | 3.4528 | 0.7003 | 0.4293 |
| <i>Mar</i> | 0.57985 | 28.057 | 7.4494 | 15.6466 | 249.86 | 3.4528 | 0.7088 | 0.4293 |
| <i>Apr</i> | 0.58148 | 28.015 | 7.4530 | 15.6466 | 246.00 | 3.4528 | 0.7036 | 0.4293 |
| <i>May</i> | 0.58303 | 28.231 | 7.4519 | 15.6466 | 248.42 | 3.4528 | 0.6965 | 0.4293 |
| <i>Jun</i> | 0.58352 | 28.546 | 7.4452 | 15.6466 | 250.35 | 3.4528 | 0.6963 | 0.4293 |
| <i>Jul</i> | 0.58412 | 28.359 | 7.4410 | 15.6466 | 246.90 | 3.4528 | 0.6969 | 0.4293 |
| <i>Aug</i> | 0.58420 | 27.860 | 7.4429 | 15.6466 | 255.20 | 3.4528 | 0.6978 | 0.4293 |
| <i>Sep</i> | 0.58420 | 27.573 | 7.4506 | 15.6466 | 253.33 | 3.4528 | 0.7021 | 0.4293 |
| <i>Oct</i> | 0.58420 | 27.335 | 7.4534 | 15.6466 | 251.02 | 3.4528 | 0.7030 | 0.4293 |
| <i>Nov</i> | 0.58420 | 26.733 | 7.4543 | 15.6466 | 254.50 | 3.4528 | 0.7005 | 0.4293 |
| <i>Dec</i> | 0.58511 | 26.317 | 7.4599 | 15.6466 | 253.18 | 3.4528 | 0.6975 | 0.4293 |
| | <i>Russian rouble</i> | <i>Turkish lira</i> | <i>Australian dollar</i> | <i>Canadian dollar</i> | <i>Chinese yuan renminbi</i> | <i>Hong Kong dollar</i> | <i>Indonesian rupiah</i> | <i>South Korean won</i> |
| | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 |
| 2003 | 34.6581 | 1694851 | 1.7379 | 1.5817 | 9.3601 | 8.8079 | 9677.75 | 1346.90 |
| 2004 | 35.8105 | 1777052 | 1.6905 | 1.6167 | 10.2965 | 9.6881 | 11117.42 | 1422.62 |
| 2005 | 35.1860 | 1.6771 | 1.6320 | 1.5087 | 10.1953 | 9.6768 | 12070.84 | 1273.61 |
| 2006 | 34.1109 | 1.8089 | 1.6668 | 1.4237 | 10.0096 | 9.7545 | 11512.37 | 1198.58 |
| 2007 | 35.0183 | 1.7865 | 1.6348 | 1.4678 | 10.4178 | 10.6912 | 12528.33 | 1272.99 |
| 2007 | | | | | | | | |
| <i>Jan</i> | 34.4578 | 1.8536 | 1.6602 | 1.5285 | 10.1238 | 10.1390 | 11796.04 | 1217.83 |
| <i>Feb</i> | 34.4060 | 1.8260 | 1.6708 | 1.5309 | 10.1326 | 10.2130 | 11855.46 | 1225.25 |
| <i>Mar</i> | 34.5680 | 1.8659 | 1.6704 | 1.5472 | 10.2467 | 10.3464 | 12144.32 | 1248.82 |
| <i>Apr</i> | 34.9054 | 1.8362 | 1.6336 | 1.5334 | 10.4400 | 10.5634 | 12290.98 | 1257.99 |
| <i>May</i> | 34.8999 | 1.8029 | 1.6378 | 1.4796 | 10.3689 | 10.5642 | 11927.80 | 1253.27 |
| <i>Jun</i> | 34.7739 | 1.7728 | 1.5930 | 1.4293 | 10.2415 | 10.4854 | 12056.30 | 1245.39 |
| <i>Jul</i> | 35.0292 | 1.7574 | 1.5809 | 1.4417 | 10.3899 | 10.7247 | 12441.28 | 1259.70 |
| <i>Aug</i> | 34.9211 | 1.7921 | 1.6442 | 1.4420 | 10.3162 | 10.6469 | 12765.65 | 1273.37 |
| <i>Sep</i> | 35.1723 | 1.7536 | 1.6445 | 1.4273 | 10.4533 | 10.8151 | 12927.37 | 1291.46 |
| <i>Oct</i> | 35.4008 | 1.7089 | 1.5837 | 1.3891 | 10.6741 | 11.0327 | 12945.80 | 1301.67 |
| <i>Nov</i> | 35.9174 | 1.7498 | 1.6373 | 1.4163 | 10.8957 | 11.4211 | 13608.92 | 1348.46 |
| <i>Dec</i> | 35.7927 | 1.7195 | 1.6703 | 1.4620 | 10.7404 | 11.3619 | 13620.45 | 1356.79 |

