



BANK OF FINLAND

ANNUAL REPORT
2002

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Bank of Finland – promoter of stability

The Bank of Finland is an institution governed by public law and Parliamentary superintendence. The Bank's activities are regulated by the Statute of the European System of Central Banks and the Act on the Bank of Finland.

In its position of national central bank, the Bank of Finland is an integral part of the European System of Central Banks and plays an active part in safeguarding financial stability both within the Eurosystem and in Finland. The cornerstones of financial stability are price stability, well-functioning financial markets and reliable payment systems and payment instruments.

Participating in the decision-making and the preparatory work of the ECB and supporting domestic economic policy require research and analysis of high quality, cooperation with other economic agents and financial market parties, and efficient communication.

To an increasing degree the Bank focuses on its core functions as monetary authority. In addition to monetary policy preparation, the core functions of the Bank are monitoring of financial market stability, operational central bank tasks and maintenance of the currency supply. In investing its foreign reserves, the Bank attempts to obtain the best possible returns while pursuing a prudent risk policy.

The members of the Bank of Finland board are Matti Vanhala, chairman, Matti Louekoski, vice-chairman, Sinikka Salo and Pentti Hakkarainen. The nine members of the Parliamentary Supervisory Board superintend the activities of the Bank. At the end of 2002, a total of about 670 staff were employed in the 11 departments and 8 special units of the Bank's head office and the 5 branch or regional offices.

The Bank of Finland integral to the European System of Central Banks (ESCB)

The Governing Council of the ECB is the highest decision-making body of the European Central Bank and the Eurosystem. Governor Matti Vanhala, chairman of the Board of the Bank of Finland, is a member of the Governing Council of the ECB, and thus participates in the decision-making on all major ECB and Eurosystem matters. Deputy Governor Matti Louekoski, vice chairman of the Bank of Finland's Board, is Matti Vanhala's Alternate and Accompanying person at the meetings of the Governing Council of the ECB. The Governor of the Bank of Finland also participates in the meetings of the ECB General Council, held four times a year. These meetings are attended by the governors of all the EU national central banks.

The Governing Council of the ECB normally convenes twice a month. Since December 2001, it has been the practice that the Governing Council, during its first meeting of the month, pays special attention to the prevailing monetary policy situation and interest policy decision-making. During the second meeting of the month, the Council as a rule addresses other matters that fall within its remit.

In addition, officials of the Bank of Finland participate in various committees and working groups of the ESCB.

Photo: Douglas Sivén, 2003.



Board of the Bank of Finland.

From the left: Pentti Hakkarainen, Matti Vanhala, Sinikka Salo and Matti Louekoski. In the background ‘Work and Life’, a tapestry by Eva Anttila (1952).

Governor's review

The euro cash changeover at the start of 2002 marked a turning point in the process of European integration. For Finland's part, thanks for this accomplishment are due to the general public, the Bank's partners in the Euro 2002 information campaign, and those involved in currency management – for their enthusiasm and active participation.

The euro cash changeover marked the end of the transition phase of monetary union. The euro brings a more stable monetary environment and enhanced opportunities for comparing prices and costs. In the coming years the single currency, by enhancing competition, will promote wellbeing throughout the euro area. Finnish consumers, in particular, have ample cause to welcome greater competition.

It now seems certain that in 2004 the European Union will be enlarged by ten new members. The new member countries will simultaneously join the European System of Central Banks and, in time, the euro area and Eurosystem. This train of events poses a challenge for the development of the Eurosystem as whole, and more specifically for the decision-making mechanism of the European Central Bank. Key here is that the enlargement be realised in a manner that enhances stability and credibility.

The optimism about recovery of the world economy that gained steam in the spring of 2002 faded during the summer months, nor was confidence restored in the latter part of the year. In fact the economic outlook at year-end was as uncertain as at the start of the year. Nearly all the economic regions of the world looked to outside help to jump-start the economy. Lacking a definite engine, the world economy floundered.

It will take some time before the imbalances burdening the world economy – especially US households' indebtedness and Japan's debt crisis – can be corrected. The euro area is plagued by structural problems, which weaken the economic dynamics of the area. Monetary and fiscal policies were expansive in 2002, both in the euro area and elsewhere in the major economic regions. Such expansionary policies, however, are not enough to place the economy on a path of sustainable growth. In the euro area confidence would be firmed and recovery stepped up by forthright actions to repair economic structures.

With the world economy struggling, Finnish economic growth has been lacklustre for the last two years. Still there is reason for guarded satisfaction with the performance of the economy in 2001–2002. Domestic demand has buffered us from

gyrations in the external environment, and unemployment has increased by less than feared. Thus one can say that efforts aimed at balancing government finances and strengthening companies' balance sheets have born fruit.

The extent to which economic policies can help move the economy out of the present slump are fairly limited. On the other hand, decisions should be made now that will strengthen the structures that will be in place through the next business cycle. During the coming cycle, the Finnish economy will move into a phase in which the big challenges for economic policies will be a growing core of retirees in need of services, a shrinking labour force, and slower-than-desired economic growth. Preparations for this scenario have already got underway, but more needs to be done to improve employment and economic structures in order that population ageing will not erode the foundation of social welfare.

The international financial system in 2002 proved quite able to bear and adjust to risks albeit, as economic performance weakened, the operating environment became more problematic and some disturbances occurred. Conditions in the Finnish financial system remained stable and, although banks experienced some weakening of profitability, their capital position remained strong. Demand for credit on the part of households in particular continued robust while competition between banks heated up, especially in respect of housing loans. The Bank of Finland took special notice of the squeezing of the banks' interest rate margin and

of their ability to carry risks in the event of a rise in interest rates.

The reliable functioning of payment and settlement systems are vital to the stability of the financial system. The most acute problems in 2002 concerned the differences in and inefficiency of systems for making cross-border retail payments, especially credit transfers. Securities settlement systems also faced efficiency problems, partly due to Europe's plethora of stock markets and central securities depositories, nor have we seen sufficient improvements in the speed or cost efficiency of cross-border trades and collateral transfers.

Further progress was made in financial regulation and supervision, at both international and domestic levels. Despite criticism, work went ahead on new capital adequacy requirements for credit institutions, under the aegis of the Basel Committee on Banking Supervision. The new system being planned represents a giant step forward and its realisation will give banks greater incentive to raise their risk awareness and hence will increase the stability of the financial system. In Finland, financial supervision will be strengthened by new legislation that will enter into force in 2003. By giving more power to the Financial Supervision Authority, the legislation will enhance the credibility of supervision.

The strategic starting point for the Bank of Finland is its funda-

mental task as promoter of financial stability. The aim is stable economic performance – price stability, growth and employment – as well as reliable and efficient financial markets and payment systems. The Bank offers high-level and well-allocated expertise on monetary matters, at the core of which are international-level research, skilful analysis, domestic and international networks of cooperation, and active and transparent communications. The basis for all these is a strong balance sheet and skilled personnel. At year-end the Bank employed about 670 persons.

The Bank of Finland's profit declined in 2002, for the second year running, as returns on foreign reserve assets decreased due to the low level of international interest rates. Monetary income from banknotes decreased, as banknotes in circulation decreased following the euro cash changeover. Because of the depreciation of the US dollar, the Bank booked exchange rate losses, which were covered by provisions accumulated as a result of gains in previous years when dollar performance was stronger. However, because of positive developments in recent years, the Bank's balance sheet has strengthened to the point that accumulated provisions should be sufficient to cover possible future losses associated with exchange rates and valuation adjustments.



Monetary policy and economic policy

Bank of Finland – monetary policy decision-maker

As a full member of the Eurosystem, the Bank of Finland influences the formulation of the ECB's monetary policy. As a member of the Governing Council of the ECB, the Governor of the Bank of Finland participates directly in monetary policy decision-making. In addition, Bank of Finland experts contribute to monetary policy preparation at all levels. Bank of Finland experts are members of the Monetary Policy Committee and its working groups which, among other tasks, draw up the experts' biannual forecast of the Eurosystem. Besides the forecast for the entire euro area, forecasts are also drawn up for each individual member country on the basis of uniform assumptions.

Bank of Finland experts also make extensive economic analyses, in cooperation with other Eurosystem experts, in support of monetary policy decision-making. These analyses include a comprehensive monitoring and reporting system for public sector financial data throughout the euro area. Many structural issues are covered in the annual structural report. The 2002 report focused on structural factors

in the euro area housing markets. As part of the financial markets analyses in 2002, a comprehensive report on financial structures in the euro area was released accompanied by launching quarterly surveys of bank lending in the euro area.

The ECB's monetary policy in 2002

As regards monetary policy in the euro area, 2002 was a challenging year. For most of the year, the annual consumer price inflation in the euro area exceeded 2%, which is the upper limit set for price stability in the medium term (Chart 1). Nevertheless, the Governing Council of the ECB kept its policy rate unchanged almost until the end of 2002, at the level it stood following the rate cut in November 2001. Although the policy rate thus remained unchanged for most of the year, the Governing Council revised its outlook for price stability several times during the year. As a result, the markets also revised their expectations as regards the ECB's interest rate decisions (Chart 2).

The year 2002 commenced in a climate of uncertainty. Behind it lay a year that denoted a period of

Chart 1.
Harmonised index of consumer prices for the euro area

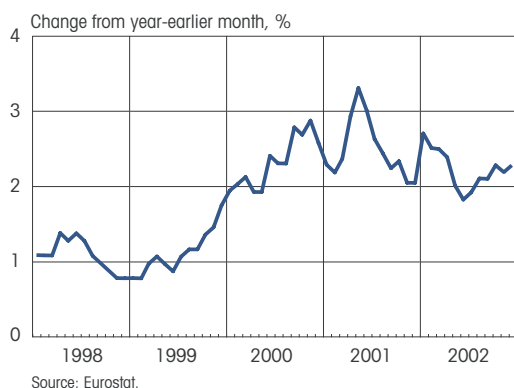
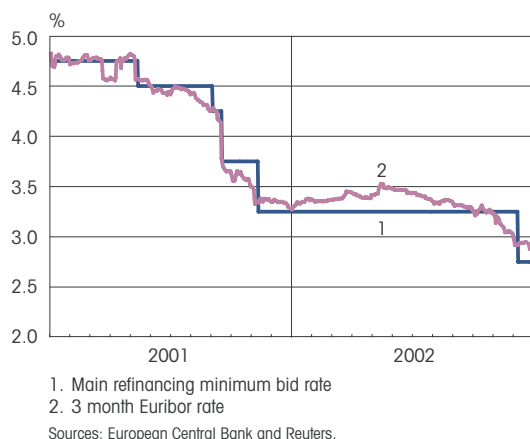


Chart 2.
Eurosystem main refinancing rate and 3 month Euribor rate



weak economic performance in the euro area and throughout the world, and no clear signs of a rebound in growth were on the horizon. The Governing Council assessed that the economic conditions did not give any cause for concern about the outlook for inflation over the medium term, de-

spite the fact that inflation was clearly above the upper limit on price stability, due to certain temporary factors – for example, the price of oil and rising food prices owing to animal diseases.

In spring 2002, the view gained ground in the markets that the global economy was recover-

ing. At the same time, the money aggregate, playing a major role for ECB strategy, was growing at a markedly faster rate than the reference value set for its growth. As a result, the growing concern that upward inflationary pressures would lead to a tighter monetary policy stance was reflected in a rise in short-term market rates.

At that time the Governing Council did not see an immediate risk that the gradual improvement in the economic outlook would put upward pressures on prices. In the course of the spring, the Governing Council repeatedly expressed the view that monetary expansion was due to temporary portfolio shifts in uncertain economic conditions that did not indicate a risk to price stability. The Governing Council also estimated that the prolonged uncertainty surrounding the outlook for the real economy would contain inflationary pressures over the medium term.

During the spring, however, the rate of inflation did not fall in line with expectations, and in early May the Council was not as confident as it had been earlier that the inflation rate would rapidly drop below 2%. Particularly alarming was the slow but stable upward trend in service prices. Whereas the Council was still confident in February that the inflation rate would fall ‘safely’ below 2% during the year, in May it only saw this as ‘possible’. In line with the revised projections of inflation – and ECB communication – expectations of a rate rise strengthened. Consequently, short-term market rates rose sharply in May. In their projection released in June, the Eurosystem’s experts

estimated that the inflation rate would remain close to 2% throughout 2003. In its evaluation of monetary policy in June, the Governing Council stressed that inflationary pressures had increased and that monetary policy must remain vigilant.

In early summer, the euro area inflation rate gave rise to some optimism at last. The inflation rate stood at 1.8% in June: it had fallen below 2% for the first time in more than two years. At the same time, the euro exchange rate appreciated vigorously (Chart 3). At its meeting in July, the Governing Council noted that, notwithstanding the upside risks to price stability, the appreciation of the euro exchange rate and the prolonged uncertainty surrounding the economic outlook had influenced their decision to leave the rate unchanged.

In July and August, news on the world economy became gloomier. Share prices fell sharply and confidence in an economic recovery was shaken. When the Governing Council returned from their summer recession in September, the economic outlook had deteriorated considerably and market expectations of a rate hike had dissipated (Chart 4). In its evaluation of monetary policy, the Council noted that risks to price stability appeared rather balanced and that the prevailing interest rate level was appropriate.

Economic uncertainty increased again during the autumn to such an extent that expectations of a rate cut started to emerge from time to time. In its evaluation of monetary policy in November, the Council gave an uncommonly clear

account of their considerations for and against a rate cut and their decision to keep the rate unchanged. The Governing Council emphasised, however, that the weakness of the real economy required continued vigilance from monetary policy.

The Council's increased emphasis on the weakness of the real economy and the Council members' comments after the meeting gave rise to strong expectations of a rate cut. The expectations were verified in December, when the Governing Council decided to cut

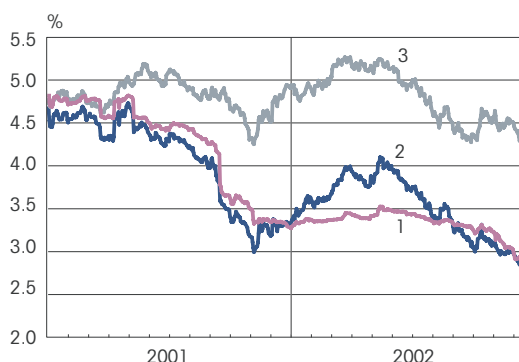
Chart 3.
Euro exchange rates against US dollar and Japanese yen



1. USD-value of one euro (left scale)
2. JPY-value of one euro (right scale)

Source: Reuters.

Chart 4.
Euro area market rates



1. 3 month Euribor rate
2. 12 month Euribor rate
3. German 10 year bond rate

Source: Reuters.

the policy rate by 0.50 percentage points to 2.75%. The decision was founded on the view that, although the inflation rate would remain close to the upper limit for price stability in the near term, the subdued economic activity should help to ease inflationary pressures in the medium term.

The Bank of Finland and economic policy in Finland

Within the Eurosystem, the Bank of Finland has the best expert knowledge on the Finnish economy. For this reason, the Bank closely monitors developments in the Finnish economy and draws up macroeconomic forecasts four times a year. Two of these forecasts are published annually in the quarterly Bank of Finland Bulletin. In addition, the Bank carries out research and analytical studies on the Finnish economy, especially from a monetary economic and financial market perspective. The aim is to define risks to economic stability over the short and long term and spot them in time. When the Bank, from time to time, takes a stand on current economic policy issues, it is based on this work.

In the forecasts released in December 2001 and March 2002, the Bank of Finland estimated that the Finnish economy, supported by the world economy, would see a moderate growth of about 1.5% in 2002. This view prevailed in the forecast released in September 2002, although the tone became more cautious as the world economy weakened. According to

preliminary data, the Finnish economy grew by 1.6% in 2002. The Bank forecast that consumer prices in Finland would rise at a slightly slower rate in 2002 than in the euro area as a whole. This was, in fact, the case. The annual rise in consumer prices of 1.6% on average was mainly due to increases in service prices.

During the year, and in various contexts, the Bank of Finland drew attention to the detrimental effect of high taxes and labour market rigidities on unemployment. The Bank of Finland also repeatedly brought up the issue of the long-term challenges for the general government finances. In various statements and reports, the Bank stressed the importance of early preparation for the public spending pressures from an ageing population.

International issues

The Bank of Finland's views on issues dealt with by the International Monetary Fund (IMF) were submitted to the joint representative of the Nordic-Baltic constituency. The constituency commended the action taken by the US Federal Reserve in order to enhance economic growth in 2002, while expressing concern about the deterioration in the financial position of the general government sector in the medium term. The US authorities were encouraged to take steps in order to increase the savings ratio. In discussing economic policy in Europe, the constituency emphasised the need for structural reform of the labour market: structural unemployment

cannot be significantly reduced without extensive reforms. The representative of the constituency also remarked that keeping fiscal policy in line with the Stability and Growth Pact is of vital importance for sustainable public finances in the euro area. Furthermore, the economic situation in Japan was also considered very difficult. In the constituency's view, steering Japan onto a sustainable growth path would require removal of non-performing bank loans from bank balance sheets, rescinding of banking and corporate sector linkages and suppressing of deflation.

International economic policy was also discussed in other organs in which the Bank of Finland is a member, for example, in the context of the Governing Council of the ECB, the ESCB committees, the EU's Economic and Financial Committee and the OECD. The general views were that industrial countries' monetary policies should focus on slow inflation, high employment and economic policies that would promote a stable growth. The Bank of Finland's representatives supported these general views. In order to avoid risks and uncertainties likely to pose a threat to the world economy, special attention was paid to factors that could shake the balance of global financial markets. Timely action should be taken on distortions in the current account imbalances of large economic areas, since market correction could possibly have adverse macroeconomic effects.

In accordance with customary practice, the EU's Economic and Financial Committee (EFC) was

involved in the preparation of issues to be dealt with by the ECOFIN Council in 2002. This included the drawing up of the broad economic policy guidelines and the stability or convergence programmes for member countries and measures concerning countries with general government deficits. In early 2002, the EFC discussed the EU Commission's recommendation to issue early warnings to Germany and Portugal due to their excessive budget deficits. In September, the EFC discussed Portugal's excessive budget deficit in 2001. The EFC was also engaged in making preparations for EU enlargement and various issues relating to economic policy coordination between EU member states.

The International Monetary Fund (IMF) conducted Article IV consultations in June in Finland in order to assess the Finnish economic situation and policy. According to the IMF, Finland's recovery from the crisis of the early 1990s is one of Europe's success stories. Reflecting sound policy choices and increasing economic openness, real GDP growth had been fairly robust and the general government balance remained in surplus. Despite favourable developments, the IMF finds evidence of certain structural rigidities in the Finnish economy which are likely to hamper Finland's future well-being if left unattended.

According to the IMF, Finland should take measures in the period ahead to prepare for population ageing, such as increasing the rate of employment and raising the retirement age. The IMF also recommended that determined efforts

be made to implement public expenditure limits, wide-ranging structural reforms and tax cuts. These measures could trigger a virtuous circle of strong employment creation, solid economic growth and fiscal savings. The IMF also considered the robustness of Finland's financial system, which it found as remaining very sound.

Monetary policy operations in the euro area and Finland

Decentralised implementation

The Bank of Finland implements uniform euro area monetary policy in Finland in compliance with the decentralised ESCB approach. The key monetary policy instrument in the euro area is the ECB policy rate which seeks to affect the price of

money in the euro area (Chart 5). Banks must acquire part of their funding from the ECB or the national central banks (NBCs), ie from the Eurosystem. The operational framework for monetary policy (market operations, standing facilities and minimum reserves) remained unchanged in 2002. In October 2002, however, the ECB addressed a consultation on the operational framework for monetary policy to all credit institutions in the euro area, as well as to banking and financial market associations. Three measures were to be considered: changing the timing of the reserve maintenance period, shortening the maturity of the main refinancing operations (MROs) and suspending the longer-term refinancing operations. In January the Governing Council decided to implement the first two measures but to leave the longer-term refi-

Chart 5.
Eurosystem interest rates and overnight rate

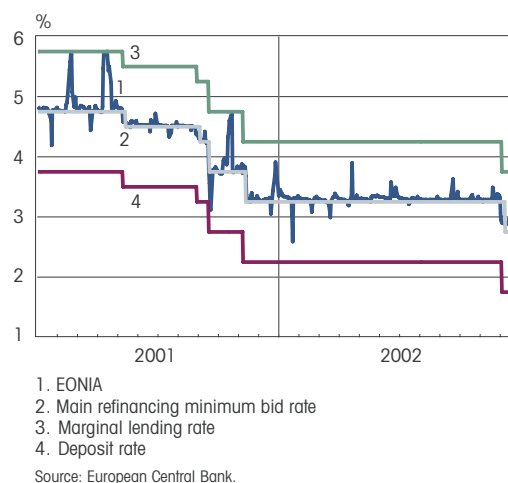
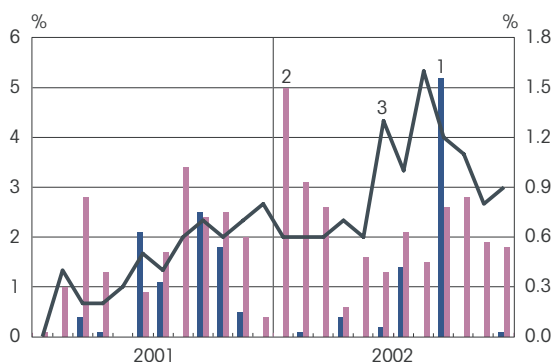


Chart 6.
Finnish credit institutions' shares in Eurosystem
main refinancing operations and use of standing facilities



Maintenance periods start on the 24th of the month and run to the 23rd of the following month.

1. Share of marginal lending (left scale)
2. Share of overnight deposits (left scale)
3. Share in main refinancing operations (right scale)

Source: Bank of Finland.

nancing operations unchanged. The changes are scheduled to come into effect during the first quarter of 2004.

As in previous years, most of the liquidity needs of credit institutions were met in 2002 by means of weekly variable-rate MROs. Following the euro cash changeover, no liquidity disruptions were experienced until the expiry of the last reserve maintenance period of the year. The counterparties then bid so sparingly in MRO tenders that underbidding became a problem. A fine-tuning operation implemented by the ECB to address the situation added EUR 10 billion to Eurosystem liquidity. Nevertheless, the overnight rate fluctuated widely towards the end of the reserve maintenance period, and the counterparties had to resort to more funding from the marginal lending facility than normally.