Sources: European Central Bank and Bank of Finland.

| | <i>Polish zloty</i> | <i>Slovak koruna</i> | <i>Swiss franc</i> | <i>Icelandic krona</i> | <i>Norwegian krona</i> | <i>Bulgarian lev</i> | <i>Croatian kuna</i> | <i>Romanian leu</i> |
|-------------|------------------------------|-----------------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------------|--------------------------|-------------------------|
| | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| 2003 | 4.3996 | 41.4889 | 1.5212 | 86.65 | 8.0033 | 1.9490 | .. | 37551 |
| 2004 | 4.5268 | 40.0218 | 1.5438 | 87.14 | 8.3697 | 1.9533 | .. | 40510 |
| 2005 | 4.0230 | 38.5989 | 1.5483 | 78.23 | 8.0092 | 1.9558 | .. | 36622 |
| 2006 | 3.8959 | 37.2341 | 1.5729 | 87.76 | 8.0472 | 1.9558 | 7.3247 | 3.5258 |
| 2007 | 3.7837 | 33.7752 | 1.6427 | 87.63 | 8.0165 | 1.9558 | 7.3375 | 3.3353 |
| 2007 | | | | | | | | |
| <i>Jan</i> | 3.8795 | 34.7506 | 1.6155 | 91.02 | 8.2780 | 1.9558 | 7.3711 | 3.3922 |
| <i>Feb</i> | 3.8943 | 34.4897 | 1.6212 | 88.00 | 8.0876 | 1.9558 | 7.3612 | 3.3823 |
| <i>Mar</i> | 3.8859 | 33.8129 | 1.6124 | 88.69 | 8.1340 | 1.9558 | 7.3641 | 3.3692 |
| <i>Apr</i> | 3.8144 | 33.4911 | 1.6375 | 88.36 | 8.1194 | 1.9558 | 7.3967 | 3.3338 |
| <i>May</i> | 3.7819 | 33.7356 | 1.6506 | 85.12 | 8.1394 | 1.9558 | 7.3258 | 3.2836 |
| <i>Jun</i> | 3.8074 | 34.0099 | 1.6543 | 84.26 | 8.0590 | 1.9558 | 7.3306 | 3.2243 |
| <i>Jul</i> | 3.7682 | 33.3265 | 1.6567 | 83.16 | 7.9380 | 1.9558 | 7.2947 | 3.1345 |
| <i>Aug</i> | 3.8116 | 33.6034 | 1.6383 | 88.46 | 7.9735 | 1.9558 | 7.3161 | 3.2246 |
| <i>Sep</i> | 3.7891 | 33.8289 | 1.6475 | 88.59 | 7.8306 | 1.9558 | 7.3134 | 3.3481 |
| <i>Oct</i> | 3.7062 | 33.6237 | 1.6706 | 86.30 | 7.6963 | 1.9558 | 7.3284 | 3.3537 |
| <i>Nov</i> | 3.6575 | 33.2325 | 1.6485 | 89.34 | 7.9519 | 1.9558 | 7.3365 | 3.4739 |
| <i>Dec</i> | 3.6015 | 33.4037 | 1.6592 | 90.82 | 8.0117 | 1.9558 | 7.3178 | 3.5351 |
| | <i>Malaysian ringgit</i> | <i>New Zealand dollar</i> | <i>Philippine peso</i> | <i>Singapore dollar</i> | <i>Thai baht</i> | <i>South African rand</i> | <i>IMF SDRs</i> | |
| | 25 | 26 | 27 | 28 | 29 | 30 | 31 | |
| 2003 | 4.2966 | 1.9438 | .. | 1.9703 | 46.894 | 8.5317 | 0.807084 | |
| 2004 | 4.7265 | 1.8731 | .. | 2.1016 | 50.050 | 8.0092 | 0.839260 | |
| 2005 | 4.7116 | 1.7660 | .. | 2.0702 | 50.063 | 7.9183 | 0.841434 | |
| 2006 | 4.6044 | 1.9373 | 64.379 | 1.9941 | 47.594 | 8.5312 | 0.853046 | |
| 2007 | 4.7076 | 1.8627 | 63.026 | 2.0636 | 44.214 | 9.6596 | 0.894924 | |
| 2007 | | | | | | | | |
| <i>Jan</i> | 4.5596 | 1.8699 | 63.552 | 1.9983 | 45.850 | 9.3440 | 0.869631 | |
| <i>Feb</i> | 4.5706 | 1.8859 | 63.167 | 2.0049 | 44.434 | 9.3797 | 0.873271 | |
| <i>Mar</i> | 4.6212 | 1.8952 | 64.069 | 2.0186 | 43.320 | 9.7417 | 0.878355 | |
| <i>Apr</i> | 4.6449 | 1.8394 | 64.421 | 2.0476 | 44.010 | 9.6089 | 0.888816 | |
| <i>May</i> | 4.5962 | 1.8441 | 63.136 | 2.0581 | 44.507 | 9.4855 | 0.890574 | |
| <i>Jun</i> | 4.6237 | 1.7738 | 61.968 | 2.0619 | 43.492 | 9.6198 | 0.887860 | |
| <i>Jul</i> | 4.7184 | 1.7446 | 62.418 | 2.0789 | 41.870 | 9.5712 | 0.896953 | |
| <i>Aug</i> | 4.7457 | 1.8786 | 62.862 | 2.0744 | 43.337 | 9.8391 | 0.890683 | |
| <i>Sep</i> | 4.8249 | 1.9358 | 63.911 | 2.1009 | 44.570 | 9.8912 | 0.900155 | |
| <i>Oct</i> | 4.8005 | 1.8739 | 62.894 | 2.0849 | 44.898 | 9.6371 | 0.912943 | |
| <i>Nov</i> | 4.9279 | 1.9231 | 63.271 | 2.1242 | 46.120 | 9.8553 | 0.925553 | |
| <i>Dec</i> | 4.8576 | 1.8930 | 60.556 | 2.1108 | 44.153 | 9.9626 | 0.925137 | |

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

| | 2007 | | | | 2007 |
|--|--------------|--------------|--------------|--------------|--------------|
| | I | II | III | IV | |
| Banknotes put into circulation by the Bank of Finland | | | | | |
| 500 euro | 410.0 | 421.0 | 445.5 | 465.5 | 1,742.0 |
| 200 " | 72.8 | 82.8 | 82.8 | 87.6 | 326.0 |
| 100 " | 143.4 | 171.5 | 173.5 | 195.5 | 683.9 |
| 50 " | 1,191.7 | 1,387.4 | 1369.8 | 1,535.7 | 5,484.5 |
| 20 " | 1,266.5 | 1,444.1 | 1,458.1 | 1,444.5 | 5,613.1 |
| 10 " | 98.3 | 106.0 | 101.0 | 103.8 | 409.1 |
| 5 " | 60.9 | 66.9 | 63.0 | 64.8 | 255.7 |
| Total number, millions | 111.8 | 126.9 | 126.0 | 129.6 | 494.3 |
| Withdrawn banknotes, number in millions | 24.50 | 24.90 | 18.50 | 20.50 | 88.4 |
| Coins put into circulation by the Bank of Finland | | | | | |
| Ordinary coins | | | | | |
| 2 euro | 12.9 | 14.1 | 11.3 | 18.8 | 57.2 |
| 1 " | 3.8 | 4.6 | 4.1 | 5.6 | 18.2 |
| 0.50 " | 1.9 | 2.8 | 2.4 | 3.2 | 10.3 |
| 0.20 " | 1.3 | 2.2 | 1.7 | 2.2 | 7.5 |
| 0.10 " | 0.6 | 0.9 | 0.7 | 1.2 | 3.4 |
| 0.05 " | 0.3 | 0.4 | 0.4 | 0.6 | 1.8 |
| 0.02 " | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 0.01 " | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Commemorative coins | | | | | |
| 100 euro | | | | 0.9 | 0.9 |
| 50 " | | | | | 0.0 |
| 20 " | | | | | 0.0 |
| 10 " | 0.3 | 0.2 | | | 0.5 |
| 5 " | | | | 0.8 | 0.8 |
| Total | 21.2 | 25.3 | 20.7 | 33.3 | 100.5 |
| Withdrawn coins, number in millions | | | | | |
| Ordinary coins | - | - | - | - | - |
| Commemorative coins | - | - | - | - | - |

Source: Bank of Finland.