Finnish credit institutions' participation in Eurosystem monetary policy operations

Finnish credit institutions increased their MRO participation in 2002. Their share in euro area liquidity allocation was 0.9% (EUR 1.1 billion) on average in 2002, compared to 0.4% in 2001 (Chart 6). Of the eleven eligible counterparties for Bank of Finland money market operations, only four participated in MROs in 2002, compared to six in 2001. Thus, the increase in MRO activity was concentrated on a clearly smaller number of counterparties than before.

Finnish credit institutions maintained abundant liquidity throughout the year. This is, for example, reflected in their use of the marginal lending facility. While Finnish credit institutions account-

ed for only 0.4% (EUR 1 million) of euro area marginal lending, they used 2.6% of the ECB overnight deposit facility. Finnish credit institutions' minimum reserve requirements constituted 1.6% of the total euro area reserve requirement in 2002, about as much as in 2001. Finnish credit institutions minimum reserve deposits with the Bank of Finland amounted to EUR 0.6–5 billion.

Lending against adequate collateral

The Bank of Finland ensures that ECB and NCB lending, ie Eurosystem lending, to Finnish counterparties is based on adequate collateral. The Bank applies risk control methods approved by the Eurosystem to collateral, such as valuation haircuts, and monitors the collateral value and eligibility of assets posted as collateral. The Bank is also responsible for the inclusion of eligible assets issued in Finland in the eligible assets list maintained by the ECB. In addition, the Bank of Finland acts as custodian for the NCBs of other EU countries.

The collateral for monetary policy operations and intraday credits posted by Finnish credit institutions at the Bank of Finland amounted in 2002 to EUR 8.5 billion on average. Of this amount, 23% represented domestic tier-1 list assets fulfilling the uniform eligibility criteria specified by the ECB, 46% national tier-2 list assets and 31% assets issued in other EU countries. The value of collateral posted at the Bank was EUR 0.1 billion higher than in 2001.

So far, the Bank of Finland's national tier-2 list of eligible assets has comprised bank CDs only. In late 2001, the ECB approved the use of Fennorating's ratings in assessing eligibility of Finnish issuers' assets. An international credit rating is still required for the inclusion of credit institutions' assets in the list of eligible assets. Dun & Bradstreet Finland,

the other domestic rating agency approved by the ECB, ceased to function as rating agency for central bank collateral.

The updating frequency of the ECB's list of eligible assets (under MFIs and assets at <http://www.ecb.int>) was changed to be daily instead of weekly. As a result, eligible assets can be used as collateral much earlier than before.

The Bank of Finland acts as custodian and correspondent central bank for the central banks of the other EU countries, whenever credit institutions of other EU countries use assets deposited in Finland as collateral for their central bank financing. The average value of such assets posted at the Bank of Finland was EUR 990 million in 2002.

Financial markets

The Bank of Finland acts in accordance with the Treaty establishing the European Community, the Statute of the European System of Central Banks (ESCB) and of the European Central Bank (ECB) and the Act on the Bank of Finland, with a view to promoting and developing stable, reliable and efficient financial and payment systems in Finland. These objectives are pursued nationally as well as internationally, especially within the euro area and the EU. The ESCB's responsibilities also include promoting overall financial stability and the smooth operation of payment and settlement systems.

The tools available to the Bank of Finland for achieving these objectives include operational involvement in payment systems¹, oversight, macroprudential analysis, development of the regulatory and supervisory framework and crisis management procedures together with other authorities, cooperation with market participants and exercise of influence through the issue of publications and statements. The Bank of Finland is therefore represented on many international fora for financial market issues. The Bank is also

a member of a total of ten ESCB committees or working groups addressing the stability and efficiency of financial and payment systems. In addition to the ESCB, other important fora include EU Committees, the International Monetary Fund (IMF), the OECD and the Bank for International Settlements (BIS). There is close direct cooperation with the Nordic and Baltic authorities following the growing harmonisation of the financial markets of these countries.

Macroprudential analysis and oversight of financial markets

The Bank of Finland continuously undertakes macroprudential analyses of the operation, status and development of Finnish financial markets. In 2002, the focus was on structural development, the impact of macroeconomic factors and asset securitisation. Much of the evidence of the Bank of Finland's macroprudential analysis is public. Two articles on financial stability in Finland were published in the *Bank of Finland Bulletin* in 2002. Three other extensive publications on the operation and structure of financial markets were also prepared and some of them published

¹ For further information about the Bank of Finland's operational involvement in payment transfer, see the *Payments* section.

in the course of the year. Publication of the evidence of the macro-prudential analysis is designed to raise the awareness of market participants, the media and the general public to the state of financial markets and any risks to financial stability.

Financial markets operated under challenging conditions in 2002. The weak economic development of major economic regions, the sharp fall in share prices and several isolated problems put the functioning of the international financial system to the test. There was considerable deterioration in the operating environment surrounding financial services companies, but generally the international financial system functioned smoothly.

The weaker-than-expected corporate profitability and a growing pessimism and general insecurity in response to disclosure of accounting malpractices shook investors' confidence and caused sharp fluctuations in share prices globally. In the course of 2002,

companies with poor credit ratings as well as emerging market economies again faced higher costs of obtaining financing in bond markets as a consequence of higher risk premiums.

In the wake of the weak economic development, corporate bankruptcies increased and banks' loan losses grew in several countries. In the United States banks generally continued to record good results, whereas the financial results of many European banks deteriorated considerably. The Japanese economy remained weak, and the new proposals for rehabilitation of the financial and banking systems have not yet borne fruit.

Other global problems facing the financial services industry included the poor profitability experienced by investment banking and the difficulties within the insurance sector caused by falling share prices and large claims for damages. Following the relatively strong proportion of shares in the asset portfolios, the problems of the insurance sector were most

severe in Europe. The increasingly close links between the insurance and banking sectors raised concerns about the spillover of problems from one sector to the other, but no major risks to stability surfaced in the course of 2002. The reliability of the financial market infrastructure – payment and settlement systems – was a significant contributory factor to overall financial stability.

In comparison with previous years, financial structures were fairly slow to change in 2002. The number of bank mergers fell both in the United States and in Europe. Financial market integration in the EU area continued to proceed at a different pace for different market segments and operations also in 2002. The integration of money markets and wholesale banking had advanced far by the end of 2002 but the integration of retail banking showed no significant progress. The clearing and settlement of cross-border securities transactions was still slow and expensive. At the end of 2002 there were about 20

Table 1.
Deposit banking groups' financial performance information

	Income from financial operations, EUR m			Operating profit, EUR m			Expenses, % of income		Capital adequacy ratios 31.12.2002	
	2002	2001	Change, %	2002	2001	Change, %	2002	2001	Tier 1 %	Total %
Nordea Group	3,451	3,465	-0.4	1,547	1,928	-19.8			7.1	9.9
* Nordea's banking functions	3,754	3,688	1.8	1,721	1,968	-12.6	64	58		
Sampo Group				542	1,104	-50.9			18.7	17.3
* Sampo Group's credit institution and investment services functions	448	469	-4.5	252	296	-14.9	64	59		
OKO Bank Group	857	875	-2.1	459	504	-8.9	61	55	13.6	15.2
* OKO Bank Consolidated	161	152	5.9	96	111	-13.5	56	51	7.0	11.1
39 saving banks	128	140	-8.5	59	72	-18.6	63	57	17.8	19.6
Aktia Group	75	77	-2.6	20	32	-38.6	81	73	9.0	13.1
Local Cooperative banks	83	85	-1.8	33	36	-8.9	68	64		21.7
Bank of Åland Plc	32	33	-5.7	14	17	-18.4	69	65	8.3	11.0
All banks excl. Nordea	1,623	1,679	-3.4	837	958	-12.7				

Source: Banks' financial statements and financial performance reports Feb 2003. Empty sections in the table indicate where the information has not been published.

stock exchanges within the EU area, operating under different rules and technical systems, with the three largest being the most dominant. As regards payment systems, the inefficiency of cross-border retail payment systems, and credit transfer systems in particular, posed a significant problem.

Finnish financial sector companies operated reliably and no major problems emerged. Banks' profitability declined from the

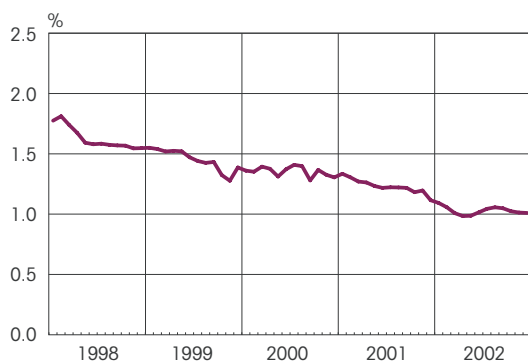
previous year but remained at a reasonable level. Banks' capital adequacy also continued to be good (Table 1). Except for minor disruptions, the operation of national payment and securities systems was, in general, reliable and efficient. The structural development of Finnish financial markets in 2002 was marked by the establishment of several new banks. In 2002 three new banks were granted authorisation, and the establish-

ment of a new bank in 2003 was announced. Although the new banks are not very important for example in terms of capital, they may, nevertheless, have some bearing on the competition situation, especially in the field of retail banking.

The article on financial stability in Finland published in the June issue of the *Bank of Finland Bulletin* reported that the Finnish banking sector was in fairly good condition. However, attention was focused on the increasingly narrow interest rate margins on bank lending (Chart 7). It was indicated that supervisory authorities are well advised to monitor developments in lending margins in order to ensure that banks pay adequate attention to profitability. The article also pointed to households' strongly increasing indebtedness, which was said to call for close monitoring. Further attention was given to institutions' internal controls, which should stay in line with structural change within the financial setting. It was also noted that it is essential to ensure the proper flow of information to authorities.

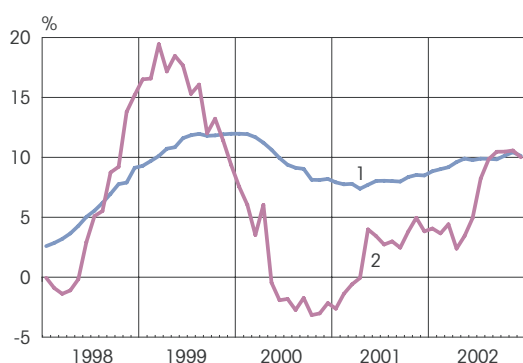
The financial stability article of the December issue reports that the international financial system had survived both the general weakening of the global operating environment and isolated disruptions. Economic growth in major economic regions, turning out to be notably slower than forecast, is perceived as being one of the most significant potential threats to the international financial system. Conditions in the Finnish banking sector and the financial system in general were also reported to be

Chart 7.
Deposit banks: interest rate margins* on new housing loans



* Calculated as weighted average of various interest rate margins.
Source: Bank of Finland.

Chart 8.
Deposit banks' lending growth rate



1. Lending to households, y-on-y change
2. Lending to companies, y-on-y change*
* Includes housing corporations, since 2001.
Source: Bank of Finland.

stable. In Finland as in other countries, the major risks were tied to macroeconomic performance and international linkages. However, attention was drawn to households' continuing strong demand for housing loans (Chart 8). In this connection, it was emphasised that banks need to ensure that customers' debt servicing ability can withstand a possible rise in the level of interest rates.

In line with its responsibilities for payment systems oversight, the Bank of Finland undertook oversight on Finnish payment systems (incl. the PMJ interbank system, the POPS system for interbank express transfers and bank drafts and the real-time BOF-RTGS system for large-value payments) and analysed the state and structural development of payment and securities systems. In its capacity as owner and user, the Bank of Finland also monitored the operations and systems of the HEX Group, in particular those of the Finnish Central Securities Depository (APK). No serious problems in the operation of the infrastructure for Finnish payment systems and stock markets emerged in 2002.

Cooperation between national authorities

The Bank of Finland worked actively together with other authorities in order to improve the readiness of the financial system to manage potential crises. In practice, this means outlining various threat scenarios surrounding the financial system and promoting cooperation between the authorities

concerned. With the structural development of the financial sector, in parallel with domestic cooperation, the Nordic dimension is becoming increasingly important for crisis management. In 2002 the Nordic central banks and supervisory authorities worked actively together to improve crisis management readiness and jointly undertook a crisis simulation exercise.

The Bank of Finland was also involved in the development of financial regulation and supervision. The Bank was represented on the boards of both the Financial Supervision Authority (FSA) and the Insurance Supervision Authority (ISA). The Bank also participated in the Ministry of Finance law drafting groups and altogether issued 22 statements on financial market regulation. Major reforms in the preparation of which the Bank was involved, either through working group membership or issue of statements, are listed below:

- The Act on the supervision of financial and insurance conglomerates took effect in 2002. The Act sets out the exact definition of the concept of financial conglomerate, which enables better supervision of financial conglomerates.
- A Government bill to Parliament on the amendment of the Credit Institutions Act and certain other related Acts was also put forward. The bill includes a proposal on the right of companies other than credit institutions to accept repayable funds from the public. It also contains provisions to the effect that general payment

transmission and issue of electronic money are to be made subject to authorisation, unless pursued in connection with credit institutions activities as presently defined.

- Another important legislative proposal issued in 2002 related to more effective financial supervision. The Government bill proposed that the FSA be given broader powers, that its administration be improved and its social accountability increased. It was further suggested that the FSA take over most of the licensing authority. In its statement on the Government bill, the Bank of Finland emphasised the need to reform the FSA's powers forthwith, even in the case that, in other respects, it would be necessary to seek clearer and more justified solutions.
- In 2002, the Government also issued a proposal for the amendment of the Emergency Powers Act. It was, for instance, proposed that the Council of State be given regulatory power in respect of financial markets and the insurance sector during emergency conditions. It also set out obligations for key financial market institutions to prepare for the maintenance of the most essential functions during emergency conditions.
- The working group set up to review the legal structure of the Finnish book-entry system completed its work in 2002. The working group so far saw no prospects of moving forward to a legal proposal.

- In 2002 the Council of State appointed a working group to review the mutual competitive conditions of savings, investment and life insurance products.

International cooperation between authorities

Within the European System of Central Banks (ESCB), the Banking Supervision Committee (BSC) holds responsibility for the analysis and coordination of financial stability issues. The Committee has members from all the EU central banks and banking supervisory authorities. In 2002, the sub-working groups of the Committee prepared two reports on the stability of the EU area banking system and one report on the structural development of the banking sector, and drafted principles of cooperation in crisis management. Over the year, the International Relations Committee of the ESCB also regularly addressed financial stability issues relating to international capital markets.

The Payment and Settlement Systems Committee of the ESCB reviews issues related to payment and settlement systems. Payment systems oversight is designed to ensure system stability, efficiency and reliability. Oversight responsibility is divided between national central banks and the European Central Bank; the national central banks hold primary responsibility for national systems, whereas responsibility for cross-border systems is entrusted to either the ECB or the national central bank

on a case-by-case basis. In 2002 the ECB and the Eurosystem launched public consultations for instance on the proposals for core principles for retail payment systems and electronic money systems security objectives.

The European System of Central Banks also regularly undertakes an appraisal of the securities settlement systems and the links between them to establish whether they comply with relevant user standards². Furthermore, the joint working group of the ESCB and the Committee of European Securities Regulators (CESR) continued its efforts to devise European recommendations for securities systems on the basis of global recommendations.

For several years already, the revision of the capital adequacy framework applicable to credit institutions (the so-called Basel II Accord) has been a major international regulatory project in the field of financial markets. Work is coordinated by the G10 countries' Basel Committee on Banking Supervision (Basel Committee) in conjunction with the Bank for International Settlements (BIS). Intense preparations for reform of the framework were undertaken in 2002, to ensure adoption of the new regulatory framework towards the end of 2006, as planned. The EU's Banking Advisory Committee and its subgroups made preparations for the implementation of new capital adequacy provisions. The revision of the EU capital adequacy framework applies to

² Standards for the use of EU securities settlement systems in ESCB credit operations. EMI 1998.

both credit institutions and investment firms.

The EU's Economic and Financial Committee (EFC) also devoted greater attention to financial stability issues. At the request of the Council of Economic and Finance Ministers (ECOFIN), the Committee prepared a proposal for more effective financial regulation and supervision at EU level. The proposed reforms are designed to intensify and speed up EU legislative procedures in the context of financial market issues and promote the harmonisation of supervisory and regulatory practices within the EU. A further aim is to foster cooperation between authorities in promoting financial stability. According to the proposal, four committees will be set up to review regulatory issues concerning the banking sector, the securities markets, the insurance sector and financial conglomerates. They will have the power to decide on the technical details related to the implementation of regulations and directives. In addition to the four regulatory committees, separate committees of supervisors will be set up for the banking sector, the securities markets and the insurance sector. The proposal recognises the central banks' role in the macroprudential analysis of the banking sector by including all the EU area central banks in the supervisory committee for the banking sector, irrespective of whether they have supervisory responsibility. The Committee of European Securities Regulators (CESR) was established as early as 2001 at the proposal of the working group chaired by Alexandre Lamfalussy.

Market development

The Bank of Finland participates in the development of financial markets in several ways, ie as part of its oversight role, by promoting regulatory reform of markets, through operational involvement, through ownership of HEX and by means of research and development.

With a view to promoting the development of payment systems technology, the Bank of Finland in 2002 demonstrated an e-settlement

model for central bank money and a fully functioning prototype of the model. The new system provides for real-time transfer of the account balance in central bank money, together with payment details, from bank to bank. The Bank of Finland further demonstrated its payment system simulator for analysing liquidity needs and also offered to make it available to other parties. For example, the simulator enables assessment of the intraday liquidity needs of payment systems and the susceptibility of payment

systems to gridlock, where payments cannot be settled due to insufficient liquidity.

The international integration of securities marketplaces and clearing and settlement systems was closely monitored and analysed in 2002. The Bank of Finland assisted other domestic participants in the analysis of the integration development and arranged several discussions on the topic for both domestic and foreign participants, including representatives from the Nordic and Baltic central banks.

Payments

The Bank of Finland provides financial institutions payment services to facilitate the settling of large-value payments between domestic and foreign institutions as efficiently and smoothly as possible. For this purpose it uses its highly automated Real-Time Gross Settlement System (RTGS system), in which payments are executed transaction by transaction on a gross basis. This BoF-RTGS of the Bank of Finland is part of TARGET.

The Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET) that was introduced at the beginning of 1999 is an EU-wide euro-denominated interbank payment system created by the central banks and connects the national RTGS systems. In the TARGET system payments are settled in real time and using central bank money. In particular, the system is intended for large-value interbank gross payments, liquidity transfers required for the monetary policy operations and other payments critical from the viewpoint of systemic risk, although no limitations have been set as to the payment type or payment value.

From the very beginning, in terms of turnover, TARGET has

clearly been the most important channel for large-value euro-denominated payments in Europe. In 2002 TARGET payments increased, as in previous years (Chart 9). In 2002 the daily average number of cross-border TARGET payments amounted to 54,000, whereas national payments settled through central bank RTGS systems averaged at nearly 200,000 a day (Chart 10). The aggregate amount of daily payments in the TARGET system averaged at about EUR 1,520 billion.

The Bank of Finland's BoF-RTGS system and its TARGET extension have functioned very reliably. In terms of availability the BoF-RTGS has been one of the best European RTGS systems. No significant deficiencies occurred in the system in 2002.

The Finnish share of all cross-border TARGET payments is about 1%. By contrast, the share of turnover is slightly larger, because in relative terms Finnish banks transfer more interbank gross payments than others via TARGET. In addition, central banks within continental Europe still also handle commercial customer payments using TARGET for those payments. Throughout the TARGET area the number of customer payments represented more than 45% of all

foreign TARGET payments, but their value represented only 4%. The newest release of the TARGET system was completed in November 2002. The updated system enables fully automated processing of customer payments via TARGET.

The Bank of Finland participates in settlements executed via the CLS¹ settlement system for foreign exchange transactions that was introduced on 9 September 2002. During the year the ESCB's central banks developed and tested their standby systems particularly to ensure that TARGET can transfer timely CLS payments under all conditions.

Processing of other critical TARGET payments (such as EBA's² EURO1 system payments, large international liquidity transfers, settlements via security settlement systems) in potential TARGET contingency situations was practised regularly, also using standby systems.

In October 2002 the Eurosystem published a strategy for the new TARGET generation, the TARGET2 system. The strategy was developed by a high-level working group, in which Pentti Hakkarainen, Member of the Board, represented the Bank of Finland. The main purpose of the strategy is to ensure that the system meets customer needs better than before, guarantees cost efficiency and rapidly adapts to changing

¹ CLS = Continuous Linked Settlement

² EBA = Euro Banking Association

conditions. A significant change compared to the present TARGET system is that TARGET2 enables a system jointly utilised by several central banks, ie a shared platform. Each central bank can, at certain terms, decide for itself whether it should maintain a system of its own or join the shared platform.

According to the strategy, all systems must offer at least certain core TARGET services at harmonised prices. The new system will be introduced during the latter half of the decade.

For further information on TARGET statistics, see the ECB's website at <http://www.ecb.int>.

Chart 9.
Transactions in TARGET, quarterly turnover

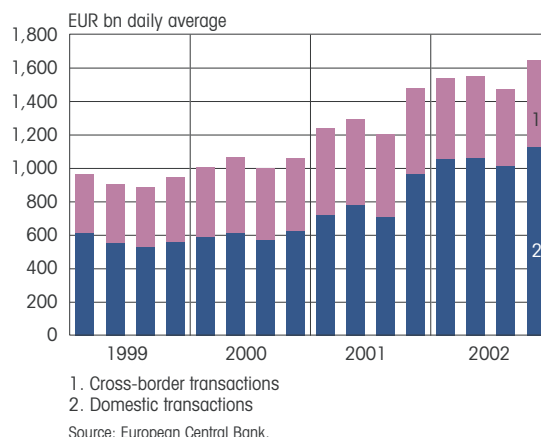
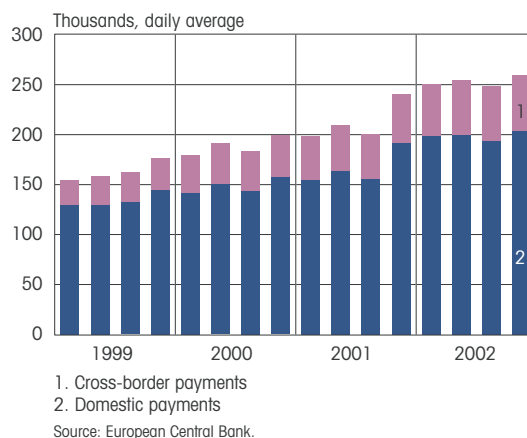


Chart 10.
Number of payments effected via TARGET, quarterly



Maintenance of currency supply

As part of its statutory duties, the Bank of Finland is responsible for the functioning of currency supply, ie for the issuing, availability, quality and authenticity of banknotes and coins. It is of crucial importance that the security and efficiency of currency supply is ensured in cooperation with banks and cash-in-transport companies. In terms of currency supply, the turn of the year 2001–2002 was particularly busy due to the practical implementation and coordination of the euro cash changeover. Still the changeover went without any significant surprises and, in general, quicker than expected.