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

| Euro banknotes | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|----------------|--------------|--------------|--------------|--------------|--------------|--------------|
| 500 euro | 1.2 | 1.8 | 2.1 | 1.6 | 1.5 | 1.7 |
| 200 " | 1.7 | 1.8 | 1.7 | 1.3 | 1.2 | 1.2 |
| 100 " | 5.2 | 6.7 | 5.7 | 5.4 | 5.2 | 5.7 |
| 50 " | 73.3 | 84.4 | 74.6 | 76.5 | 79.6 | 83.9 |
| 20 " | 311.0 | 290.5 | 222.4 | 179.3 | 180.7 | 191.3 |
| 10 " | 30.8 | 30.3 | 37.4 | 32.2 | 31.1 | 32.0 |
| 5 " | 32.6 | 31.0 | 45.2 | 39.6 | 38.8 | 39.0 |
| Total | 455.8 | 446.5 | 389.2 | 335.9 | 338.1 | 354.7 |

Source: Bank of Finland.

Table 20.
Bank of Finland interbank funds transfer system (BoF-RTGS)

| | Account holders, number | Domestic payments, number in thousands | Value, EUR bn | Outgoing TARGET-payments, number in thousands | Value, EUR bn | Transactions | | | | | |
|-------------|-------------------------|--|---------------|---|---------------|---|---------------|--|--------------------------------------|---|-----------------------------------|
| | | | | | | Incoming TARGET-payments, number in thousands | Value, EUR bn | TARGET-payments, total number in thousands | TARGET-payments, total value, EUR bn | Transactions, total number in thousands | Transactions, total value, EUR bn |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
| 2003 | 18 | 152.2 | 1,461.5 | 132.0 | 1,503.2 | 141.9 | 1,502.5 | 273.9 | 3,005.7 | 426.2 | 4,467.2 |
| 2004 | 19 | 147.5 | 1,541.1 | 141.0 | 1,601.7 | 167.4 | 1,604.0 | 308.4 | 3,205.7 | 455.8 | 4,746.9 |
| 2005 | 17 | 144.2 | 1,479.3 | 147.8 | 1,756.5 | 180.7 | 1,758.7 | 328.5 | 3,515.3 | 472.7 | 4,994.6 |
| 2006 | 23 | 152.4 | 1,658.8 | 159.4 | 2,044.0 | 212.4 | 2,043.5 | 371.8 | 4,087.6 | 524.3 | 5,746.4 |
| 2007 | 22 | 188.5 | 2,354.2 | 166.6 | 3,770.6 | 301.2 | 3,772.4 | 467.8 | 7,542.9 | 656.3 | 9,897.1 |
| 2007 | | | | | | | | | | | |
| Jan | 23 | 15.5 | 182.1 | 13.7 | 274.7 | 24.1 | 272.4 | 37.9 | 547.1 | 53.4 | 729.1 |
| Feb | 23 | 14.2 | 164.3 | 12.8 | 258.7 | 22.5 | 260.0 | 35.3 | 518.7 | 49.5 | 682.9 |
| Mar | 23 | 15.6 | 180.9 | 15.0 | 283.6 | 26.3 | 283.5 | 41.3 | 567.1 | 56.8 | 748.1 |
| Apr | 23 | 14.4 | 162.2 | 13.0 | 246.0 | 23.4 | 245.5 | 36.4 | 491.5 | 50.8 | 653.8 |
| May | 23 | 15.7 | 189.2 | 13.5 | 279.7 | 25.6 | 282.6 | 39.1 | 562.3 | 54.8 | 751.4 |
| Jun | 23 | 15.2 | 157.0 | 14.0 | 313.7 | 25.6 | 311.8 | 39.5 | 625.5 | 54.8 | 782.6 |
| Jul | 23 | 15.7 | 177.1 | 13.4 | 350.2 | 25.3 | 351.3 | 38.6 | 701.5 | 54.3 | 878.5 |
| Aug | 23 | 16.5 | 184.5 | 14.3 | 392.2 | 25.8 | 391.3 | 40.1 | 783.6 | 56.6 | 968.1 |
| Sep | 22 | 15.1 | 195.1 | 13.7 | 314.9 | 24.0 | 312.8 | 37.7 | 627.7 | 52.8 | 822.8 |
| Oct | 22 | 17.9 | 240.9 | 15.6 | 379.8 | 27.6 | 379.9 | 43.1 | 759.7 | 61.0 | 1,000.6 |
| Nov | 22 | 17.5 | 275.1 | 14.8 | 381.6 | 27.0 | 384.0 | 41.9 | 765.7 | 59.4 | 1,040.8 |
| Dec | 22 | 15.1 | 245.8 | 13.0 | 295.6 | 24.1 | 297.1 | 37.1 | 592.7 | 52.2 | 838.4 |

Source: Bank of Finland.