Until 2002 the national central banks (NCBs) in the Eurosystem handled their banknote procurements themselves. From 2003, banknote production will be coordinated, making individual central banks responsible for the production of either one or two banknote denominations. A few countries, such as Finland, have utilised competitive bidding in their orders of banknotes.

Euro cash introduction went smoothly

In order to promote the single market and single monetary policy and

decrease the costs of currency exchange, the euro countries introduced the single currency, ie euro banknotes and coins, from the beginning of 2002. Although euro cash was introduced on 1 January 2002, national banknotes and coins could still be used in January and February 2002. From the beginning of March 2002, the euro has been the only legal tender. However, the Bank of Finland will redeem and exchanges markka banknotes and coins for another ten years, ie to the end of February 2012.

Finnish deposit banks continued to exchange markka banknotes and coins, free of charge, at least to the end of 2002. The Bank of Finland also redeemed national banknotes of other euro countries to the end of March 2002.

The introduction of the euro went very well in all the euro countries, and in general the adoption of the new currency was viewed in a favourable light. An acceleration of price levels at the turn of the year was associated in some euro countries – occasionally unduly – with the introduction of the euro.

Although the euro cash introduction particularly serves tourism, it also broadly affects corporate activity through price compatibility in the euro area, among other things corporation subcontracting

and the scope of commodity markets. In the formation of the single market, the introduction of a single currency has its own practical significance.

In Finland the euro cash introduction proceeded rapidly and almost without hitch, even if the hologram missing from some individual 500 euro notes printed in Finland received a lot of publicity. During the first weeks, Finland's replacement of previous national banknotes with euro banknotes was among the fastest in the euro area. The reason for this was the efficiency of the Finnish currency supply and the central role of ATMs in the distribution of euros. At first, the retail business bore responsibility for putting most of the euro banknotes of smaller denominations than 20 euro into circulation and for the return of small change. The retail sector handled its task well. Of the cash payments, three fourths were paid in euro already at the end of the first changeover week. In Finland, the changeover was also facilitated by the fact that the smallest coins, ie the 1 and 2 cent coins, did not have to be issued as ordinary coins. According to an act on cash payments issued in Finland, the final cash payment amounts are rounded to the nearest 5 cents.

Markka banknotes and coins returned as anticipated

Markka banknotes and coins were quickly returned to the Bank of Finland. By the end of January 2002, the number of markka banknotes in circulation was less than a quarter of the corresponding number at the end of 2001. At the

end of 2002, more than 94% of the markka banknotes had been returned to the Bank and nearly 70% of the coins. Banknotes to a value of EUR 164 million remained unreturned. Most of the non-returned markka coins were 10 penni coins; a coin denomination for which the loss has already been significant for many years. After the actual changeover period in January-February, the number of returned markka banknotes and coins has shrunk continuously and at the end of 2002 it was already nearly non-existent. In mid-November 2002, the last large batches of markka banknotes were disposed of in an environmentally-friendly manner, being shredded to moulder.

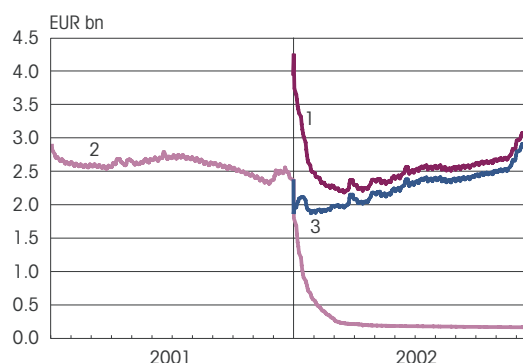
Demand for euro banknotes

Immediately after the start of the euro cash changeover, the value of banknotes in circulation increased rapidly. Already on 2 January, it peaked at nearly EUR 4.3 billion. After a little more than two weeks, the value of cash in circulation

decreased to about EUR 3 billion, and by the end of January it was below EUR 2.5 billion (Chart 11). However, the cash was made available proportionately so that no actual shortage appeared at any stage. ATMs were converted to euro in four days and the 16,000 or so slot machines owned by the Finnish Slot Machine Association (RAY) were in euro condition by the end of January. The conversions were implemented sooner where there was a higher density of machines. The conversion of parking meters and vending machines was achieved within about a month, in other words, notably fast.

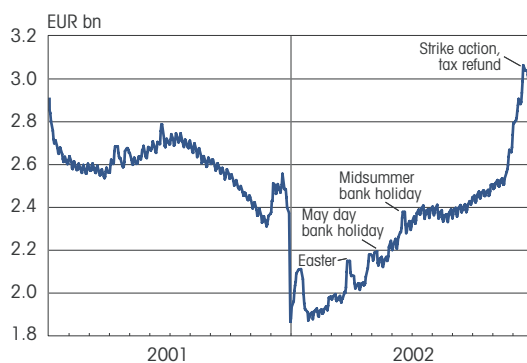
In order to ensure the availability of banknotes, the citizens had been encouraged to use payment and credit cards during the changeover, and thus the number of them increased by about one fifth during the second half of 2001. However, in early 2002 the share of cash payments somewhat increased because people wanted to familiarise themselves with the new bank-

Chart 11.
Value of notes put into circulation in Finland



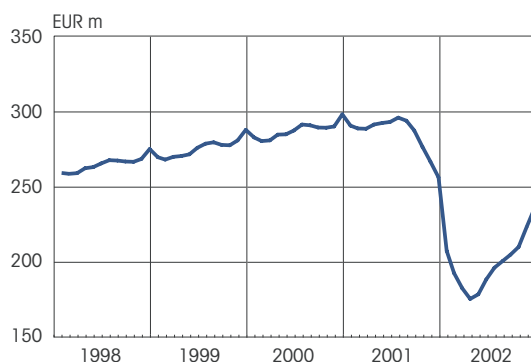
1. Banknotes in circulation in Finland (markka and euro banknotes, total)
2. Markka banknotes
3. Euro banknotes
Source: Bank of Finland.

Chart 12.
Value of markka and euro banknotes in circulation in Finland



Source: Bank of Finland.

Chart 13.
Value of markka and euro coins in circulation in Finland



Source: Bank of Finland.

notes and coins as soon as possible. Despite this, the changeover period and the change of banknote denominations brought some changes in the relation between use of cash and other payment methods. The volume of markka banknotes in circulation at the end of 2001, the value of which had amounted to EUR 2.4 billion, decreased during the first month of 2002 to a volume of banknotes representing a value of EUR 2 billion (Chart 12). In Finland the changeover was largely completed already by the begin-

ning of February, and from then on the value of euro banknotes in circulation steadily increased, save for a few exceptions such as demand peaks caused by the Easter at the end of March, the first of May, Midsummer and Christmas. In December 2002, the value of banknotes in circulation even increased above EUR 3 billion, when, in addition to large tax refunds, banks and Automatia had prepared for a rise in the cash demand due to a partial strike by cash-in-transit companies.

The reason for the stable increase in the amount of cash is that ordinary payments are primarily performed in cash in retail stores, markets and department stores as well as other shops. About half of the retail payments are still performed in cash. The use of cash withdrawn from ATMs has decreased a little due to electronic payments. Banknotes are also used in ticket and petrol vending machines.

Demand for denominations

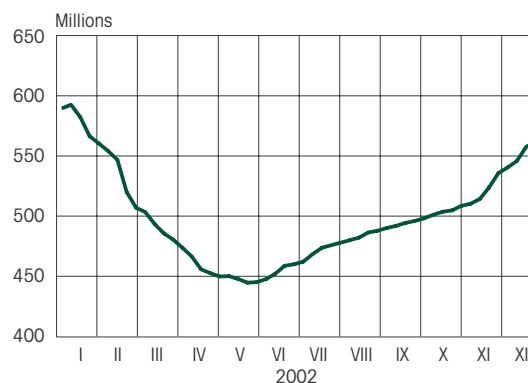
The clearly most popular markka banknote in payments and ATMs had been the 100 markka note, which had represented as much as half of the value of banknotes in circulation in 2001 and more than 60% of the number of banknotes. Of the euro banknotes, the most popular ATM banknote has been the 20 euro banknote with its approximately 20% higher nominal value. However, the demand for euro banknotes has spread more evenly than markka notes to the other denominations, eg 50 and 10 euro banknotes. At the end of 2002, the number of 20 euro banknotes represented half of the banknotes in circulation, but their value share only 32% of the total value of banknotes. The share of the second ATM banknote, the 50 euro note, was 18% of the total number of banknotes in circulation. The number of 5 euro banknotes in circulation is slightly smaller. The number of the most important ATM banknotes in circulation started to increase already one month after the changeover. The popularity of the 500 euro banknotes has been slightly surprising, in that there is a continuous

increase in their number. It appears that big banknotes are increasingly being taken along on tourist trips to the other euro countries, as the use of cash does not entail foreign exchange costs. The demand for other banknotes has been more or less as expected.

The notable rise in credit card payments is among the most important reasons why the value of cash in circulation declined sharply after the euro cash changeover. Following the changeover, the value of banknotes in circulation initially shrank by one fifth, from which point it started to grow again. The decline in the value of coins was even more considerable (Chart 13). The coins in circulation already decreased rapidly in early autumn 2001, when preparations for the changeover were started by transferring piggy bank savings and other coin stocks to deposit accounts. From the turn of the year the value of coins in circulation shrank by nearly one third, because the dispersion of euro coins in active use significantly concentrated to coins of big nominal value.

Finland is the only euro country that did not take the 1 and 2 cent coins into use. Thus the smallest coin introduced in Finland – the 5 cent coin – was three times as valuable as the previous 10 penni coin. The need for change money in shops decreased, as the total sums could be rounded to the nearest 5 cents. In addition, the prices of services in particular were rounded to even amounts far more often than before the euro. In step with the decrease of rounding to even amounts, the demand for coins is expected to rise from the present

Chart 14.
Euro coins put into circulation in Finland



Source: Bank of Finland.

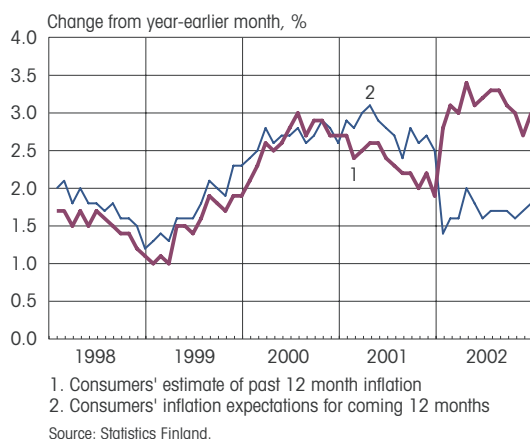
level. As to the net balance, euro coins will be exported not only through tourism – Finnish residents' consumption expenditure in euro countries and abroad is higher than foreigners' consumption expenditure in Finland – but also due to the international passion for collecting euro coins. The number of the three smallest euro coins declined until May-June, but then started to increase steadily (Chart 14). The increased demand for coins of higher denominations has also kept the value of coins in circulation growing.

Number of counterfeit small but growing

The tight security requirements concerning euro banknotes became apparent when the number of counterfeits reported to the European Central Bank (ECB) remained under one fourth of the corresponding number of counterfeit national banknotes in circulation in 2001. Naturally the novelty of euro banknotes and high-technology skills required for printing

counterfeits also decreased the occurrence of counterfeits. Thus most of the counterfeits were produced on copying machines and printers, and as a result their technical quality was poor and their identification was easy. In particular, the number of euro counterfeits increased after the tourist season in early autumn 2002 but decreased again towards the end of the year. In all, the occurrence of counterfeits is on the increase. There were 155 euro banknote counterfeits discovered last year in Finland, which was the lowest number throughout the euro area and only half of the number of counterfeit markka banknotes in the previous year. Counterfeit identification readiness in Finland is now better than before the euro, also outside the central bank, but exposure to counterfeits is also greater. The higher security of euro banknotes against mass counterfeiting is due to the large number of security features and partly to the non-disclosure of some more demanding security features.

Chart 15.
Consumer inflation estimates and expectations



Inflationary impact of euro cash introduction insignificant

The inflationary effects of the euro cash introduction have been examined in Finland and the other euro countries, not only through price statistics but also through consumer enquiries. In Finland, directly after the changeover Statistics Finland estimated that the changeover to euro pricing speeded up consumer price inflation by 0.1–0.2 percentage points.¹ Naturally quite accurate estimates cannot be presented, as the reasons for price changes may be multifarious. In addition, public-sector fees are often increased at the turn of the year. It was also natural that service price increases, such as increases in menu and list prices, had

¹ The comparison was hampered through Statistics Finland's selection of one of the changeover years (2000) as the new base year of the consumer price index. A comprehensive price survey using a new commodity basket was introduced starting from December 2001 and thus the December price development was established, but not the corresponding development for the other months of 2001.

been concentrated to the changeover situation.

Consumers experienced the accelerated inflation as being clearly stronger than what was shown in official statistics (Chart 15). At the same time consumers' 12-month inflation expectations clearly subsided, which suggested that the price changes were mainly felt to be of a one-off nature.

Well-functioning currency supply

Efficient currency supply in Finland

The Bank of Finland's only counterparty in currency supply is the limited company Automatia Pankkiautomaatit owned by Finnish banks. Automatia has a non-overdraft settlement account with the Bank of Finland and the Bank made a euro currency-supply agreement with the company in October 2001, i.e. the euro order and distribution agreement (ETT

agreement). Automatia handles money deliveries through its sub-contractors Falck and Securitas. Banks execute their daily money orders through the ETT system, and the central bank debits Automatia's settlement account for the cash ordered. Correspondingly banks are credited from Automatia's settlement account for money returned to the Bank of Finland's offices. In practice, money ordered is transported via the cash centres of the cash-in-transit companies. In Finland, there are 21 cash centres in all. About 45% of all money deliveries go via the Helsinki-Vantaa branch.

The Finnish currency supply is among the most efficient in the world as a result of the central deposit banks' common ATM network, through which about 85% of the cash is channelled to the citizens. At the end of 2002 the value of euro banknotes in circulation totalled EUR 2.8 billion, which corresponds to about 2% of Finland's GDP.² In connection with the euro cash changeover, banks' banknote holdings increased temporarily but subsequently decreased to nearly one third of the amounts before the euro.

To facilitate the changeover, the Bank of Finland refrained from charging handling fees for returned banknotes and ordered coins from the beginning of November 2001 to the end of June 2002. The handling fee for returned coins was already abolished on 1 October 2001. The charging of a banknote

² Banks' banknote holdings amounted to about EUR 300 million. The holdings of Automatia and the cash centres were nearly EUR 100 million each.

return fee at cost price in accordance with the Act on Government Charges was resumed from the beginning of July 2002. The handling fee was set at EUR 0.12 per 100 banknotes. Corporate customers' cashier services fees for currency supply were harmonised throughout the euro area. The new service fees entered into force after the cash changeover was completed on 1 March 2002.

Euro banknote migration

One new phenomenon brought about by the euro is the migration of euro cash from one country to another. In addition to the cash carried by tourists and other travellers from one country to another, the euro has enabled a new type of logistics in the currency supply of euro countries. Money deliveries from one euro country to another have reduced the costs of currency supply and the role of the original issuer in the currency supply.

Cooperation in the distribution and production of euro banknotes has been considered necessary due to the tightening quality and security requirements of present and future banknote series. Each euro country has logistic banknote

stocks at its disposal. If the demand for banknotes in a certain country exceeds the estimated need, replenishment can be received from the other countries' surplus stocks. Matti Louekoski has represented the Bank of Finland at the High Level Meeting on Future Banknote Procurement.

There is a difference between the banknotes physically issued in Finland and the amount of banknotes entered in the Bank of Finland's balance sheet. The difference is explained through an agreement with the ECB and Eurosystem (for more details, see page 55). Due to migration, the amount of banknotes in circulation in Finland does not equal the amount of banknotes issued by the Bank of Finland.

Through migration surveys performed on the basis of the banknote country codes, the vigorous banknote migration's influence on the country-specific demands for banknotes in circulation has been established. Particularly the migration of large-value banknotes has been intense. In the countries of continental Europe, money deliveries from one country to another have created situations where most large-value banknotes in circula-

tion may be of foreign origin. Also in southern European tourist countries, such as Spain, Portugal and Greece, a considerable share of the ordinary banknotes are from abroad. Changes in the production, orders and deliveries of banknotes between the countries mean that in future it cannot be deduced which country has been the latest to put the banknotes into circulation.³

On the basis of migration surveys performed in mid-August and December, banknote migration to Finland, particularly in the case of small-value banknotes, was still insignificant due to the remote location of our country. As a result of logistic deliveries and factors such as Russian tourists, more than one fourth of Finnish banknotes of the three largest denominations featured the German country code X. At the end of 2002, the share of banknotes from other countries out of all banknotes returned to the central bank was still clearly below 5%. In 2002, the Bank of Finland did not yet put banknotes provided with other countries' country codes into circulation.

³ In principle, the original issuer of a banknote can be deduced through the country code and serial number.

Foreign reserves

The Bank of Finland manages two types of foreign reserves: its own foreign reserves and part of the foreign reserves of the ECB. At the end of 2002 the Bank's own foreign reserves totalled about EUR 9,210 million, while the share managed on behalf of the ECB amounted to some EUR 722 million.

Bank of Finland's foreign reserve assets

The Bank holds reserves in order to meet any additional transfer needs of foreign reserves to the ECB and the financing requirements of the International Monetary Fund (IMF), as well as to prepare for contingencies, such as serious disruptions in the financial markets.

The size of the Bank's foreign reserves has been stable under the single currency. The key objectives of the Bank's investment policy are security, liquidity and return. The security objective refers to the requirement that the market value of assets must not fluctuate excessively as a result of the various risks involved. In addition, part of the reserves must be sufficiently liquid: it must be possible to convert it into cash quickly enough

and at low cost, as needed. The aim is to maximise the return on the reserves within the constraints set by these requirements.

The main risks associated with the investment of foreign reserves are exchange rate risk, interest rate risk, credit risk and liquidity risk. In defining the investment policy for the foreign reserve assets, a combination of different return expectations and risks is sought that best corresponds to the Bank's long-term objectives. The cornerstone of the investment policy is effective portfolio diversification.

The Bank attempts to limit exchange rate risk by spreading its holdings of foreign reserve assets among different currencies. This prevents a large change in the value of an individual currency from significantly affecting the value of reserves. In autumn 2002 the Bank of Finland Board reviewed its distribution of reserve currencies and, in this context, the

Table 2.
Distribution of the Bank of Finland's foreign reserve assets

	31 Dec 2002 %	31 Dec 2001 %
US dollar	30	30
Pound sterling	25	25
Japanese yen	5	15
Danish krone	22.5	20
Swedish krona	12.5	10
Swiss franc	5	0

Swiss franc was included among the Bank's reserve currencies (Table 2). The aim of the redistribution was to improve the return/risk ratio. The currency distribution is reviewed at 2–3 year intervals. Between the reviews, the holdings of reserve assets are spread among the different currencies as closely as possible to the fixed distribution. The Bank does not therefore attempt to take advantage of currency movements in its investment policy.

The interest rate risk attached to the foreign reserves is measured and managed in terms of duration. Duration describes changes in the value of investment portfolios resulting from a change in market interest rates. The target duration of 2.5 years, which is applied to all the currencies included in the Bank of Finland's foreign reserves, remained unchanged in 2002. The target duration has been determined using the value-at-risk (VAR) method. This method is used to measure the probability distribution of gains and losses in the value of the reserves as a result of movements in currencies, interest rates and interest rate differentials. Particular attention is paid to the probability of large losses. In addition, interest rate risk is restricted by spreading investments in all reserve currencies among debt instruments with different maturities.

About one-fourth of the foreign reserves is invested in debt instruments issued by entities with a high credit standing, eg corporates (Chart 16). In the long run, these investments generate higher returns than corresponding govern-

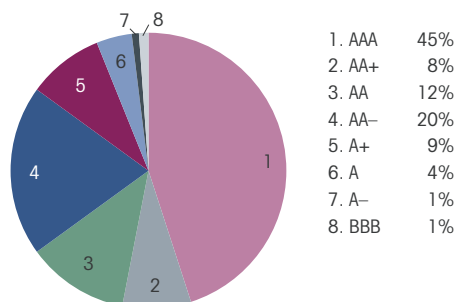
ment securities, because of the credit risk attached to them and in that they are less liquid than government securities. The credit risk inherent in the credit portfolio is also measured using the VAR method. Effective portfolio diversification is crucial in the management of credit risk. Diversification is achieved by setting maximum limits and minimum credit rating criteria for issuers and counterparty banks and maximum limits for the VAR figures derived for the credit risk on the credit portfolio.

Liquidity risk is mitigated by investing the bulk of the reserves in

securities issued by governments and in short-term investments for which these securities serve as collateral (Chart 17).

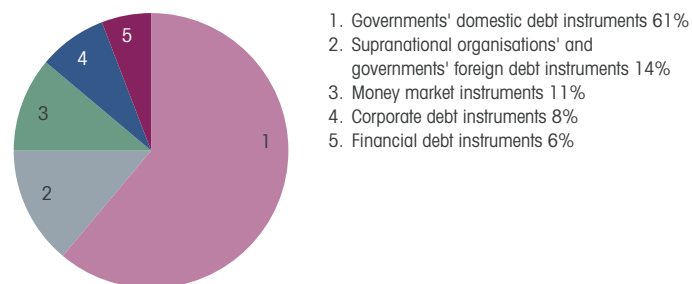
The portfolio that is assessed to be best suited to the Bank's long-term investment objectives is expressed in terms of currency distribution and currency-specific benchmark portfolios. The currency distribution and the structure of benchmark portfolios largely determine the return on invested reserves. The aim of active investment is to obtain a return on invested reserves that is higher than the return on the benchmark portfolios.

Chart 16.
Distribution of the Bank of Finland's credit portfolio by credit rating, as of 31 Dec 2002



Source: Bank of Finland.