Table 21.
Banks' intraday credit limits

| <i>Period average</i> | <i>Total limits, EUR m</i> | <i>Maximum usage rate of limits, %¹</i> | <i>End-of-day balances, EUR m</i> |
|-----------------------|--------------------------------|--|---------------------------------------|
| | <i>1</i> | <i>2</i> | <i>3</i> |
| 2003 | 4,476 | 63 | 1,951 |
| 2004 | 4,624 | 63 | 2,179 |
| 2005 | 4,385 | 65 | 2,269 |
| 2006 | 4,622 | 57 | 2,518 |
| 2007 | 6,884 | 64 | 2,780 |
| 2007 | | | |
| <i>Jan</i> | 5,943 | 52 | 2,647 |
| <i>Feb</i> | 5,971 | 56 | 2,729 |
| <i>Mar</i> | 6,086 | 58 | 2,549 |
| <i>Apr</i> | 5,927 | 62 | 2,838 |
| <i>May</i> | 5,663 | 61 | 2,934 |
| <i>Jun</i> | 6,818 | 78 | 2,692 |
| <i>Jul</i> | 7,169 | 75 | 2,863 |
| <i>Aug</i> | 6,994 | 70 | 2,927 |
| <i>Sep</i> | 7,570 | 66 | 2,580 |
| <i>Oct</i> | 7,080 | 67 | 2,930 |
| <i>Nov</i> | 7,389 | 64 | 2,770 |
| <i>Dec</i> | 10,002 | 66 | 2,902 |

¹ The maximum usage rate is the ratio of the maximum value of the combined sum of banks' debit balances on settlement accounts with the Bank of Finland to total limits during the relevant period.
Source: Bank of Finland.

Table 22.
Entries in the domestic interbank retail payment system (PMJ)

| | <i>Debit entries</i> | | <i>Credit entries</i> | | <i>Total entries</i> | |
|-------------|-----------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|--------------------------|
| | <i>Number, millions</i> | <i>Value, EUR bn</i> | <i>Number, millions</i> | <i>Value, EUR bn</i> | <i>Number, millions</i> | <i>Value, EUR bn</i> |
| | <i>1</i> | <i>2</i> | <i>3</i> | <i>4</i> | <i>5</i> | <i>6</i> |
| 2003 | 272.7 | 11.1 | 201.3 | 162.6 | 474.0 | 173.7 |
| 2004 | 309.6 | 12.4 | 214.8 | 175.2 | 524.4 | 187.6 |
| 2005 | 320.5 | 12.4 | 214.9 | 185.4 | 535.4 | 197.7 |
| 2006 | 343.5 | 12.9 | 227.6 | 202.8 | 571.1 | 215.7 |
| 2007 | 366.5 | 13.5 | 250.1 | 226.8 | 616.6 | 240.3 |
| 2007 | | | | | | |
| <i>Jan</i> | 28.9 | 1.04 | 21.4 | 19.1 | 50.3 | 20.1 |
| <i>Feb</i> | 25.9 | 0.91 | 19.6 | 16.8 | 45.5 | 17.7 |
| <i>Mar</i> | 28.7 | 1.02 | 20.7 | 18.5 | 49.4 | 19.5 |
| <i>Apr</i> | 30.4 | 1.12 | 20.2 | 18.0 | 50.6 | 19.1 |
| <i>May</i> | 31.6 | 1.18 | 22.5 | 20.1 | 54.1 | 21.3 |
| <i>Jun</i> | 31.0 | 1.16 | 20.4 | 19.3 | 51.4 | 20.4 |
| <i>Jul</i> | 34.2 | 1.28 | 20.4 | 19.2 | 54.6 | 20.5 |
| <i>Aug</i> | 31.4 | 1.15 | 19.9 | 18.1 | 51.3 | 19.2 |
| <i>Sep</i> | 27.3 | 1.02 | 19.6 | 18.1 | 46.9 | 19.2 |
| <i>Oct</i> | 32.4 | 1.19 | 22.8 | 20.8 | 55.2 | 22.0 |
| <i>Nov</i> | 30.1 | 1.09 | 21.6 | 19.1 | 51.7 | 20.2 |
| <i>Dec</i> | 34.6 | 1.38 | 20.9 | 19.8 | 55.6 | 21.2 |

Source: Bank of Finland.