Chart 17.
Distribution of the Bank of Finland's foreign reserves excl. gold, as of 31 Dec 2002



Source: Bank of Finland.

Table 3.
Return on the Bank of Finland's
reserve assets in 2002

Interest income	% per annum
US dollar	8.34
Pound sterling	7.22
Japanese yen	1.22
Danish krone	7.41
Swedish krona	6.70
Swiss franc	8.66
Interest income on assets	6.83
Exchange rate changes, net	-7.38
Total return on reserve assets	-0.55

A risk management unit, separate from the portfolio management function, is responsible for risk management, monitoring of limits, devising benchmark portfolios and calculating returns. The unit reports on risk management issues to a Board member who is not responsible for investment operations.

Return on the Bank of Finland's reserve assets is shown in Table 3.

The Bank of Finland's foreign reserves, as those of many other national central banks (NCBs), also comprise gold. The Bank's gold reserves amount to 50 metric tons, half of which is invested. This

corresponds to the level at which the Bank of Finland maintained its gold deposits in September 1999, when the Bank of Finland was one of the 15 European NBCs that agreed to restrict their gold sales and deposits. The bulk of the Bank's investments are short-term gold deposits with maturities of 1–12 months, making up the active portfolio. Active gold investment is also assessed relative to a benchmark. For investments with maturities of more than a year, the Bank has made use of long-term interest rate swaps in combination with short-term gold deposits. In this way, the Bank has, to a significant degree, mitigated the credit risk associated with outright long-term deposits. In 2002 the return on the Bank of Finland's gold investments amounted to 1.48% compared with 1.84% in the previous year.

The ECB's foreign reserves

The Bank, together with the other NCBs participating in the Eurosystem, has transferred part of its foreign reserves to the ECB. The

transferred reserves comprise assets denominated in US dollars and Japanese yen as well as gold. Since any foreign exchange intervention by the Eurosystem is conducted using the assets of the ECB, security and liquidity are the basic requirements for the investment of the foreign reserves.

The ECB's foreign reserves are managed by the NCBs, subject to constraints fixed at the ECB. The guidelines for the management of these assets are very similar to those applied by the Bank in the management of its own foreign reserves. The currency distribution of invested reserves is kept fixed. The ECB has set benchmark portfolios for the currencies in the reserves. Risks and returns on the foreign reserves are subject to continuous monitoring.

At the end of 2002 the ECB's foreign reserves amounted to approximately EUR 43.0 billion. The ECB's Annual Report provides information on the management of the reserves.

Other central bank activities

International activities

EU Committees

The EU's Economic and Financial Committee (EFC) prepares matters related to economic and monetary union for discussion by the EU Council convening in the composition of Economic and Finance Ministers, ECOFIN amongst other. The Committee is composed of the EU Ministers of Finance and representatives of national central banks. The Committee was attended by Sinikka Salo, Member of the Bank's Board, with Paavo Peisa, Adviser, as her alternate.

The EU's Economic Policy Committee (EPC) contributed to the preparation of broad economic policy guidelines in the field of structural policy and to other procedures for the coordination of Member States' economic policies. Tapio Peura, Adviser, attended this Committee.

The Banking Advisory Committee (BAC), subordinate to the European Commission, discussed issues related to banking supervision and regulation. The Bank of Finland sent Heikki Koskenkylä, Head of Department, to attend the Committee until 31 January 2002, when he was succeeded by Pentti Hakkarainen, Member of the Bank's Board. Representatives

of the Ministry of Finance and the Financial Supervision Authority (FSA) also participated in the work of the committee.

Bank for International Settlements and Organisation for Economic Cooperation and Development

The Governor of the Bank of Finland attended the meetings of the Bank for International Settlements (BIS), held six times a year. The topics of the meetings included international financial market issues.

As before, representatives of the Bank of Finland participated in the work of several committees of the Organisation for Economic Cooperation and Development (OECD). The Bank is represented on three different committees, and the committees convened a few times in the course of the year.

International Monetary Fund (IMF)

The Bank of Finland is responsible for the tasks and contacts that are a result of Finland's membership in the International Monetary Fund. The Fund's highest decision-making power rests with the Board of Governors. Finland was represented on the Fund's Board of Governors by Matti Vanhala, Governor of

the Bank of Finland, with Matti Louekoski, the Deputy Governor, as his deputy. Responsibility for the Fund's operations rests with the 24-member Executive Board and the Managing Director, who acts as the Board's Chairman. The Nordic-Baltic constituency was represented on the Fund's Executive Board by Ólafur Ísleifsson from Iceland. The Central Bank of Iceland is responsible for coordinating the statements of the Nordic-Baltic constituency from the beginning of 2002 until the end of 2003.

The Fund's advisory International Monetary and Financial Committee (IMFC) convened twice during the year. Following each meeting, the Committee issued a communiqué on the current status, challenges and potential risks surrounding the international economy and financial markets. The Nordic-Baltic Monetary and Financial Committee (NBMFC) also convened twice in the year to prepare statements and strategic policies for the IMFC meetings and constituency statements for review by the Fund's Executive Board. The Bank of Finland's representative on the Committee was Matti Louekoski, Deputy Governor. The alternate members of the NBMFC also convened twice in 2002 to make preparations for the committee meetings. These meetings were chaired by Kjell Peter Söderlund of the Bank of Finland, and the duties of the secretariat were handled by the Bank's International Secretariat.

The Fund's key policy issues were discussed at EU level, for example in the Economic and Financial Committee. The Committee and the IMF working group subordinate to it prepared joint positions, which were adopted in both official and unofficial ECOFIN meetings. The position papers were handed over to the representative of the EU Presidency and the other EU representatives on the Fund's Executive Board. The EU's efforts to assume a stronger role in the context of IMF have also made for greater harmonisation of Nordic and Baltic countries' positions on IMF issues.

The International Monetary Fund participated in international cooperation with regional development funds and the UN with a view to improving the financial position of poor countries. This subject was addressed by the International Conference on Financing for Development, hosted by the United Nations and held in Mexico last March, which was attended by a representative of the Bank of Finland. A larger meeting, the World Summit on Sustainable Development, took place in Johannesburg in late summer. The Finnish delegation did not include any representatives from the Bank of Finland.

At the end of January 2003, the International Monetary Fund concluded its Twelfth General Review of the adequacy of member quotas. There was lively debate on the formulae for calculating mem-

ber quotas and quota sizes during the year. Member quotas are especially important as they determine the maximum amount of the Fund's various financing arrangements. An increase in member quotas was supported, mainly by the developing countries, whereas the industrial countries found the Fund's financing to be adequate for managing financial crisis. The Bank of Finland has not, at this stage, seen fit to vote in favour of higher quotas.

In addition to the quota subscriptions, the International Monetary Fund can, if necessary, raise financing for its activities by obtaining credit from financially sound member countries. To this effect, the Fund has two different arrangements: the General Arrangements to Borrow (GAB) established in 1962 and the New Arrangement to Borrow (NAB) established in 1998. Finland is a member of the latter. In November, the Fund's Executive Board renewed NAB for a further period of five years, at the same time accepting the partnership of Chile in the arrangement. The credit limit under the arrangement was kept unchanged at SDR 34 billion. Similarly, the Executive Board renewed GAB for a further period of five years starting from December 2003. Both of these financial arrangements are meant to be activated only in exceptional cases when the international financial system or financial stability is at risk.

Statistics

In line with the ESCB statistical reporting requirements, the Bank of Finland compiles Finnish data for statistics on MFIs and other financial institutions, as well as balance of payment statistics. In addition to regular statistical production, this also involves considerable harmonisation of statistics, which is undertaken in cooperation with the ESCB and Eurostat, the Statistical Office of the European Communities. To achieve cost-efficiency, the Bank actively cooperates with Statistics Finland in particular.

Compilation and publication of statistics

The main task of the Statistics Department is to compile ESCB statistics, which are for the most part monthly and quarterly statistics published at short time lags. All member states apply the same EMU statistical concepts and classifications, and former national statistics become redundant after a transition period. Efficiency and rationality considerations are decisive for the choices of basic data collection procedures in particular. A notable characteristic of the Finnish financial and corporate sector, ie the high proportion of large companies, enables effective data collection and compilation.

Banking and interest rate statistics are harmonised not only in terms of concepts and classifications but also in terms of basic data collection procedures. In the year under review, preparations were made for the launch of new MFI balance sheet statistics and harmo-

nised interest rate statistics, with effect from 2003. The preparations included provision of guidance to data providers and design of collection and compilation systems. The information system for compilation of quarterly financial accounts was already ready in 2002, and the production of financial accounts started at the end of the year. Work on the design of a new securities register system continued and the revision of the compilation system for the balance of payment statistics started.

The ECB's euro area statistics are published as separate bulletins as well as in the statistics section of the ECB Monthly Bulletin and on the ECB website. The Bank of Finland publishes an extensive statistical review, *Financial Markets*, as well as separate bulletins, all of which are posted on its website. Statistics are also submitted to Eurostat, the International Monetary Fund, the Bank for International Settlements and OECD, as well as locally for redistribution to third parties. Inquiries specifically on statistics are handled by the Bank's statistics desk.

Cooperation within the ESCB and the EU

Statistical responsibility is reflected in the inclusion of the statistical reporting requirements in EU legislation. Preparation of this legislation and cooperation in the field of statistics call for extensive participation in the ECB and Eurostat's committees and working groups. In connection with the preparation of ECB regulations and guidelines and EU regulations, the Bank commented on draft statutes containing

detailed requirements as to the contents of balance of payment statistics, quarterly financial accounts and government finance statistics.

The ESCB Statistics Committee and its working groups closely monitored the implementation of revised MFI balance sheet statistics and new interest rate statistics in member states, as these statistics, starting from basic data, must be compiled according to the same principles. The Committee is also responsible for supervising the quality of M3 monetary aggregate data and evaluating the costs and benefits of new projects in the field of statistics.

In the balance of payment statistics harmonisation merely concerns the concepts and definitions applied in the compilation and dissemination of statistics, rather than the data collection procedures. However, an improvement in the quality of statistics is also being aimed at. These objectives will be put forward in an EU Regulation in 2003. The ECB and Eurostat also highlight the importance of detailed (eg geographical) distinctions in the balance of payments statistics. Various temporary sub-working groups have been set up to explore a common solution to practical statistical problems. Considering that member states apply basically different statistical regimes, a deeper harmonisation of balance of payment statistics is not expected to produce any rapid results.

Other international and domestic cooperation

Statistical cooperation with the IMF, BIS and the Nordic countries

continued as before. With the search for cost-effective data collection and compilation procedures, bilateral cooperation between Finland and other EU member states has been stepped up. Over the year the Bank engaged in cooperation with several countries, including Sweden, Denmark, Austria and Ireland in several areas of statistics.

The Bank of Finland and Statistics Finland continue to cooperate with a view to fulfilling the statistical reporting requirements

set by the ECB and Eurostat in a cost-effective manner and ensuring the production of harmonised statistics. Efforts are being made to use existing statistics and eliminate overlapping work and to avoid, as far as is possible, any additional data collection requirements.

According to established practice, the management of both Statistics Finland and the Bank of Finland examined issues of cooperation in the context of economic and financial statistics. Special attention was focused on the prepara-

tion of policies and statements within the framework of ESCB and Eurostat committees, coordination of data collection and compilation, mutual exchange of information and issues of data communication. One tangible example of this cooperation is the work of Statistics Finland to develop the collection and compilation of statistics on foreign trade in services. In the development stage the Bank of Finland will assume about half of the costs for the necessary data collection survey.

Research

Monetary research

The Bank of Finland aims at providing research of high scientific quality in selected strategically relevant areas, ie the modelling of monetary policy, the future of the financial services sector, and research and analysis of the Russian and Baltic economies. This research is conducted by the Bank's research department and the Institute of Economies in Transition.

Instruments for monetary policy analysis and forecasting are developed under the research programme for monetary policy modelling, which also includes studies of the strategy and information base of monetary policy. The programme is directed at both developing the Bank of Finland's own set of analytical tools and helping the Bank to contribute to the development of monetary policy practice at the Eurosystem level.

The Bank's research programme has developed 'next generation' macroeconomic simulation models, including a new forecasting and policy model for the Finnish economy, as well as a simulation model for the US economy based on that of the euro area. The latter is designed to analyse the interaction between euro area and US monetary policy. The programme has also included studies of the measuring and formation of expectations (areas of study include relevance of expectations in the European inflation process, adaptive learning and monetary policy design and relevance of public debt to inflation expectations and monetary policy credibil-

ity). The programme also focused on monetary policy strategy analyses (addressing the information value of monetary aggregates for monetary policy, causes of inflation persistence, optimal policy rules in open economies and money market tenders in ECB monetary policy).

The programme for the future of the financial services sector includes studies of the effects of restructuring in the financial services sector on the tasks of the central bank and other authorities, eg in the context of the conduct of monetary policy and ensuring market stability. Based on research evidence, the Bank of Finland is capable of developing its own role in financial markets and participates, within the framework of the European System of Central Banks (ESCB), in the debate on the role and responsibilities of central banks.

Research topics include the effects of technological advances and international integration on banks and securities marketplaces (productivity in banking, efficiency and competition in the field of securities settlement systems and central securities depositories, network effects on pricing policy in payment and settlement systems and returns to scale of the stock exchanges and settlement systems). The programme also focused on electronic payment systems and electronic money. These studies included the effects of gross payment systems and competition on monetary policy effectiveness and central bank operations, a study on monetary policy implications of a cashless economy, the future role

of central banks in payment operations, and competition in the integrating euro area retail payment systems.

The Bank of Finland's research findings are reported primarily in the Bank's Discussion Papers, which are available both in print and on the Internet. Two research newsletters – aimed at the Finnish public – were issued in 2002. Articles written by the Bank's researchers were also published in international scientific research journals.

During the year a guideline, based on the national ethical standards for research, was prepared for the Bank of Finland's research activities. It defines a researcher's rights and responsibilities as well as intellectual property rights on research findings and material.

The Bank continued its international cooperation by organising seminars, research visits and cooperation projects. Together with the Centre for Economic Policy Research (CEPR), the Bank's Research Department arranged a meeting on the subject 'Asset Markets and Monetary Policy' in Helsinki in April 2002. In September the Bank of Finland and Société Universitaire Européenne de Recherches Financières (SUIERF) hosted the 'Geography, Banking and Financial Markets' conference in the House of the Estates in Helsinki. In addition to this, the Research Department organised an international workshop entitled 'Who will pay for bank insolvency' in November. The workshop was related to the department's previous studies on banks' safety net functions and settlement systems.

The Bank continued to engage in research cooperation within the framework of the ESCB. This included attending coordination meetings of the euro area heads of research and participating in a project on monetary policy transmission, which was finalised in the year. New projects were launched with two research networks coordinated by the European Central Bank (ECB): European Business Cycle Network and the ECB-CFS Research Network launched by the European Central Bank (ECB) and the Centre for Financial Studies (CFR) of the University of Frankfurt.

Research on economies in transition

The Institute for Economies in Transition has four complementary functions: research, monitoring, information management and cooperation with the respective authorities. The Institute's research efforts concentrate on macroeconomic policy, especially monetary and fiscal issues. Research find-

ings are published in the BOFIT Discussion Papers series. The Institute strives to get its research work published in external journals and other publication series. Seminar lectures and other articles are published on the Institute's website in its BOFIT Online publication series. Cooperation with research communities, both in Finland and abroad, was extended during the year.

Key areas of research in 2002 included studies of the Russian economy's dependency on oil exports as well as a study on the relevance of the financial system on economic growth in transition economies.

The Institute's range of economic and financial reviews includes the long-established *Russian & Baltic Economies – The Week in Review*, *Russian Economy – The Month in Review* and the *Baltic Economies – Bimonthly Review*. These publications have been very well received, and their circulations have all increased in 2002. The review on the Baltic

Economies started to appear bi-monthly. The Institute's publications are also available in electronic form, which is becoming an increasingly important channel for their dissemination (the figures in Table 4 do not include publication searches from the Institute's website). Usage statistics show approximately 50,000 visits per month on the Institute's website.

The Institute's information service, which is without parallel in this field – at least within the Nordic countries – was developed further during the year, paying particular attention to electronic information acquisition and management.

The Institute's cooperation with various authorities strengthened further as the ESCB became more established. The Visiting Researchers Programme makes an important contribution to the Institute's research activities and international cooperation. There were dozens of applicants for the programme, six of whom were accepted as visiting researchers for 2003.

Information and publications

The ECB's and the euro area NCBs' joint information campaign Euro 2002 and the Bank of Finland's own euro information campaign, both launched in autumn 2001, were continued throughout the changeover period, until the end of February 2002. The general public took a keen interest, not only in the cash changeover itself, but also in the security features of the euro notes and other practical aspects of the cash changeover, such as the correct ways of indicating the new monetary unit in writing and the economic effects of monetary union. Thus, a great deal of enquiries were made on the euro service telephone line throughout the year. On numerous occasions during the year, members of the EMU communications team gave presentations to students and grass root organisations. Towards the end of 2002, the presentations focused on the Bank of Finland's role and tasks in the context of the monetary union. A fairly large proportion of the enquiries, within Finland and abroad, concerned the possibility of acquiring euro coins for numismatic purposes.

The Bank of Finland continued to communicate actively on its participation in monetary policy decision-making in the euro area and in other activities of the European System of Central Banks (ESCB). The Bank of Finland board members, in particular, appeared in public and gave interviews to the media on these themes. The press conferences, held by the Governor four times a year in connection with each release

of the Bank of Finland's quarterly bulletin *Euro & talous*, remained a key element of the Bank's information activities and involvement in domestic debates on economic policy. On two of these occasions, the Bank of Finland also released its macroeconomic forecasts.

The External Communications Committee of the ECB and the ESCB discussed communication activities eg in the context of the single monetary policy. The committee analysed how successful these activities had been and how they could be improved.

Both of the Bank of Finland's periodicals appeared four times in 2002: *Euro & talous* in Finnish and the *Bank of Finland Bulletin* in English. A readers' survey on the *Euro & talous* was carried out during the year. The Bank of Finland's annual report was published in Finnish, Swedish and English. The Parliamentary Supervisory Council's annual report appeared as customary, and in November 2002 the Council also published a progress report on the Stability and Growth Pact, in Finnish and Swedish. Revised Finnish and English editions of the book *The Coins and Banknotes of Finland* appeared in spring 2003¹.

As in previous years, the Bank of Finland translated the ECB's key publications, such as the Annual Report and the twelve issues of the Monthly Bulletin, into Finnish. In addition, the Bank was responsible

¹ A list of Bank of Finland publications in 2002 is included in the Appendices. The publications by the Bank of Finland and the Institute for Economies in Transition, and many of the publications by the European Central Bank are available on the Bank's website (www.bof.fi).

Table 4.
Print runs for Bank of Finland publications in 2002

Annual report	
– in Finnish	3 000
– in Swedish	700
– in English	1 800
Euro & talous	7 100
Bank of Finland Bulletin	5 400
Series A	2 300
Series E	2 000
Discussion papers	
– in Finnish	600
– in English	1 400
Research newsletter	6 400
Institute for Economies in Transition*	
– BOFIT Discussion Papers	1 200
– Russian and Baltic Economies – The Week in Review	
– in Finnish	1 000
– in English (web version only)	1 100
– Russian Economy – The Month in Review	1 200
– Baltic Economies – Bimonthly Review	900
Financial Markets – Statistical Review	850
Finland's Balance of Payments (monthly statistical bulletin)	500
Finland's Balance of Payments (annual statistical bulletin)	500
Balance of Payments and International Investment Position (quarterly statistical bulletin)	500
Direct Investment in Finland's Balance of Payments (annual statistical bulletin)	500
Finnish Bond Issues	350

*The print runs for the Institute for Economies in Transition include copies distributed directly by email.

for the production and publication of the Finnish language versions of the ECB Monthly Bulletin. Likewise, the Bank was responsible for the translation of the GD Report *Single Monetary Policy in the Euro Area* and the *Convergence Report* into Finnish and some of the ECB's press releases into Finnish and Swedish. The book *Monetary Policy of the ECB* was translated into Finnish and Swedish, and published in early 2002. The translation of ECB documents into Finnish expanded in early 2002 due to the introduction of public consultations. In autumn 2002, the Bank of Finland contributed to the implementation of a readers' survey on the ECB Monthly Bulletin.

Resources and their use

Budget and operating costs realised

The long-term planning of the activity of the Bank of Finland is based on analyses of the operating environment and on background studies of current topics relevant to the planning work. The topics are dealt with at annual strategy seminars of the senior management. In the same connection, the management assesses the most important areas of strategy implementation and determines whether the strategic guidelines need to be revised. In 2002 the Board of the Bank engaged in broad strategic discussions and based on those discus-

sions the guidelines will be adjusted. In their annual action planning, the departments give the Bank's strategy a concrete operational form.

The introduction of euro cash still caused the Bank large non-recurring costs in early 2002. A significant share of those costs consisted of expenses for information campaigns to the public arranged by the Bank of Finland and the Eurosystem. In addition, the euro changeover caused the Bank of Finland other information costs, such as costs for contacts with working partners and arrangement of various events (Chart 18 and Table 5).

Chart 18.
The Bank of Finland's operating expenses and income

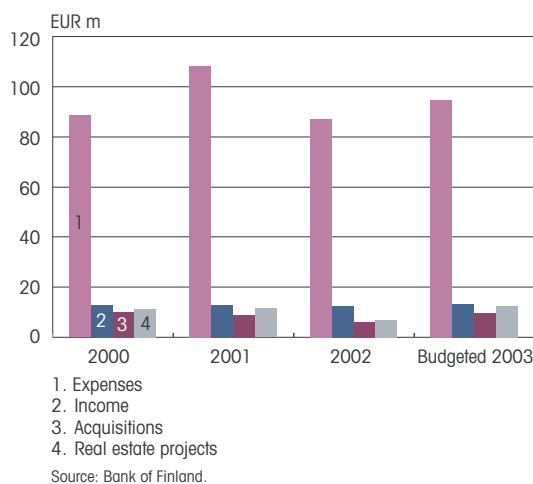


Table 5.
The Bank of Finland's operating expenses and income, EUR million

1. Operating expenses and income	Budget 2003	Outturn 2002	Outturn 2001	Outturn 2000
Expenses				
Salaries and fees	30.4	30.7	29.5	28.8
Social security	4.2	3.8	3.8	3.8
Pensions	16.1	13.5	13.6	12.0
Training	1.8	1.2	1.4	1.3
Travel	2.0	1.8	1.8	1.5
IT services	4.1	3.9	4.0	3.8
Other purchased services	7.2	7.4	6.4	3.9
Real estate expenses	6.8	6.5	5.6	5.2
Other	5.9	4.5	4.2	4.3
Total	78.7	73.4	70.1	64.5
Depreciation				
IT equipment	1.8	0.4	2.1	2.8
Money handling machines	0.8	0.8	0.5	0.1
Buildings	10.0	9.1	8.7	8.7
Other fixed assets	1.3	1.3	1.2	1.0
Total	13.9	11.6	12.5	12.5
Total	92.6	85.0	82.6	77.0
Banknote printing	2.2	2.0	25.7	11.5
Total operating expenses	94.8	87.0	108.3	88.5
Income				
Maintenance of the currency supply	-0.8	-0.5	-1.7	-2.8
Services sold to the Financial				
Supervision Authority	-2.5	-1.9	-1.7	-1.6
Real estate	-7.9	-7.8	-6.8	-5.9
Other	-2.2	-2.2	-2.4	-2.4
Total income	-13.3	-12.5	-12.5	-12.6
Net operating expenses and income	81.5	74.5	95.6	75.9
2. Purchases				
IT equipment and software	7.0	4.3	3.8	2.9
Money handling machines	0.0	0.1	2.3	5.5
Other equipment and machinery	2.5	1.6	2.6	1.6
Total purchases	9.5	6.0	8.8	9.9
3. Real estate projects				
Head office premises	8.7	4.5	10.7	10.1
Vantaa premises	3.6	2.0	0.8	0.7
Other premises	0.1	0.4	0.0	0.3
Total real estate projects	12.4	6.8	11.5	11.1

Source: Bank of Finland.

Enhancement of the efficiency of internal services was continued, among other things through partial introduction of purchased personnel services, ie nonpayroll personnel.

The development costs for banking software were exceptionally high due to core system renewals. In the Hermes project that was

started in 2000, a decision was reached concerning the selection of a core system to replace the old system. In the system procurement projects a significant amount of external consulting services were used in addition to the contribution provided by the Bank's own personnel.

In the Bank's strategy, cost consciousness and efficient economic activity are among the guiding principles for operations. Increased efficiency of operations is concretised at department level through reassessment of operational processes and development of the IT system utilisation.

Information technology

After the euro cash introduction, the new priorities in IT developments were payment systems and IT systems employed for foreign reserves management, the system architecture for economist applications and the start-up of some large statistical application projects.

A significant milestone was reached in payment systems when the technically upgraded RTGS system was introduced in a Microsoft computer room environment. At the same time this marks the end of the Unisys mainframe's life span at the Bank of Finland. The ways in which new technology can facilitate payment services were illustrated experimentally through an e-settlement project. The testing also involved smart card-based IT security solutions that are to be introduced in 2003.

The selection and introduction of a standard software packages as the IT systems for foreign reserves management were thoroughly prepared. This project has far-reaching effects across department borders, as it will influence the operations and work processes of four departments. The applicability and use of the software packages offered were examined through testing of the software in the Bank's environment.

In the long-term development proposal on the system architecture for the economist applications, decisions were made to adapt

standard software packages to the current software solutions and emphasise close ESCB cooperation. Internet-based solutions were introduced in a new interface for the PATU economist application¹ and in the distribution of reporting form to monitored institutions. Large statistical application projects were embarked on, such as the collection of data on securities and the upgrading of the entire system for balance of payments statistics. In the ESCB systems, the telecommunications solution was updated.

Both the appearance and the technology used for producing the contents of the Bank of Finland's website were updated. A public workstation was introduced at the Bank's head office to enable browsing of public documents. Extended Internet services for the employees, mobile workstations and palmtop computers were developed and tested. Introduction of the second stage of the pension calculation system completed the long Ella project.

In the ESCB's Information Technology Committee and related working groups, the creation of a common IT strategy, start-up of an upgrading of the telecommunications network, and preparation for connecting the IT of EU accession countries were among the most important projects.

The updating of the Microsoft programs started in the computer

¹ PATU = analysis and time series application used as an aid in decision-making

room servers for the core banking systems. The smart card-based identification advanced to such a degree that equipment and procedures could be decided on and test settings determined. Measures visible to the end users, such as workstation changes due to Microsoft updates and the introduction of a smart card-based identification system, were postponed to 2003. Microsoft changed their licensing and maintenance practice in the middle of the period, which caused significant additional costs.

At the same time as considerable resources were allocated to development of technology, a satisfactory degree of availability in computer room services was secured in the TARGET and Atlas areas. Virus attacks and other IT security risks were dealt with successfully and thus no damage was incurred. The overall availability of the services remained good.

The quality work focused on ensuring the quality of the ongoing projects and system work through pre-assessments. The allocation of data processing costs to utilising units was developed and simplified.

From the end user viewpoint no significant disturbances occurred in any area. Some rescheduling, partly stretching into the succeeding year, had to be accepted, but it mainly affected the introduction of new services. The objectives set for ESCB cooperation were achieved in a timely and qualitative manner.

Personnel

The objective of the Bank of Finland's personnel and employer policy is to be a competitive employer with the appropriate numbers of skilled and committed staff.

In the year under review personnel policy focused on development of the staff structure, resource allocation, management, competence and wellness at work.

Resource allocation and staff structure

At the end of 2002 the Bank of Finland employed 673.5 staff, 536.5 at the head office and 137 in the Helsinki-Vantaa regional office and the branch offices. Staff numbers dropped by 7% from the previous year.

Despite external recruitments (40), the average age of the Bank's employees is still as high as 45, with over 50-year-olds representing 46% of the whole. Of the total staff, 38.5% held expert positions. The proportion of experts has grown by about 10 percentage points over the past five years. Of the total staff, the proportion of women to men was 55:45 and 6% of the staff were on fixed-term contracts.

Fifteen Bank employees were on long leaves of absence to work at the European Central Bank (ECB).

Following organisational changes and the completion of the cash changeover to the euro, the Bank of Finland's responsibilities for the maintenance of the currency supply have been considerably reduced. Consequently, the staff involved in currency supply maintenance was reduced by 35 persons in

the course of 2002. The staff reduction was performed through termination of fixed-term employment contracts and the provision of tailor-made adjustment packages to persons approaching retirement age.

In 2002, proactive human resources planning focused on the reassessment and reorganisation of the tasks of employees due to retire over the years 2003–2005, the combined use of staff resources across departments and transfer of competence. According to the target set by the Bank's management for the head office departments, no more than half of the positions of those retiring will be refilled.

Staff reports

A personnel audit, an equal opportunities report and an external benchmarking survey of human resources management were made available to management and supervisors as tools for human resources management.

An employee attitude survey was performed at the Bank and the Financial Supervision Authority (FSA) in December 2002. The modified survey was undertaken as a follow-up, in certain sections, to the 2000 survey. The findings will be used for leadership and development of organisational practices.

Employer policy

Work on the merger of the Bank's two different pay schemes had been undertaken, as agreed in the three-year collective service agreement that had been concluded with the Bank of Finland's Staff Association. The project was completed in early 2003. The aim was to provide supervisors with a tool that is easy

to administer, ensures better market comparability of pay levels and fosters the Bank's efforts to recruit and retain critically important skills.

Collective bargaining negotiations were conducted on the revision of the scheme for flexible working hours, on compensation for stand-by duty, on temporary windowless office facilities, night shift supplement and the night duty of the carriers of valuables, as well as on the basis of distributing the 0.9% allowance for pay adjustments.

The Bank conducted negotiations under the cooperation agreement with the Staff Association on the effectiveness of the adjustment schemes applied in connection with the reorganisation of currency supply maintenance.

Pension policy and administration

The Bank of Finland operates as an independent pension fund, which is responsible for financing employees' pensions, providing retirement benefits in line with the State Employees' Pension Scheme, taking pension decisions and effecting pension payments. During 2002, funding of pensions was introduced, in that the assets earlier representing the pension provision in the Bank's balance sheet were, for the first time, entered as a pension fund. Pension assets are now separately administered. These decisions have no implications on the staff's existing retirement benefits.

The investment policy adopted by the Board of the Bank of Finland is designed to cover the Bank's pension liabilities so that a targeted level of at least 110% will be attained by 2012. The Bank's

administrative department is responsible for the maintenance and care of the Bank's real estate transferred to the possession of the pension fund. The Board is responsible for investments related to asset management, while the provision of investment services is outsourced to portfolio management.

As of 31 December 2002, the Bank of Finland made pension payments to 796 persons, of whom 71% were women. Of the pensioners, 35 had retired from the service of the Bank or the FSA in the course of 2002. Old-age pensions were paid to 564 persons totalling EUR 11,268,428 and disability pensions to 74 persons totalling EUR 541,707. Survivors' pensions were paid to 107 persons totalling EUR 1,264,282.

Staff development and training

Training expenditure totalled EUR 1.2 million (3.8% of payroll), which is a particularly good figure in comparison with other public sector organisations. This sum was divided between vocational training (38%), management training (8%), interactive skills, communications and language training (21%) and IT training (33%). Training expenditure declined from the previous year by 13%, partly because there was no exceptional input into leadership training, as in the year before.

Training cooperation between the national central banks within the framework of the ESCB is steadily growing. The Bank made an active contribution to the planning and implementation of the ESCB-wide training programmes, of which the most recent is the ESCB introduc-

tion programme designed for newly recruited experts. Other recurrent programmes include the Heading for Leadership and Transformational Leadership Programmes, and courses in negotiating and interactive skills. The Bank of Finland enrolled all in all 20 participants for these programmes.

Economic courses arranged by other central banks and by the International Monetary Fund were attended by a total of 9 Bank and FSA employees.

Because of the increasingly international working environment, language training continues to be a significant area of staff training. In 2002 the focus was on the English language.

The last module of the leadership programme launched in 2001 took place at the beginning of the year. The programme was attended by 60 department and division heads of the Bank and the FSA.

Basic IT training focused on achieving more effective use of office systems and was mainly undertaken as courses leading up to the computer 'driving licence'. The upgrading of the skills of IT professionals concentrated on the new server environment and related applications and methods.

Economic training in 2002 addressed the new capital adequacy framework for banks and its consequences in the form of revised supervisory practices in financial markets, as well as banks' rating operations, macro model theory and applications of empirical models, and national accounts and economic statistics. The Bank of Finland continued to cooperate with European central banks,

financial supervisory authorities and domestic cooperation partners in the field of training.

The Bank of Finland continued to cooperate with the central banks of transition economies by arranging altogether 8 seminars and training visits, which were attended by 44 persons. Training cooperation focused on the Russian central bank.

Part of the Bank's research projects took the form of academic research studies. The preparation of doctoral and licentiate theses required 2.1 man-years, spread over three different projects.

Workplace improvement and wellness at work

Occupational health care expenses increasingly reflected the stronger focus on pre-emptive services, as outlined in the Bank's objectives. The wellbeing of staff was promoted by systematic efforts in recreational programmes, supervised physical training and health promotion meetings.

A rehabilitation policy was prepared as the basis for the employer's early rehabilitation measures and the pension fund's rehabilitation decisions. It is designed to improve the working capacity of employees who risk premature retirement. The Bank's experts were offered group rehabilitation arranged in cooperation with the Social Insurance Institution and the Finnish Back Rehabilitation Centre.

The board of directors adopted an anti-drug programme for the Bank. It focuses on preventive education, supported by open communication and conduct of an annual drug testing plan.

Real estate and other holdings

As a rule, the Bank of Finland only owns such real estate and property shares that it needs for its own activities. The Bank systematically sells excess assets when the market is right.

The Bank's operations are mainly carried out in premises owned by the Bank itself, in which tight central-bank security and emergency requirements have been taken into account. The premises at the Bank's and the Financial Supervision Authority's (FSA) disposal comprise a total area of about 47,500 m², of which the Bank has rented a little more than 1,500 m² from the outside. In addition, about 40,600 m² of the Bank's premises are rented to outside users. The Bank's tenants are mainly companies participating in the currency supply, which act in close cooperation with the Bank of Finland and whose operations require top security. In the premises of the Tampere branch, the Bank has ordinary business and office tenants.

From the beginning of 2002, three of the Bank's premises were transferred to the ownership of the Bank of Finland's pension fund, when the Bank's pension liability and the management of the assets specified as collateral for it were separated from the rest of the Bank's operations. The transferred premises were Snellmaninkatu 6, that was renovated for the FSA in 2001, Snellmaninkatu 2, that was repaired for the Bank of Finland Museum, and the premises occupied by the Tampere branch.

The section of land included in the Vantaa real estate that is not required for the activities of the Bank of Finland has been incorporated in the town plan as suitable for construction of top-security office buildings. Together with an external partner, the Bank has established a limited company, Security Valley Real Estates Ltd, which is to market the area and plan the security services. In January 2002, the offices of the smart card and security printing company Setec were completed as Security Valley's first building.

During the year, the Bank of Finland's real estate was managed with the objectives of cost efficiency, improved availability and enhanced area utilisation in view. In addition, investments were made in renovations that were considered necessary. The total investments in real estate during the year amounted to EUR 8.0 million. The largest investments were allocated to the renovation of the old post office at Snellmaninkatu 2 for the Bank of Finland Museum, renovation of the new section of the Bank's main building and renewal of the ventilation and air-conditioning equipment at the Vantaa premises.

By the beginning of 2002, the premises of all terminated branches of the Bank had been sold, the last of which being the Mikkeli branch (end 2001). In 2002, two flats, used for employee housing, were sold in branch towns.

HEX

With a 7% share, the Bank of Finland is a joint owner of HEX Group's parent company HEX. The holding originates from the

Bank's previous holding of shares in the Finnish Central Securities Depository (APK). In 1998, the APK was merged with HEX through a private placement.

HEX Group comprises the entire chain of stock exchange trading, ie trading, clearing and settlement as well as book entries and safekeeping. Through acquisitions, the group has expanded to the Baltic countries.

In its management of collateral the APK acts as provider of services to the Bank of Finland and the entire Eurosystem. On the other hand, the APK uses the Bank's settlement account services to handle the payments in settlement activities with central bank money.

Setec

The Bank of Finland owns 40% of Setec's shares. The company was established 10 years ago out of the Bank's note printing works and 60% of its share capital was sold to external investors in 1998. The share of traditional note production within Setec's activities has decreased and the operations are now focused on smart card and identification products.

The Rahakontti company

The Bank of Finland owns a narrow majority of the shares in the former Helsinki Money Market Center, a company now in liquidation. The business operations of the company have already been transferred to the APK some time ago. The intention is to bring the company's liquidation procedure to an end in early 2003.

Financial statements

Balance sheet, EUR million

	31 Dec 2002	31 Dec 2001
Assets		
Gold and gold receivables (1)	515	497
Claims on non-euro area residents denominated in foreign currency (2)	8,694	8,871
Receivables from the IMF	816	899
Balances with banks and security investments, external loans and other external assets	7,878	7,972
Claims on euro area residents denominated in foreign currency (3)	721	794
Claims on non-euro area residents denominated in euro (4)	0	0
Balances with banks, security investments and loans	0	0
Lending to euro area credit institutions related to monetary policy operations denominated in euro (5)	2,970	1,294
Main refinancing operations	2,970	988
Longer-term refinancing operations	–	306
Other claims on euro area credit institutions denominated in euro (6)	1	2
Intra-Eurosystem claims (7)	3,605	769
Share in ECB capital	70	70
Claims equivalent to the transfer of foreign currency reserves	699	699
Net claim related to the allocation of euro banknotes within the Eurosystem	2,836	0
Other assets (8)	808	1,093
Euro area coins	66	63
Tangible and intangible fixed assets	212	257
Other current assets	23	106
Other	507	666
Total assets	17,315	13,319

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

	31 Dec 2002	31 Dec 2001
Liabilities		
Banknotes in circulation (1)	5,853	2,374
Liabilities to euro area credit institutions related to monetary policy operations denominated in euro (2)	3,759	3,840
Current accounts (covering the minimum reserve system)	3,759	3,840
Other liabilities to euro area credit institutions denominated in euro (3)	-	271
Liabilities to other euro area residents denominated in euro (4)	5	1
Liabilities to non-euro area residents denominated in euro (5)	1	2
Liabilities to non-euro area residents denominated in foreign currency (6)	0	108
Deposits, balances and other liabilities	0	108
Counterpart of special drawing rights allocated by the IMF (7)	185	203
Intra-Eurosystem liabilities (8)	2,159	891
Other liabilities (9)	77	32
Revaluation account (10)	689	1,053
Provisions (11)	3,120	3,140
Capital and reserves (12)	1,304	1,149
Primary capital	841	841
Reserve fund	463	309
Profit for the financial year (13)	163	254
Total liabilities	17,315	13,319

Profit and loss account, EUR million

	1 Jan – 31 Dec 2002	1 Jan – 31 Jan 2001
INTEREST INCOME (1)	442	509
INTEREST EXPENSE (2)	-209	-187
NET INTEREST INCOME (3)	233	322
REALISED GAINS/LOSSES RELATED TO FOREIGN EXCHANGE RATE MOVEMENTS (4)	-215	105
REALISED SECURITIES PRICE DIFFERENCES (5)	94	97
CHANGE IN FOREIGN EXCHANGE RATE AND PRICE DIFFERENCE PROVISIONS (6)	121	-202
NET RESULTS OF FINANCIAL OPERATIONS, WRITE DOWNS AND RISK PROVISIONS	233	322
NET SHARE OF MONETARY INCOME (7)	14	0
SHARE IN ECB PROFIT (8)	25	28
OTHER CENTRAL BANKING INCOME (9)	15	3
CENTRAL BANKING PROFIT BEFORE MONETARY INCOME AND OTHER INCOME	287	353
OTHER INCOME (10)	41	29
OPERATING EXPENSES		
Staff cost (11)	-53	-63
Administrative expenses (12)	-20	-19
Depreciation of fixed assets (13)	-3	-1
Banknote production services (14)	-2	-26
Other expenses (15)	-10	-11
CHANGES IN PROVISIONS (16)	-77	-9
PROFIT FOR THE FINANCIAL YEAR (17)	163	254

Appendices to the financial statements

	31 Dec 2002		31 Dec 2001	
Foreign currency futures contracts, EUR m				
Purchase contracts ¹	–		24.8	
Sales contracts ¹	–		218.5	
Shares and other interests, nominal value, EUR m (Bank of Finland's holding in parentheses)				
Setec	2.7	(40%)	2.7	(40%)
Rahakontti ²	0	(52%)	0	(52%)
HEX, Helsinki Securities and Derivatives Exchange, Clearing House	1.9	(7%)	1.9	(7%)
Bank for International Settlements	11.5	(1.67%)	11.5	(1.67%)
Shares in housing companies	6.3		6.3	
Real estate shares	–		–	
Other shares and interests	0.1		0.1	
Total	22.5		22.5	
Bank of Finland's liability share in the APK fund, EUR m	0.2		0.2	
Liability arising from pension commitments, EUR m				
The Bank of Finland's pension liability	412.6		396.1	
– of which covered by reserves	351.7		315.8	
Staff banking office, EUR m				
– Deposits	20.4		18.6	
– Loans	7.8		7.7	

¹ Middle rate for the currency on the last business day of the year.

² Remaining liquidation dividend of EUR 35,495 as at 31 Dec 2002.

The Bank of Finland's real estate

Building	Address	Year of completion	Volume m ³ (approx.)
Helsinki	Rauhankatu 16	1883/1961	49,500
	Unioninkatu 33 / Rauhankatu 19	1848/1954	50,500
	Snellmaninkatu 6 ¹	1857/1892/2001	26,930
	Snellmaninkatu 2 ¹	1901	3,200
	Ramsinniementie 34	1920/1983/1998	4,600
Kuopio	Puutarhakatu 4	1993	11,900
Oulu	Kajaaninkatu 8	1973	17,700
Tampere	Hämeenkatu 13 ¹	1942	36,000
Turku	Linnankatu 20	1914	10,500
Vantaa	Suometsäntie 1	1979	311,500
Inari	Saariselkä	1968/1976/1998	6,100

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 81,509,143.41 of the profit of EUR 163,018,286.83
be transferred to the reserve fund according to section 21 of the Act
on the Bank of Finland and that the remaining EUR 81,509,143.42
be made available for the needs of the state.

Helsinki, 26 February 2003

THE BOARD OF THE BANK OF FINLAND

Matti Vanhala, Chairman

Matti Louekoski

Sinikka Salo

Pentti Hakkarainen

Notes to the financial statements

Accounting conventions

The Bank of Finland observes the accounting principles and techniques adopted by the Governing Council of the ECB, and the Bank's annual accounts for 1999–2002 have been 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.

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 the measure that came into force from the beginning of 2002 is to provide for the coverage of the pension liability through lucrative investment. A separate annual report will be prepared on the pension fund of the Bank of Finland.

The format of the profit and loss account was changed in 2002. After the items 'Realised gains/losses related to foreign exchange rate movements' and 'Realised securities price differences', the change in the foreign exchange rate and price difference provision related to these items has been specified. According to the financial reporting policy, the net balance of the above-mentioned items is added to/deducted from the provision. Thus the foreign exchange rate movements and price differences do not affect the income or expense in the Bank's

annual accounts for 2001 and 2002. In this respect the selected format of the profit and loss account follows the format recommended by the ESCB. In the same connection, the contents of the profit and loss account item 'Other central banking income' were changed and the items 'Share in ECB profit' and 'Other income' were added, with a view to making the annual accounts more informative. The annual accounts for 2001 have been changed to comply with the format used for 2002.

Gold and items denominated in foreign currency

In the annual accounts, foreign currency-denominated items and gold have been converted into euro at market rates and prices. Items denominated in foreign currency have been revalued on a currency-by-currency basis. Securities have been valued on an item-by-item basis.

Revaluation differences related to foreign exchange rate movements and securities price movements are treated separately. In the case of gold, however, no distinction is made between price and exchange rate differences; rather, a single revaluation is made. Gold has been revalued at the market price of 31 December 2002.

Repurchase agreements and reverse repurchase agreements

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.

Claims and liabilities between national central banks of EU countries

Claims and liabilities between the national central banks of EU countries have been netted so that each bank has a claim on or a liability to the ECB.

Fixed assets

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

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

The economic lifetimes of assets are calculated as follows:

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

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

Euro banknotes and seigniorage income

The ECB and the 12 participating national central banks (NCBs), which together comprise the Eurosystem, have issued euro banknotes as from 1 January 2002.¹ The total value of euro banknotes in circulation is allocated to the NCBs on the last banking day of each month in accordance with the banknote allocation key.² The ECB 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 the euro banknotes allocated to each NCB in accordance with the banknote allocation key and the value of the euro banknotes that it actually puts into circulation also gives rise to remunerated intra-Eurosystem balances. These claims or liabilities, which incur interest³, are disclosed under the sub-item 'Intra-Eurosystem claims/liabilities: Net claim/liability relat-

ed to the allocation of euro banknotes within the Eurosystem'. In the Bank of Finland's balance sheet, the item is on the assets side.

From 2002 until 2007 the intra-system balances arising on the euro banknotes will 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 which income on banknotes will be allocated fully in proportion to the NCBs' paid-up shares in the ECB's capital. The interest income and expense on these balances is cleared through the accounts of the ECB and is disclosed under 'Net interest income'.

The Governing Council of the ECB has decided that the seigniorage income of the ECB stemming from the share of 8% of the total value of euro banknotes in circulation shall be distributed separately to the NCBs in the form of an interim distribution of profit.⁴ It shall be distributed in full, unless the ECB's net profit for the year is less than its income earned on euro banknotes in circulation. According to a decision of the Governing Council of the ECB, the amount of

expenses that the issuing and administration of euro banknotes has caused the ECB may be deducted from the seigniorage income. For 2002, a one-off interim distribution of the seigniorage income was made on the second working day of 2003.⁵ For 2003 onwards, interim distributions will be made at the end of each quarter.

Off-balance-sheet items

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

Accounting principles applied to the profit and loss account

Income and expenses are entered on an accruals basis.

Realised income and expenses are entered in the profit and loss account. Realised foreign exchange rate gains and losses have been calculated using the daily net average rate method. Gains and losses related to securities price movements have been calculated using the average cost method.

Unrealised gains are entered in the revaluation account.

Unrealised losses are entered in the profit and loss account, if they exceed previous revaluation gains registered in the revaluation

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

² 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.

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

⁴ ECB Decision of 21 November 2002 on the distribution of the income of the ECB on euro banknotes in circulation to the national central banks of the participating Member States (ECB/2002/9).

⁵ This is disclosed in the profit and loss account under 'Other central banking income'.

account in the balance sheet. Unrealised losses taken to the profit and loss account are not reversed against any future unrealised gains in subsequent years. If unrealised losses are entered in the profit and loss account in respect of a security or a currency, the net average price of the security or the net average rate of the currency is adjusted correspondingly before the beginning of the next financial year.

Unrealised net gains and losses in respect of securities and foreign currency-denominated items are entered on an item-by-item basis and currency-by-currency basis and in respect of gold separately.

The difference between the acquisition price and nominal value of securities is entered as income or expense over the maturity of the security.

Income and expenses of the Bank of Finland's pension fund and the Financial Supervision Authority (FSA) are entered in the Bank's profit and loss account.

Notes to the balance sheet

Assets

1. Gold and gold receivables

The Bank's holdings of gold total 1,577,069 troy ounces. In the annual accounts, gold has been valued at market price. At the beginning of the 1999 financial year the Bank of Finland (and the other central banks participating in the Euro-system) transferred about 20% of its gold holdings to the ECB.

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

This item includes holdings of special drawing rights allocated by the International Monetary Fund (IMF), Finland's reserve tranche in the IMF, balances with banks, investments in securities and other items denominated in foreign currency. At the beginning of the financial year 1999 the Bank had transferred part of its claims denominated in US dollars and Japanese yen to the ECB. These claims and the holdings of gold referred to above together form the Bank's share in the funds of the ECB.

3. Claims on euro area residents denominated in foreign currency

This item consists of balances with banks and investments in securities.

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

This item consists mainly of balances with central banks of nonparticipating EU countries.

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

This item consists of the balances of monetary policy instruments at year-end.

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

This item consists of balances with credit institutions in the euro area.

7. Intra-Eurosystem claims

This item includes the Bank's share in the ECB's capital, its claim on the ECB equivalent to the foreign reserves and gold transferred to the ECB, its net claim related to the allocation of the value of euro banknotes in the Eurosystem, and other net claims on the central banks of the EU countries.

8. Other assets

This item consists of coins in circulation in the euro area, securities classified as securities held as investment assets and fixed assets (buildings, machinery and equipment). In 2002 this item also consists of pension fund asset and investment items, valuation results of off-balance-sheet items, accruals and other assets.

Liabilities

1. Banknotes in circulation

This item consists of the Bank of Finland's share of the total amount of euro banknotes in circulation and the markka-denominated banknotes in circulation on 31 December 2002.

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

Banks with an RTGS account at the Bank of Finland meet their reserve requirement by maintaining the average of their daily RTGS account balances at least as high as the reserve requirement during the maintenance period.

3. Other liabilities to euro area credit institutions denominated in euro

This item includes the cash collateral from credit institutions received by the Bank in 2001 in connection to the euro cash change-over.

4. 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.

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

This item consists of balances with international organisations and foreign banks holding loro accounts at the Bank of Finland.

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. Counteritem of special drawing rights allocated by the IMF

This balance sheet item was originally denominated in SDRs and pertains to the International Monetary Fund.

8. Intra-Eurosystem liabilities

The mutual assets and liabilities with the national central banks are netted, and the Bank of Finland has one balance with the ECB.

9. Other liabilities

This item consists of accruals and other liabilities.

10. Revaluation account

This item includes revaluations of land and buildings and other valuation differences arising from changes in accounting practice.

In addition, the item includes unrealised valuation gains arising from the market valuation of foreign currency-denominated items and securities.

In 2002 value increases of real estate of the Bank's pension fund were removed from this item (see Provisions).

11. Provisions

All provisions are included in this item.

Under section 20 of the Act on the Bank of Finland, provisions can also 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 foreign exchange

rates or market values of securities. From the provisions made under this section, EUR 121 million was deducted, which represented the net amount of foreign exchange rate losses and price differences. Other provisions than the pension provision in accordance with section 20 of the Act on the Bank of Finland were increased by EUR 65 million in order to safeguard the real value of the Bank's funds; on 31 December 2002 these provisions amounted to EUR 2,768 million.

In 2002, a value increase corresponding to the Bank's pension fund real estate was transferred from the revaluation account to this item. The Bank of Finland's pension liabilities total EUR 413 million; 85% of this amount is covered by provisions, ie EUR 352 million.

12. Capital and reserves

This item consists of the Bank's primary capital and reserve fund.

13. Profit for the financial year

The profit for the financial year 2002 totalled EUR 163 million.

Notes to the profit and loss account

1. Interest income

Most of the interest income consists of interest income on foreign reserve assets and on intra-Eurosystem claims.

2. Interest expense

Interest totalling EUR 68 million was paid on reserve deposits. Interest expense also includes interest on intra-Eurosystem liabilities and interest paid on TARGET balances with non-participating EU central banks, EUR 102 million. Interest expense 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 31 million, is entered on a net basis.

3. Net interest income

Net interest income amounted to EUR 233 million.

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

Currency-denominated claims and liabilities are examined on a currency-by-currency basis on each business day. The sale of a currency position results in the realisation of a gain or loss. In 2002, realised losses related to foreign exchange rate movements amounted to EUR 215 million.

5. Realised securities price differences

In the accounts, securities are treated on an item-by-item basis. When

securities are sold, a gain or loss is realised. In 2002, the realised gains related to securities price movements amounted to EUR 94 million.

6. Change in foreign exchange rate and price difference provision

In 2002 the provision was reduced by EUR 121 million.

7. Net share of monetary income

This item shows the net sum of monetary income paid to the Eurosystem and monetary income redistributed from the Eurosystem. In 2002, the amount of each NCB's monetary income was determined by multiplying the liability base of each NCB by the main refinancing operations rate. The liability base consists of the following items: euro banknotes and national 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. The monetary income pooled by the Eurosystem is to be allocated among the NCBs according to the subscribed capital key.

8. Share in ECB profit

This item consists of the ECB's profit distribution of EUR 25 million for the financial year 2001.

9. Other central banking income

This item includes dividend income, commissions and fees and other income. The entry also shows the ECB's interim distribution of seigniorage income, amounting to EUR 10 million.

According to a decision of the Governing Council of the ECB, in 2002, expenses of EUR 118 million for the issuing and administration of euro banknotes were deducted from the seigniorage income of the ECB. These expenses for the ECB were caused by the establishment of strategic stocks of banknotes for the Eurosystem.

10. Other income

This item consists of the FSA's supervision fees, EUR 14 million, the income of the Bank's pension fund, EUR 18 million, and miscellaneous other income.

11. Staff costs

Salaries amounted to EUR 36 million. Holiday pay liabilities were taken into account for the first time in the financial year 2001 and they increased 2001 salaries correspondingly. Social security costs amounted to EUR 17 million and include EUR 14 million in pensions paid.

12. Administrative expenses

This item includes rents, meetings and interest group-related costs, expense arising from the purchase of services and cost of equipment. In addition, the item includes expenses involved in training, travel and recruitment of staff.

13. Depreciation of fixed assets

Depreciation of fixed assets amounted to EUR 3 million.

14. Banknote production services

Purchase of banknotes amounted to EUR 2 million.

15. Other expenses

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

16. Changes in provisions

The addition to the pension provision in the profit and loss account amounted to EUR 12 million.

Other provisions in accordance with section 20 of the Act on the Bank of Finland were increased by EUR 65 million.

17. Profit for the financial year

The profit for the financial year 2002 totalled EUR 163 million. The Board proposed to the Parlia-

mentary Supervisory Council that EUR 81.5 million of the profit would be made available for the needs of the State.

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 2002 in accordance with generally accepted auditing standards.

During the financial year the Bank's Internal Audit unit 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 explanations from the Board concerning the Bank's activities.

The Authorised Public Accounting Firm Arthur Andersen Oy has audited the accounting records and the financial statements in accordance with Article 27 of the Statute of the European System of Central Banks and of the European Central Bank. We have studied the audit report dated 28 February 2003.

The financial statements have been drawn up in accordance with the principles on 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, 27 March 2003

Johannes Leppänen

Juha Karpio

Reino Majala
Authorised Public Accountant

Iivo Polvi
Chartered Public Finance Auditor,
Approved Auditor

Matti Saarinen

./ 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 2002. The financial statements, which comprise the profit and loss account, balance sheet and notes to 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 5 December 2002. The financial statements present a true and fair view of the profitability and financial position of the Bank of Finland.

Helsinki, 28 February 2003

ARTHUR ANDERSEN OY
Authorised Public Accounting Firm

Eija Niemi-Nikkola
Authorised Public Accountant

Arthur Andersen Oy is not associated or affiliated with Arthur Andersen LLP, Andersen Worldwide SC or any of their respective affiliates.

Appendices

Monetary policy measures of the Eurosystem in 2002

January

On 3 January 2002 the Governing Council of the ECB decided on an allotment amount of EUR 20 billion per operation for the longer-term refinancing operations to be conducted in 2002. The allotment amount may be adjusted in the course of the year in the event of unexpected developments in liquidity needs.

July

On 10 July 2002 the Governing Council of the ECB decided to reduce the allotment amount from EUR 20 billion to EUR 15 billion per operation for each of the longer-term refinancing operations to be conducted during the latter half of 2002. The allotment amount may be adjusted at the beginning of 2003.

December

On 5 December 2002 the Governing Council of the ECB decided to lower the minimum bid rate on the main refinancing operations by 0.50 percentage point to 2.75%, starting with the next main refinancing operation. In addition, it decided to lower the interest rates on both the marginal lending facility and the deposit facility by 0.50 percentage point, to 3.75% and 1.75% respectively, both with effect from 6 December 2002.

On 5 December 2002 the Governing Council of the ECB also decided to confirm the reference value for monetary growth, namely an annual growth rate of 4½% for the broad aggregate M3.

Key measures affecting the financial markets in 2002

Measures by the European System of Central Banks (ESCB)

March

The European Central Bank (ECB) and the Committee of European Securities Regulators (CESR) issued a public consultation announcement to obtain comments on securities clearing and settlement issues. The European System of Central Banks (ESCB) and the CESR conduct joint work in order to establish European standards for securities clearing and settlement systems.

The ECB issued a public consultation announcement on electronic money systems security objectives.

July

The ECB issued a public consultation announcement on oversight standards for euro retail payment systems.

August

The ECB released a report on the structure and functioning of the financial sectors of the twelve EU accession countries. In addition, the ECB published a second edition of the report *Payment and securities settlement systems in accession countries*.

September and November

In September the ECB released an issues paper entitled *E-payments in Europe — the Eurosystem's perspective* and related public consultation announcement. In November the ECB held a conference on e-payments in Europe, focusing on issues related to e-payment initiatives, security and standardisation.

October and December

In October the ECB released a project plan for the next generation of TARGET (TARGET2). The object of the Eurosystem is to ensure that TARGET evolves towards a system that better meets customers' needs, guarantees cost efficiency and is prepared for swift adaptation to future developments, including the enlargement of the EU. In December the ECB issued a public consultation announcement on the principles and structure of TARGET2.

In October the ECB released a report on financial structures in the euro area. The report describes the financial structure of the euro area as a whole and of the individual euro area countries, including recent developments in and the integration of these structures.

In October the ECB issued an opinion, at the request of the Finnish Ministry of Finance, on a draft

government proposal to amend the Emergency Powers Act.

In October the ECB issued a public consultation announcement on measures to improve the efficiency of the operational framework for monetary policy.

EU regulatory projects and their implementation in Finland

March

The European Parliament and the Council adopted directives on the amendment of the solvency margin requirements for life assurance and non-life insurance undertakings. The solvency margin is the extra capital that insurance providers are required to hold as a buffer against unforeseen events.

Following the recommendations of the Lamfalussy Committee, the European Commission submitted two provisional requests for technical advice to the Committee of European Securities Regulators (CESR). The requests concerned possible implementing measures on the future prospectus and market abuse directives.

March and November

In March the European Commission launched a second open consultation on the revision of the investment services directive (ISD). In November, the Commission presented a proposal for a new directive on investment services and regulated markets. Contrary to the current ISD, the proposed directive would establish a regulatory regime for multilateral trading facilities and off-exchange investor

transactions. In addition, the proposed amendments would bring about changes in the authorisation requirements and conduct of business rules for investment firms in the EU countries and broaden the range of investment services for which authorisation is required under the directive.

May

The European Commission issued a second consultation document on transparency obligations for issuers whose securities are admitted for trading on a regulated market. The aim of the consultation was to form a basis for the Commission's intended proposal to the European Parliament and the Council.

The European Commission adopted a communication on the need for EU level actions to improve clearing and settlement of securities and derivatives in the European Union and issued a related consultation document.

June

The European Parliament and the Council adopted the directive on financial collateral arrangements. The aim of the directive is to facilitate the provision and use of collateral and the realisation of collateral should the provider of the collateral be unable to fulfil their obligations. The directive applies directly to arrangements where both the provider and the receiver of the collateral are a central bank, a financial institution, a public authority or a large organisation.

The European Commission submitted its sixth progress report on the implementation of the financial services action plan to the

Council and the European Parliament.

The Council reached a political agreement on the proposed directive on institutions for occupational retirement provision (the provision of supplementary pension benefits). The aim of the directive is to ensure the protection of future pensioners and to build a single market for financial services providing supplementary pensions.

June and July

The European Parliament and the Council adopted a regulation on the application of international accounting standards (IAS). Under the regulation, all publicly traded companies governed by the law of a member state – including banks and insurance undertakings – shall prepare their consolidated accounts in conformity with the IAS, for each financial year starting on or after 1 January 2005. Moreover, member states may permit or require that publicly traded companies prepare their annual accounts and non publicly-traded companies prepare their consolidated accounts and/or annual accounts in conformity with the IAS.

The European Commission presented a proposal for the amendment of the current accounting directives. The aim of the proposal is to remove the remaining inconsistencies between the accounting directives and the IAS. The amendments would also allow the development of similar, high quality financial reporting by companies which would not otherwise be required to apply the IAS even at a later date.

July

The European Parliament and Council Regulation on cross-border payments in euro entered into force in respect of card payments and cash withdrawals. A transitional period for cross-border credit transfers applies until 1 July 2003.

September

The European Parliament and the Council adopted a directive concerning the distance marketing of consumer financial services. The aim of the directive is to promote the free flow of financial services by harmonising the member states' legislation on distance selling and consumer protection.

The European Parliament and the Council adopted a directive on insurance mediation. The directive applies to work preparatory to the conclusion of insurance contracts, the conclusion of such contracts and to the assistance in the administration and performance of such contracts. It lays down minimum requirements for the taking up and conducting insurance and reinsurance mediation, on the basis of home country registration in any member state.

The European Commission launched an online consultation on the regulation of UCITS depositaries. Views were sought from authorities and interested financial market agents.

October

The European Commission presented a new proposal for a directive on takeover bids. The directive sets out to strengthen the legal certainty of cross-border takeover bids and to ensure protection for

minority shareholders. The European Parliament rejected an earlier proposal for a directive on takeover bids in July 2001.

The European Commission published its fourth progress report on the implementation of the Risk Capital Action Plan.

The EU's Economic and Financial Committee (EFC) submitted a report to the Council proposing that the legislative process in the securities markets area recommended by the Lamfalussy Committee be extended to the banking and insurance sectors, as well as to financial conglomerates. The European Commission issued a consultation document on the EFC report.

November

The European Parliament adopted the directive on the supervision of financial conglomerates, already adopted by the Council. The directive contains provisions on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate. A central objective of the directive is to ensure capital adequacy of financial conglomerates by preventing situations in which the same capital is used simultaneously as a buffer against risk in two or more entities in the same financial conglomerate.

The Council reached political agreement on a new proposal for a prospectus directive, presented by the European Commission in August. The directive would introduce a 'single passport for issuers' so that once a prospectus has been approved by the home country authorities of the issuer it would have to be accepted throughout the

EU for public offer and admission to trading on regulated markets.

To facilitate the comprehension and application of the life assurance directives, the European Parliament and the Council issued a directive that recasts in a single text all the existing directives in the field of life assurance.

The European Commission published a working document setting out its views on a new capital requirements framework for banks and investment firms. The report provides the basis for a dialogue with the financial services sector on the new capital requirements framework.

December

The Council adopted the directive on insider dealing and market manipulation (market abuse), already adopted by the European Parliament. The directive replaces the directive on insider dealing of 1989.

The European Commission submitted its seventh progress report on the implementation of the financial services action plan to the Council and the European Parliament.

Other key regulatory projects and measures

January

The following legal acts entered into force in Finland: the Act on Commercial Banks and Other Limited Company Credit Institutions, the Act on Cooperative Banks and Other Cooperative Credit Institutions, the Savings Bank Act, the Act on the Temporary Suspension of Business Related to Deposit Banks and the Cooperatives Act.

In addition, certain amendments to the Securities Markets Act and the Act on Trading in Standardised Options and Futures took effect. The revisions include a redefinition of 'securities'.

February

The Act on the Supervision of Financial and Insurance Conglomerates entered into force in Finland. The act applies to groups comprising companies in both the finance and insurance sectors. For each conglomerate, a coordinating supervision authority is appointed among the relevant authorities. The choice of coordinating authority depends on which sector the parent undertaking represents or, if the parent undertaking is not subject to supervision, on which sector is predominant in the conglomerate. The Act defines the duties and rights of the coordinating authority. It also lays down provisions on the principles to be applied in the preparation of the consolidated accounts of the financial and insurance conglomerate and in the preparation of the annual accounts of the conglomerate's financial holding company. The legal limits on credit institutions' holding of real estate and shares are extended to apply to the entire consolidation group. In the same context, the secrecy provisions of certain other acts were amended so as to allow customer information, apart from the sensitive information referred to in the Personal Data File Act, to be passed on from one undertaking of the group to another.

March

The Government submitted a proposal to Parliament, based on the

recommendations by the working group on banking services, for the amendment of the Credit Institutions Act and certain related acts. According to the proposal, organisations other than deposit banks and savings associations would also be entitled to receive deposits from the public, repayable on demand, for keeping in customer accounts. However, the banks would maintain the sole right to use the word 'deposit' and only the customer funds of banks would be subject to deposit guarantee. One of the aims of the proposal is to implement in Finland the directive on the taking up, pursuit and prudential supervision of the business of electronic money institutions. This means that general payment transmission, not taking place in connection with current credit institutions activity, and issuance of electronic money would become subject to authorisation. For this purpose, the proposal introduces a new category of credit institutions, 'payment organisations' the prudent supervision of which would be different to that of other credit institutions.

May

The Council of State set up a task force to assess whether there is a need for legislation to ensure sound competition between savings, investment and life assurance products. The task force is due to submit its report in May 2003.

June and July

In June the Ministry of Finance issued decrees on public-offer prospectuses, listing particulars and issuers' regular disclosure obliga-

tion. The decrees took effect on 1 July, together with a few amendments to the Security Markets Act. As a result of the amendments referred to above, the private limited companies referred to in the Companies Act are obliged to publish the public-offer prospectuses required under the Securities Markets Act on their public offers of securities.

In June the Government submitted a proposal to Parliament for the amendment of the Cooperatives Act, the Act on Book-Entry System, the Act on Book-Entry Accounts and the Trade Register Act. The amendments are due to the arrangement whereby cooperative shares are registered in the book-entry system.

July and October

In July the Basel Committee on Banking Supervision reached agreement on a number of issues crucial for the finalisation of the new capital framework for credit institutions. The Committee also presented a timetable for the finalisation of the new Accord. The Committee expects to complete the work during the last quarter of 2003 so that the new legislation can be implemented by the end of 2006. In October the Basel Committee launched its third quantitative impact study (QIS3) on the effects of the minimum capital requirements under the first pillar of the reform. The banks' own calculations provided the basis for the study. In connection with the QIS3, data was also gathered for a consultative document to be launched in spring 2003.

October

The Government submitted to Parliament a proposal for a new Act on the Financial Supervision Authority (FSA) and the amendment of certain related acts. According to the proposal, provisions on the FSA's objectives and tasks would be included in the Act. It is also proposed that Parliamentary Supervisory Council would be responsible for monitoring the appropriateness and efficiency of the FSA's operations. Other proposed changes concern the FSA's decision-making procedures and supervisory powers. The position of the FSA would not be changed: the authority would remain administratively connected to the Bank of Finland and continue to take all its operational decisions autonomously.

The Government submitted a proposal to Parliament for the amendment of the Emergency Powers Act, bringing it into agreement with the current needs and requirements of the financial markets and insurance sector and with legislative reform in these areas. According to the proposal, the Council of State would be granted powers to regulate the financial markets and the insurance sector under exceptional conditions. The proposed amendments include provisions on the establishment of insurance guarantees and an insurance guarantee committee in the event of emergency conditions. In the same context, the Government proposes amendments to other acts, under which certain financial markets and insurance sector institu-

tions would be obliged to prepare for the maintenance of their most essential activities under exceptional conditions.

The Government submitted a proposal to Parliament for the amendment of the Credit Institutions Act and certain related acts. The proposed amendments, mainly of technical character, concern large exposure restrictions, capital adequacy requirements and secrecy obligations.

November

A working group, set up by the Ministry of Finance, that had examined the possibility of introducing a tiered holding structure in the book-entry securities system released its report.

Main opinions issued by the Bank of Finland 2002

Opinions concerning legislation on and development of the financial markets

- To the Financial Supervision Authority concerning the reporting of transactions between enterprises belonging to the same group of credit institutions or investment firms or to the same financial and insurance conglomerate, 1 February
- To the Ministry of Social Affairs and Health concerning a memorandum submitted by a working group which had assessed the need for insurance sector legislation under exceptional conditions, 1 March
- To the Ministry of Finance concerning amendments to the rules of the Finnish Central Securities Depository (APK), 6 March
- To the Ministry of Justice concerning amendment of bankruptcy legislation, 14 March
- To the Ministry of Finance concerning an application of the International Bank of St. Petersburg for the establishment of a branch in Finland, 27 March
- To the Financial Supervision Authority concerning draft regulations on the supervision of financial and insurance conglomerates, 28 March
- To the Financial Supervision Authority concerning restructuring of the FSA's regulatory framework, 31 March
- To the Ministry of Finance concerning amendments to the rules of the HEX Ltd, Helsinki Securities and Derivatives Exchange, Clearing House, 10 April and 29 May
- To the Ministry of Finance concerning proposals for decrees on the Securities Markets Act, 10 June
- To the Ministry of Finance concerning amendments to the rules of the Investor Compensation Fund, 14 June
- To the Ministry of the Interior concerning amendment of anti-money laundering recommendations, 1 July
- To the Ministry of Finance concerning the total amount of contributions to be accrued in the Investor Compensation Fund in 2002, 15 July

- To the Ministry of Finance concerning amendment of the Act on the Financial Supervision Authority, 14 August
- To the Ministry of Finance concerning amendment of the Credit Institutions Act and certain related acts, 22 August
- To the Energy Market Authority on the average rate of interest on enterprise debt, 19 September
- To the Financial Supervision Authority concerning a draft standard on the supervision of financial and insurance conglomerates, 12 November

- To the Financial Supervision Authority concerning a draft standard on internal control and risk management, 12 November

Other opinions

- To the Agriculture and Forestry Committee of the Parliament concerning the Government's proposal for amending the Act on Financing Rural Industries, 21 February
- To the Ministry of Labour concerning an interim report submitted by the taskforce Labour 2020, 25 February

- To the Ministry for Foreign Affairs concerning the reform of the OECD, 8 March
- To the Ministry of Education concerning a revision of the maximum interest rate and service fee applicable to study loans under the Act, issued 1972, on Financial Aid for Studies, 3 December

Supplementary tables

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

0 less than half the final digit shown

. logically impossible

.. data not available

– nil

– change in contents of series

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

Assets		Jan	Feb	Mar
1	Gold and gold receivables	497	497	548
2	Claims on non-euro area residents denominated in foreign currency	9,011	9,069	9,056
2.1	Receivables from the IMF	899	923	915
2.2	Balances with banks and security investments, external loans and other external assets	8,112	8,146	8,141
3	Claims on euro area residents denominated in foreign currency	817	781	705
4	Claims on non-euro area residents denominated in euro	0	0	0
4.1	Balances with banks, security investments and loans	0	0	0
4.2	Claims arising from the credit facility under the ERM II	-	-	-
5	Lending to euro area credit institutions related to monetary policy operations denominated in euro	987	1,235	1,253
5.1	Main refinancing operations	681	1,029	903
5.2	Longer-term refinancing operations	306	206	350
5.3	Fine-tuning reverse operations	-	-	-
5.4	Structural reverse operations	-	-	-
5.5	Marginal lending facility	-	-	-
5.6	Credits related to margin calls	-	-	-
6	Other claims on euro area credit institutions denominated in euro	2	2	2
7	Securities of euro area residents denominated in euro	-	-	-
8	General government debt denominated in euro	0	0	0
9	Intra-Eurosystem claims	1,017	2,383	2,803
9.1	Share in ECB capital	70	70	70
9.2	Claims equivalent to the transfer of foreign currency reserves	699	699	699
9.3	Claims related to the issuance of ECB debt certificates	-	-	-
9.4	Claims related to TARGET and correspondent accounts (net)	-	-	-
9.5	Claims related to other operational requirements within the Eurosystem	248	1,614	2,034
10	Other assets	890	861	930
Total assets		13,904	14,828	15,297

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

Source: Bank of Finland.

Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
548	548	505	505	505	505	516	516	515
9,172	9,210	8,569	8,469	8,714	8,914	8,900	9,019	8,694
867	832	799	794	863	846	851	852	816
8,305	8,378	7,770	7,675	7,852	8,069	8,049	8,167	7,878
725	767	739	810	698	688	688	662	721
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
-	-	-	-	-	-	-	-	-
1,176	1,591	2,548	1,376	2,332	2,783	1,857	1,311	2,970
330	876	1,832	1,157	1,620	2,071	1,145	1,311	2,970
846	715	715	219	711	711	711	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
2	2	2	2	1	1	1	1	1
-	-	-	-	-	-	-	-	-
0	0	0	0	0	0	0	0	0
2,803	2,997	3,082	3,082	3,255	3,255	3,312	3,281	3,605
70	70	70	70	70	70	70	70	70
699	699	699	699	699	699	699	699	699
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
2,034	2,229	2,314	2,314	2,487	2,487	2,543	2,513	2,836
913	890	887	864	864	866	894	886	808
15,339	16,004	16,331	15,108	16,369	17,013	16,167	15,677	17,315

Table 1. (cont.)

Liabilities		Jan	Feb	Mar
1	Banknotes in circulation	2,808	3,890	4,394
2	Liabilities to euro area credit institutions related to monetary policy operations denominated in euro	2,676	1,419	3,687
2.1	Current accounts (covering the minimum reserve system)	2,676	1,386	3,687
2.2	Deposit facility	–	33	–
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	1	1	1
4.1	General government	–	–	–
4.2	Other liabilities	1	1	1
5	Liabilities to non-euro area residents denominated in euro	2	2	2
6	Liabilities to euro area residents denominated in foreign currency	–1	–19	–
7	Liabilities to non-euro residents denominated in foreign currency	251	252	173
7.1	Deposits, balances and other liabilities	251	252	173
7.2	Liabilities arising from the credit facility under the ERM II	–	–	–
8	Counterpart of special drawing rights allocated by the IMF	203	203	204
9	Intra-Eurosystem liabilities	2,270	3,439	1,181
9.1	Liabilities related to promissory notes backing the issuance of ECB debt certificates	–	–	–
9.2	Liabilities related to TARGET and correspondent accounts (net)	2,270	3,439	1,181
9.3	Liabilities related to other operational requirements within the Eurosystem	–	–	–
10	Other liabilities	122	69	149
11	Revaluation account	1,029	1,029	1,062
12	Capital and reserves	4,543	4,543	4,444
Total liabilities		13,904	14,828	15,297

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

Source: Bank of Finland.

Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
4,345	4,658	4,832	4,884	5,055	5,088	5,195	5,348	5,853
2,708	2,805	4,973	2,127	2,993	2,292	2,630	3,669	3,759
2,708	2,805	4,973	2,127	2,993	2,292	2,630	3,669	3,759
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
1	1	1	1	0	3	3	6	5
-	-	-	-	-	-	-	-	-
1	1	1	1	0	3	3	6	5
1	1	1	1	1	1	1	1	1
0	8	-	24	56	73	-	24	-
272	332	111	40	21	177	42	45	0
272	332	111	40	21	177	42	45	0
-	-	-	-	-	-	-	-	-
204	204	190	190	190	190	192	192	185
2,151	2,301	971	2,590	2,759	3,872	2,572	794	2,159
-	-	-	-	-	-	-	-	-
2,151	2,301	971	2,590	2,759	3,872	2,572	794	2,159
-	-	-	-	-	-	-	-	-
150	188	210	210	252	276	316	381	77
1,062	1,062	597	597	597	597	597	774	689
4,444	4,444	4,444	4,444	4,444	4,444	4,444	4,444	4,587
15,339	16,004	16,331	15,108	16,369	17,013	16,167	15,677	17,315

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
2002	1	2	3	4
2 Jan	88,696	31,000	543	241
9	155,890	83,000	21	360
16	116,846	22,000	0	329
23	146,286	103,000	681	382
30	108,013	38,000	0	342
6 Feb	156,976	91,000	180	389
12	90,332	35,000	460	272
20	135,529	72,000	569	377
27	127,024	51,000	244	350
6 Mar	127,212	67,000	373	378
13	90,424	41,000	287	341
18	107,575	69,000	413	309
27	121,842	63,000	490	369
4 Apr	112,796	55,000	351	367
10	112,847	48,000	418	352
17	102,694	49,000	196	361
24	115,604	60,000	134	371
30	106,166	49,000	166	352
8 May	108,472	66,000	458	330
15	108,733	43,000	603	339
22	112,438	70,000	304	351
29	114,221	48,000	572	386
5 Jun	114,258	65,000	574	328
12	97,462	42,000	810	325
19	112,227	70,000	767	339
26	111,439	70,000	1,066	332
3 Jul	108,626	57,000	498	297
10	102,931	69,000	609	320
17	104,849	65,000	407	306
24	108,732	84,000	750	319
31	86,879	55,000	1,694	281
7 Aug	104,266	82,000	800	257
14	85,232	52,000	1,050	256
21	115,921	82,000	783	286
28	104,816	65,000	838	281
4 Sep	124,579	76,000	430	274
11	105,528	60,000	1,354	263
18	116,252	84,000	651	295
25	105,130	65,000	1,421	287
2 Oct	125,630	80,000	699	256
9	111,824	66,000	458	271
16	106,563	76,000	323	268
23	115,642	88,000	822	290
30	101,909	57,000	274	270
6 Nov	104,397	87,000	983	241
13	85,033	51,000	64	243
20	120,350	99,000	800	263
27	108,905	62,000	511	255
4 Dec	111,791	111,791	600	175
11	100,511	65,000	1,364	247
18	103,502	103,502	600	224
24	146,157	88,000	370	350
31	117,377	92,000	2,600	217

Sources: European Central Bank and Bank of Finland.

Date of settlement	Variable rate tenders			Running for (...) days
	Minimum bid rate, %	Marginal rate, %	Weighted average rate, %	
2002	5	6	7	8
2 Jan	3.25	3.28	3.29	14
9	3.25	3.30	3.32	14
16	3.25	3.31	3.32	14
23	3.25	3.29	3.30	14
30	3.25	3.31	3.32	13
6 Feb	3.25	3.30	3.31	14
12	3.25	3.29	3.30	15
20	3.25	3.28	3.29	14
27	3.25	3.29	3.30	14
6 Mar	3.25	3.29	3.30	12
13	3.25	3.27	3.28	14
18	3.25	3.28	3.29	17
27	3.25	3.33	3.34	14
4 Apr	3.25	3.30	3.31	13
10	3.25	3.29	3.29	14
17	3.25	3.27	3.28	13
24	3.25	3.30	3.31	14
30	3.25	3.30	3.31	15
8 May	3.25	3.29	3.30	14
15	3.25	3.30	3.30	14
22	3.25	3.33	3.34	14
29	3.25	3.34	3.35	14
5 Jun	3.25	3.33	3.34	14
12	3.25	3.31	3.32	14
19	3.25	3.32	3.33	14
26	3.25	3.35	3.36	14
3 Jul	3.25	3.33	3.33	14
10	3.25	3.30	3.32	14
17	3.25	3.30	3.31	14
24	3.25	3.30	3.31	14
31	3.25	3.30	3.31	14
7 Aug	3.25	3.28	3.29	14
14	3.25	3.28	3.29	14
21	3.25	3.28	3.29	14
28	3.25	3.28	3.29	14
4 Sep	3.25	3.28	3.29	14
11	3.25	3.27	3.28	14
18	3.25	3.28	3.29	14
25	3.25	3.28	3.29	14
2 Oct	3.25	3.28	3.29	14
9	3.25	3.27	3.28	14
16	3.25	3.28	3.29	14
23	3.25	3.29	3.30	14
30	3.25	3.29	3.29	14
6 Nov	3.25	3.25	3.26	14
13	3.25	3.28	3.28	14
20	3.25	3.27	3.29	14
27	3.25	3.29	3.31	14
4 Dec	3.25	3.25	3.25	14
11	2.75	2.82	2.83	13
18	2.75	2.75	2.87	13
24	2.75	3.02	3.08	15
31	2.75	2.85	2.95	15

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
2002							
31 Jan	44,547	20,000	0	220	3.31	3.33	84
28 Feb	47,001	20,000	350	210	3.32	3.33	91
28 Mar	39,068	20,000	0	216	3.40	3.42	91
25 Apr	40,580	20,000	496	227	3.35	3.36	91
30 May	37,602	20,000	219	198	3.45	3.47	91
27 Jun	27,670	20,000	0	177	3.38	3.41	91
25 Jul	28,791	15,000	0	173	3.35	3.37	98
29 Aug	33,527	15,000	711	158	3.33	3.34	91
26 Sep	25,727	15,000	0	151	3.23	3.26	88
31 Oct	27,820	15,000	0	163	3.22	3.24	91
28 Nov	38,644	15,000	0	162	3.02	3.04	91
23 Dec	42,305	15,000	0	172	2.93	2.95	94

Source: European Central Bank.

Table 4.
Other tender operations

Date of settlement	Type of operation	Bids, EUR m	Allotment, EUR m	Fixed rate tenders	Variable rate tenders		
				Fixed rate, %	Marginal rate, %	Weighted average rate, %	Running for (...) days
	1	2	3	4	5	6	7
2002							
4 Jan	Reverse transaction	57,644	25,000	–	3.30	3.32	3
10 Jan	Reverse transaction	59,377	40,000	–	3.28	3.30	1
18 Dec	Reverse transaction	28,480	10,000	–	2.80	2.82	6

Source: European Central Bank.

Table 5.
Key interest rates of the Eurosystem

Fixed rate tenders			Variable rate tenders		
Interest rate on main refinancing operations			Minimum bid rate		
Decision date	Effective	%	Decision date	Effective	%
22 Dec 1998	1 Jan 1999	3.00	8 Jun 2000	28 Jun 2000	4.25
8 Apr 1999	14 Apr 1999	2.50	31 Aug 2000	6 Sep 2000	4.50
4 Nov 1999	10 Nov 1999	3.00	5 Oct 2000	11 Oct 2000	4.75
3 Feb 2000	9 Feb 2000	3.25	10 May 2001	15 May 2001	4.50
16 Mar 2000	22 Mar 2000	3.50	30 Aug 2001	5 Sep 2001	4.25
27 Apr 2000	4 May 2000	3.75	17 Sep 2001	19 Sep 2001	3.75
8 Jun 2000	15 Jun 2000	4.25	8 Nov 2001	14 Nov 2001	3.25
			5 Dec 2002	11 Dec 2002	2.75
Standing facilities					
Interest rate on deposit facility			Interest rate on marginal lending facility		
Decision date	Effective	%	Decision date	Effective	%
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

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
	Monetary policy operations of the Eurosystem							Banknotes in circulation	Central government deposits with the Euro-system	Other factors, net		
	Euro-system's net assets in gold and foreign currency	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
2001												
Dec	383.7	122.5	60.0	0.5	12.4	0.8	0.0	298.0	43.5	109.3	127.4	426.2
2002												
Jan	385.2	118.5	60.0	0.4	3.7	0.6	0.0	344.3	38.3	54.2	130.4	475.2
Feb	386.0	127.3	60.0	0.2	0.0	0.1	0.0	306.2	49.6	85.2	132.6	438.8
Mar	386.7	114.6	60.0	0.2	0.0	0.1	0.0	283.3	54.2	91.8	132.1	415.6
Apr	395.4	112.7	60.0	0.4	0.0	0.2	0.0	285.9	55.9	95.3	131.2	417.3
May	397.7	110.6	60.0	0.1	0.0	0.3	0.0	293.7	49.2	93.5	131.7	425.6
Jun	396.2	112.6	60.0	0.5	0.0	0.4	0.0	300.8	45.1	91.2	131.8	433.0
Jul	369.1	130.4	60.0	0.2	0.0	0.2	0.0	313.4	54.4	60.3	131.4	445.0
Aug	360.0	139.2	55.2	0.1	0.0	0.1	0.0	322.8	50.9	50.8	129.9	452.8
Sep	362.3	140.9	50.8	0.1	0.0	0.2	0.0	323.6	49.1	51.7	129.6	453.4
Oct	370.0	146.1	45.3	0.1	0.0	0.1	0.0	329.2	45.6	58.2	128.3	457.6
Nov	372.1	147.5	45.0	0.1	0.0	0.1	0.0	334.0	42.8	58.6	129.3	463.4
Dec	371.5	168.1	45.0	1.1	2.0	0.2	0.0	350.7	51.7	55.5	129.5	480.5
2003												
Jan	360.9	176.3	45.0	0.5	0.0	0.3	0.0	353.9	43.7	53.3	131.6	485.8

¹ Maintenance periods start on the 24th of the month and run to the 23rd of the following month.

Source: European Central Bank.

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	
	Monetary policy operations of the Eurosystem							Banknotes in circulation ²	Central government deposits with the Euro-system	Other factors, net			
	Euro-system's net assets in gold and foreign currency	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	
2001													
Dec	9,981.3	1,023.6	270.2	0.0	0.0	2.8	0.0	2,443.8	0.0	6,820.7	2,007.7	4,454.3	
2002													
Jan	10,057.1	658.4	306.1	0.1	13.4	27.5	0.0	3,136.9	0.0	5,853.5	2,017.2	5,181.6	
Feb	10,089.5	618.3	228.7	0.2	0.0	2.3	0.0	3,700.9	0.0	5,174.7	2,058.8	5,762.0	
Mar	10,120.2	735.8	506.0	0.0	0.0	1.9	0.0	4,119.2	0.0	5,136.5	2,104.3	6,225.5	
Apr	10,143.9	775.3	376.4	1.7	0.0	0.5	0.0	4,294.0	0.0	4,910.1	2,092.8	6,387.3	
May	10,158.6	599.4	829.2	0.0	0.0	4.8	0.0	4,450.1	0.0	5,010.3	2,121.9	6,576.8	
Jun	10,178.7	1,169.6	740.4	1.2	0.0	4.7	0.0	4,641.0	0.0	5,387.6	2,056.6	6,702.2	
Jul	9,770.3	1,392.9	715.1	2.6	0.0	4.3	0.0	4,834.9	0.0	4,985.1	2,056.7	6,895.9	
Aug	9,742.9	1,971.8	235.2	0.0	0.0	1.6	0.0	4,985.9	0.0	4,900.3	2,062.0	7,049.6	
Sep	9,845.7	1,691.1	632.1	6.7	0.0	2.8	0.0	5,039.7	0.0	5,059.4	2,073.6	7,116.1	
Oct	10,022.2	1,535.1	711.4	0.0	0.0	3.0	0.0	5,146.8	0.0	5,019.7	2,099.2	7,249.0	
Nov	10,081.6	1,101.0	711.4	0.0	0.0	2.0	0.0	5,252.2	0.0	4,582.2	2,057.7	7,311.8	
Dec	10,153.3	1,502.7	94.9	0.9	0.0	4.3	0.0	5,496.9	0.0	4,161.1	2,089.4	7,590.7	
2003													
Jan	10,020.9	2,052.3	0.0	0.0	0.0	6.4	0.0	5,570.5	0.0	4,578.7	1,917.5	7,494.4	

¹ Maintenance periods start on the 24th of the month and run to the 23rd of the following month.

² Banknotes in circulation at Jan 2002 augmented by frontloaded euro banknotes from 2 Jan 2002.

Source: Bank of Finland.

Table 7.

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

Reserve base as at:	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	Money market paper	Deposits (over 2 years' agreed maturity and notice period)	Repos	Debt securities over 2 years' agreed maturity
	1	2	3	4	5	6	7
2001							
Dec	10,910.1	6,226.1	204.7	185.0	1,315.2	605.1	2,374.0
2002							
Jan	10,952.8	6,195.2	194.7	202.2	1,350.7	610.8	2,399.0
Feb	10,964.1	6,164.7	196.8	196.0	1,337.1	653.2	2,416.3
Mar	11,031.8	6,178.0	202.2	198.4	1,349.9	663.1	2,440.1
Apr	11,076.4	6,176.1	205.1	199.8	1,355.1	699.1	2,441.2
May	11,111.6	6,150.4	204.3	206.2	1,355.8	741.7	2,453.2
Jun	11,009.1	6,083.3	203.3	204.2	1,355.3	699.2	2,463.9
Jul	10,999.6	6,069.3	202.3	206.3	1,368.0	691.0	2,462.7
Aug	10,952.0	6,010.3	200.3	201.3	1,359.7	703.2	2,477.2
Sep	11,054.3	6,055.4	201.3	203.7	1,373.5	747.6	2,472.7
Oct	11,113.6	6,052.0	202.1	212.1	1,379.1	790.5	2,477.8
Nov	11,207.0	6,142.9	206.3	220.7	1,365.2	784.2	2,487.7
Dec	11,109.2	6,137.4	202.6	206.4	1,380.4	725.7	2,456.8

Source: European Central Bank.

Table 8.

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

Maintenance period ending in ¹	Required reserves	Actual reserves	Excess reserves	Deficiencies	Interest rate on minimum reserves, %
	1	2	3	4	5
2001					
Dec	126.4	127.3	0.9	0.0	3.30
2002					
Jan	128.7	130.1	1.4	0.0	3.34
Feb	131.7	132.4	0.7	0.0	3.30
Mar	131.3	132.0	0.7	0.0	3.28
Apr	130.6	131.1	0.5	0.0	3.30
May	131.0	131.5	0.5	0.0	3.30
Jun	131.0	131.7	0.7	0.0	3.33
Jul	130.7	131.3	0.6	0.0	3.32
Aug	129.3	129.7	0.5	0.0	3.29
Sep	129.0	129.5	0.5	0.0	3.28
Oct	127.7	128.2	0.5	0.0	3.28
Nov	128.7	129.2	0.5	0.0	3.28
Dec	128.8	129.4	0.7	0.0	3.06
2003					
Jan	130.9	131.4	0.6	0.0	2.87

¹ Maintenance periods start on the 24th of the month and run to the 23rd of the following month.

Source: European Central Bank.

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

Reserve base as at:	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	Money market paper	Deposits (over 2 years' agreed maturity and notice period)	Repos	Debt securities over 2 years' agreed maturity
	1	2	3	4	5	6	7
2001							
Dec	117,925	92,680	2,276	8,963	4,500	86	9,420
2002							
Jan	120,858	94,267	2,354	10,040	4,488	224	9,485
Feb	120,887	95,024	2,321	8,654	4,595	690	9,602
Mar	122,421	96,152	2,184	9,228	4,264	589	10,006
Apr	119,447	92,971	2,174	9,033	4,919	329	10,021
May	119,661	92,862	1,811	9,842	4,849	240	10,057
Jun	119,434	93,500	1,888	8,825	4,903	229	10,089
Jul	118,187	91,195	1,721	9,529	5,039	12	10,691
Aug	122,528	95,714	1,556	9,388	5,092	50	10,729
Sep	121,617	95,445	1,814	9,004	4,860	93	10,400
Oct	121,447	94,696	1,907	9,431	5,151	1	10,263
Nov	118,667	90,237	2,053	10,655	5,416	66	10,240
Dec	117,129	88,759	2,235	10,484	5,597	7	10,049

Source: Bank of Finland.

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

Maintenance period ending in ¹	Required reserves	Actual reserves	Excess reserves	Deficiencies	Interest rate on minimum reserves, %
	1	2	3	4	5
2001					
Dec	1,984	2,005	20.1	0.0	3.30
2002					
Jan	2,007	2,009	2.0	0.0	3.34
Feb	2,043	2,047	3.8	0.0	3.30
Mar	2,098	2,099	1.3	0.0	3.28
Apr	2,085	2,086	1.4	0.0	3.30
May	2,116	2,116	0.6	0.0	3.30
Jun	2,048	2,051	2.9	0.0	3.33
Jul	2,054	2,055	0.9	0.0	3.32
Aug	2,048	2,049	1.0	0.0	3.29
Sep	2,014	2,014	0.5	0.0	3.28
Oct	2,098	2,099	0.6	0.0	3.28
Nov	2,090	2,092	1.7	0.0	3.28
Dec	2,085	2,089	3.8	0.0	3.06
2003					
Jan	2,023	2,024	0.3	0.0	2.87

¹ Maintenance periods start on the 24th of the month and run to the 23rd of the following month.

Source: Bank of Finland.

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

	Euro area monetary aggregate M3			Deposits of Finnish monetary financial institutions included in M3 ²		
	Stock, EUR bn	12-month change ^{3,4} , %	3-month mov avg of 12-month change ^{3,4} , %	Stock, EUR bn	12-month change ³ , %	3-month mov avg of 12-month change ³ , %
	1	2	3	4	5	6
1998	4,463.9	5.0	..	68.7	2.6	..
1999	4,702.4	5.5	5.3	68.1	6.7	5.8
2000	4,900.8	4.1	4.0	65.6	-3.8	-3.4
2001	5,427.0	8.1	8.0	68.8	6.7	7.7
2002	5,783.3	6.8	7.1	72.6	5.5	4.9
2002						
Jan	5,414.3	7.9	7.9	69.7	6.5	5.8
Feb	5,415.5	7.6	7.6	67.8	4.2	5.2
Mar	5,452.9	7.4	7.5	69.1	4.9	4.5
Apr	5,491.4	7.4	7.5	68.7	4.5	4.1
May	5,534.2	7.8	7.5	69.5	3.0	3.4
Jun	5,554.3	7.3	7.4	69.6	2.6	2.9
Jul	5,547.3	7.2	7.2	69.4	3.1	3.3
Aug	5,560.7	7.2	7.2	69.7	4.3	2.8
Sep	5,605.7	7.2	7.1	69.2	1.1	2.8
Oct	5,625.5	6.9	7.0	70.7	3.0	2.3
Nov	5,695.3	7.0	6.9	71.3	2.9	3.8
Dec	5,783.3	6.8	7.1	72.6	5.5	4.9

¹ Excl negotiable instruments held by central governments and nonresidents of the euro area.

² Excl notes and coins held by the public.

³ Calculated from monthly differences in levels adjusted for reclassifications, other revaluations, exchange rate variations and any other changes which do not arise from transactions.

⁴ Seasonally and calendar effect adjusted.

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
1999	2.74	2.862	2.913	2.961	3.054	3.114	3.183	4.07	4.74
2000	4.12	4.244	4.325	4.400	4.556	4.682	4.789	5.27	5.49
2001	4.39	4.335	4.297	4.267	4.159	4.101	4.086	4.54	5.04
2002	3.29	3.307	3.315	3.322	3.355	3.414	3.495	4.41	4.98
2002									
Jan	3.29	3.348	3.342	3.339	3.342	3.388	3.483	4.63	5.05
Feb	3.28	3.336	3.347	3.357	3.398	3.479	3.594	4.71	5.10
Mar	3.26	3.346	3.370	3.391	3.500	3.649	3.816	4.96	5.33
Apr	3.32	3.336	3.373	3.407	3.536	3.700	3.860	4.93	5.32
May	3.31	3.374	3.422	3.467	3.626	3.800	3.963	4.93	5.40
Jun	3.35	3.384	3.425	3.464	3.590	3.731	3.869	4.75	5.26
Jul	3.30	3.361	3.388	3.410	3.484	3.558	3.645	4.55	5.10
Aug	3.29	3.333	3.342	3.352	3.380	3.402	3.440	4.21	4.81
Sep	3.32	3.317	3.314	3.310	3.270	3.233	3.236	3.90	4.61
Oct	3.30	3.306	3.275	3.261	3.168	3.125	3.126	3.89	4.68
Nov	3.30	3.231	3.187	3.124	3.037	3.010	3.017	3.83	4.66
Dec	3.10	2.979	2.955	2.941	2.894	2.872	2.874	3.61	4.45

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
	Jan – Mar 1999 = 100			
	1	2	3	4
1999	96.0	97.8	97.9	95.7
2000	87.0	92.8	92.8	85.7
2001	89.4	94.4	94.1	87.3
2002	91.5	95.5	95.9	90.0
2002				
Jan	89.7	94.6	94.6	87.6
Feb	88.9	94.1	94.2	86.8
Mar	88.8	94.0	94.1	86.8
Apr	89.2	94.3	94.3	87.2
May	90.4	94.9	95.2	88.6
Jun	92.0	95.7	96.1	90.6
Jul	93.0	96.4	96.9	91.7
Aug	92.5	96.1	96.6	91.1
Sep	92.5	96.1	96.7	91.2
Oct	92.8	96.3	96.8	91.7
Nov	93.5	96.6	97.3	92.5
Dec	94.4	97.1	97.8	93.6

¹ An upward movement of the index represents an appreciation of the euro. The narrow indicator comprises 12 countries, 2001, the narrow plus euro area indicator 23 countries, and the broad indicator 32 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
1998	1.1	1.4
1999	1.1	1.3
2000	2.3	3.0
2001	2.5	2.7
2002	2.2	2.0
2002		
Jan	2.7	2.9
Feb	2.5	2.5
Mar	2.5	2.6
Apr	2.4	2.6
May	2.0	1.8
Jun	1.8	1.5
Jul	1.9	2.0
Aug	2.1	1.8
Sep	2.1	1.4
Oct	2.3	1.7
Nov	2.2	1.7
Dec	2.3	1.7

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	
	2001	2001 ¹	2002	2002 ¹	2001	2002
	1	2	3	4	5	6
Belgium	0.2	0.4	-0.1	.	107.6	105.6
Germany	-2.8	.	-3.8	.	59.5	60.9
Greece	-1.7	-1.2	-1.3	.	107.0	105.8
Spain	-0.1	.	0.0	.	57.1	55.0
France	-1.5	-1.4	-2.7	.	57.3	58.6
Ireland	1.5	.	-1.2	-1.0	36.4	35.3
Italy	-2.2	.	-2.4	.	109.9	110.3
Luxembourg	6.1	.	0.5	.	5.6	4.6
Netherlands	0.1	.	-0.8	.	52.8	51.0
Austria	0.2	.	-1.8	.	63.2	63.2
Portugal	-4.1	.	-3.4	.	55.5	57.4
Finland	4.9	.	3.6	.	43.4	42.4
Euro area	-1.5	-1.5	-2.3	.	69.3	69.6

¹ Incl. proceeds from sale of UMTS licences.

Source: European Commission.

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

Country	Currency	Units of currency per euro	Markkaa per units of currency
Austria	schilling	13.7603	0.432093
Belgium	franc	40.3399	0.147391
Germany	mark	1.95583	3.04000
Spain	peseta	166.386	0.0357346
Finland	markka	5.94573	
France	franc	6.55957	0.906421
Ireland	pound	0.787564	7.54952
Italy	lira	1936.27	0.00307071
Luxembourg	franc	40.3399	0.147391
Netherlands	guilder	2.20371	2.69805
Portugal	escudo	200.482	0.0296572
Greece	drachma	340.750	0.0174490

Source: European Union.

Table 15.
Key euro exchange rates, currency-value of one euro

	US dollar			Japanese yen		
	Low	Average	High	Low	Average	High
	1	2	3	4	5	6
1999	1.0015	1.0658	1.1790	102.48	121.32	134.40
2000	0.8252	0.9236	1.0388	89.30	99.47	111.88
2001	0.8384	0.8956	0.9545	100.62	108.68	115.90
2002	0.8578	0.9456	1.0487	112.40	118.06	125.18
2002						
Jan	0.8578	0.8833	0.9038	114.69	117.12	119.53
Feb	0.8632	0.8700	0.8794	114.91	116.23	117.76
Mar	0.8649	0.8758	0.8853	112.40	114.75	116.76
Apr	0.8763	0.8858	0.9038	114.74	115.81	117.20
May	0.9030	0.9170	0.9387	114.83	115.86	116.97
Jun	0.9313	0.9554	0.9975	115.67	117.80	118.73
Jul	0.9725	0.9922	1.0146	115.43	117.11	118.72
Aug	0.9687	0.9778	0.9873	114.82	116.31	117.62
Sep	0.9649	0.9808	0.9975	116.08	118.38	121.04
Oct	0.9735	0.9811	0.9890	120.65	121.57	122.57
Nov	0.9905	1.0014	1.0126	120.57	121.65	122.88
Dec	0.9871	1.0183	1.0487	123.14	124.20	125.18

Source: European Central Bank.

	Pound sterling			Swedish krona		
	Low	Average	High	Low	Average	High
	7	8	9	10	11	12
1999	0.62150	0.65874	0.71220	8.5500	8.8075	9.4696
2000	0.57110	0.60948	0.64020	8.0550	8.4452	8.8600
2001	0.59730	0.62187	0.64080	8.8395	9.2551	9.9631
2002	0.60920	0.62883	0.65050	9.0015	9.1611	9.5451
2002						
Jan	0.60960	0.61659	0.62620	9.1505	9.2275	9.2868
Feb	0.60920	0.61160	0.61830	9.0625	9.1828	9.2601
Mar	0.60970	0.61574	0.62130	9.0015	9.0594	9.1335
Apr	0.61090	0.61407	0.61880	9.0231	9.1358	9.2540
May	0.61790	0.62823	0.64050	9.1070	9.2208	9.3725
Jun	0.63860	0.64405	0.65010	9.0245	9.1137	9.2247
Jul	0.62610	0.63870	0.64690	9.0441	9.2689	9.5451
Aug	0.62740	0.63633	0.64160	9.1325	9.2489	9.4737
Sep	0.62640	0.63059	0.63630	9.0580	9.1679	9.3440
Oct	0.62650	0.62994	0.63260	9.0678	9.1051	9.1720
Nov	0.63260	0.63709	0.64130	9.0117	9.0818	9.1424
Dec	0.63640	0.64218	0.65050	9.0071	9.0961	9.1558

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

	Greek drachma	Danish krone	Swiss franc	Icelandic krona	Norwegian krone	Bulgarian lev	Cyprus pound
	1	2	3	4	5	6	7
1999	325.7625	7.4355	1.6003	77.177	8.3104	..	0.57884
2000	336.63	7.4538	1.5579	72.585	8.1129	..	0.57392
2001	..	7.4521	1.5105	87.42	8.0484	1.9482	0.57589
2002	..	7.4305	1.4670	86.18	7.5086	1.9492	0.57530
2002							
Jan	..	7.4329	1.4745	90.61	7.9208	1.9527	0.57604
Feb	..	7.4299	1.4775	88.13	7.7853	1.9485	0.57617
Mar	..	7.4324	1.4678	87.97	7.7183	1.9494	0.57510
Apr	..	7.4341	1.4658	85.98	7.6221	1.9499	0.57613
May	..	7.4356	1.4572	84.26	7.5207	1.9522	0.57853
Jun	..	7.4330	1.4721	85.28	7.4043	1.9488	0.58007
Jul	..	7.4301	1.4624	84.88	7.4050	1.9476	0.57720
Aug	..	7.4270	1.4636	84.22	7.4284	1.9468	0.57363
Sep	..	7.4271	1.4649	85.82	7.3619	1.9469	0.57338
Oct	..	7.4297	1.4650	86.08	7.3405	1.9463	0.57250
Nov	..	7.4280	1.4673	86.18	7.3190	1.9498	0.57200
Dec	..	7.4264	1.4679	84.92	7.2948	1.9521	0.57298
	Polish zloty	Romanian leu	Slovenian tolar	Slovakian koruna	Turkish lira	Australian dollar	Canadian dollar
	14	15	16	17	18	19	20
1999	4.2274	..	194.4737	..	..	1.6523	1.5840
2000	4.0082	..	206.6127	..	..	1.5889	1.3706
2001	3.6721	26004	217.9797	43.300	1102425	1.7319	1.3864
2002	3.8574	31270	225.9772	42.694	1439680	1.7376	1.4838
2002							
Jan	3.5922	28319	219.6918	42.503	1208795	1.7094	1.4135
Feb	3.6420	28031	222.7202	42.220	1183500	1.6963	1.3880
Mar	3.6229	28684	223.5431	41.951	1192600	1.6695	1.3903
Apr	3.5944	29328	224.3736	41.713	1170095	1.6537	1.4008
May	3.7126	30699	225.2300	43.002	1286227	1.6662	1.4210
Jun	3.8502	31908	226.0053	44.325	1468900	1.6793	1.4621
Jul	4.0882	32745	226.5774	44.494	1650565	1.7922	1.5321
Aug	4.0836	32344	227.2065	43.928	1602636	1.8045	1.5333
Sep	4.0703	32473	228.0443	42.929	1620238	1.7927	1.5434
Oct	4.0434	32607	228.7328	41.797	1625696	1.7831	1.5481
Nov	3.9569	33592	229.4644	41.540	1606571	1.7847	1.5735
Dec	3.9858	34251	230.0165	41.745	1619050	1.8076	1.5872

Sources: European Central Bank and Bank of Finland.

	Czech koruna	Estonian kroon	Hungarian forint	Lithuanian litas	Latvian lats	Malta lira
	8	9	10	11	12	13
1999	36.8862	15.6466	252.7672	..	..	..
2000	35.599	15.6466	260.04	..	..	..
2001	34.068	15.6466	256.59	3.5823	0.5601	0.4030
2002	30.804	15.6466	242.96	3.4594	0.5810	0.4089
2002						
Jan	32.066	15.6466	243.84	3.5320	0.5619	0.4009
Feb	31.789	15.6466	243.51	3.4527	0.5580	0.3985
Mar	31.419	15.6466	244.78	3.4524	0.5566	0.3999
Apr	30.336	15.6466	242.26	3.4528	0.5600	0.4008
May	30.552	15.6466	243.80	3.4524	0.5716	0.4064
Jun	30.300	15.6466	242.71	3.4525	0.5842	0.4130
Jul	29.727	15.6466	246.72	3.4528	0.5952	0.4160
Aug	30.796	15.6466	245.30	3.4526	0.5898	0.4140
Sep	30.190	15.6466	243.89	3.4526	0.5912	0.4129
Oct	30.660	15.6466	243.53	3.4526	0.5953	0.4129
Nov	30.752	15.6466	238.25	3.4528	0.6012	0.4148
Dec	31.194	15.6466	236.07	3.4523	0.6049	0.4160

	Hong Kong dollar	New Zealand dollar	Singapore dollar	South Korean won	South African rand	IMF SDRs
	21	22	23	24	25	26
1999	..	2.0145	..	1267.24	..	0.779666
2000	..	2.0288	..	1043.41	..	0.699799
2001	6.9855	2.1300	1.6039	1154.83	7.6873	0.703237
2002	7.3750	2.0366	1.6912	1175.50	9.9072	0.729237
2002						
Jan	6.8886	2.0826	1.6247	1160.78	10.2535	0.705129
Feb	6.7857	2.0771	1.5935	1147.18	9.9955	0.699025
Mar	6.8308	2.0261	1.6016	1157.30	10.0974	0.700495
Apr	6.9091	1.9995	1.6191	1163.18	9.8103	0.704735
May	7.1521	1.9859	1.6506	1150.08	9.2845	0.718339
Jun	7.4523	1.9517	1.7029	1160.62	9.7239	0.734484
Jul	7.7389	2.0646	1.7395	1169.16	10.0140	0.745701
Aug	7.6265	2.1076	1.7164	1167.08	10.3591	0.740138
Sep	7.6500	2.0847	1.7320	1182.57	10.3986	0.742072
Oct	7.6521	2.0381	1.7511	1211.92	10.1148	0.744584
Nov	7.8098	2.0155	1.7666	1208.19	9.6582	0.752651
Dec	7.9409	1.9947	1.7858	1226.88	9.1039	0.760545

Table 17.
Notes and coins put into circulation by the Bank of Finland, EUR m

	2002				2002
	I	II	III	IV	
Notes put in circulation by the Bank of Finland					
500 euro	390.7	278.6	294.6	324.2	1,288.1
200 "	254.3	112.2	109.9	150.7	627.1
100 "	312.0	155.5	158.2	216.9	842.6
50 "	1,405.3	1,293.9	1,366.9	1,492.2	5,558.3
20 "	2,189.9	1,885.2	1,913.3	2,034.9	8,023.3
10 "	248.5	87.9	100.8	123.9	561.1
5 "	147.6	48.1	59.2	69.8	324.7
Total, millions	197.1	141.2	147.6	161.5	647.4
Withdrawn notes, millions	0.50	1.80	2.60	2.00	6.89
Coins put into circulation by the Bank of Finland					
Ordinary coins					
2 euro	89.8	13.4	15.1	20.1	138.4
1 "	52.6	7.2	8.2	10.3	78.3
0.50 "	29.9	3.1	3.9	5.1	42.0
0.20 "	24.6	2.4	3.0	3.6	33.6
0.10 "	14.1	0.7	1.1	1.5	17.4
0.05 "	9.5	0.3	0.5	0.7	11.0
0.02 "	0.1	0.0	0.0	0.0	0.1
0.01 "	0.0	0.0	0.0	0.0	0.1
Commemorative coins					
100 euro	–	–	–	2.2	2.2
10 "	–	0.8	0.3	0.1	1.2
Total	220.6	27.9	32.1	43.6	324.3
Withdrawn coins, millions					
Ordinary coins	–	–	–	–	–
Commemorative coins	–	–	–	–	–

Source: Bank of Finland.

Table 18.
Notes sorted at the Bank of Finland, millions

Euro banknotes	2002	Markka banknotes	1999	2000	2001
500 euro	1.2	1,000 markka	3.8	5.1	7.3
200 "	1.6	500 "	10.6	10.5	14.9
100 "	5.1	100 "	545.6	531.6	548.4
50 "	78.3	50 "	50.7	52.7	51.3
20 "	302.5	20 "	57.5	59.1	80.7
10 "	33.2	10 "	–	–	–
5 "	38.2				
Total	460.1	Total	668.2	659.0	702.6

Source: Bank of Finland.

Table 19.
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	Transactions						
					Value, EUR bn	Incoming TARGET payments, number in thousands	Value, EUR bn	TARGET payments, total number in thousands	TARGET payments, total value, EUR bn	Trans- actions, total number in thousands	Trans- actions, total value, EUR bn
	1	2	3	4	5	6	7	8	9	10	11
1998	18	181.3	1,935.5							181.3	1,935.5
1999	14	223.4	1,308.7	87.3	1,502.9	105.8	1,504.0	193.0	3,006.9	416.4	4,315.6
2000	14	215.6	1,552.4	93.2	1,561.5	105.3	1,559.6	198.4	3,121.2	414.1	4,673.6
2001	15	186.6	1,289.2	104.4	1,270.3	109.1	1,269.6	213.5	2,540.0	400.1	3,829.2
2002	17	138.8	1,239.4	116.9	1,250.5	134.9	1,250.5	251.8	2,501.0	390.6	3,740.4
2002											
Jan	17	12.7	104.4	9.4	120.0	11.1	120.0	20.4	240.0	33.1	344.5
Feb	17	11.0	100.4	8.6	87.2	9.8	87.2	18.4	174.5	29.5	274.8
Mar	17	11.8	113.4	9.2	97.7	10.5	97.7	19.7	195.4	31.5	308.8
Apr	17	12.2	102.6	9.9	100.4	10.6	100.4	20.5	200.9	32.7	303.5
May	17	12.5	127.4	10.5	102.8	11.6	102.8	22.1	205.6	34.6	333.0
Jun	17	10.8	101.0	9.4	94.4	11.8	94.4	21.2	188.9	32.0	289.8
Jul	16	11.5	93.3	10.9	108.9	12.3	108.9	23.2	217.8	34.7	311.1
Aug	16	10.9	91.4	9.7	109.6	11.3	109.6	21.1	219.3	32.0	310.7
Sep	16	11.1	92.5	10.4	91.0	11.5	91.0	21.8	182.0	32.9	274.6
Oct	16	11.8	96.6	10.4	111.7	11.9	111.7	22.3	223.4	34.1	319.9
Nov	17	11.3	104.2	9.4	119.6	11.4	119.6	20.8	239.2	32.0	343.4
Dec	17	11.1	112.1	9.2	107.1	11.1	107.1	20.3	214.2	31.5	326.3

Source: Bank of Finland.

Table 20.
Banks' intraday credit limits

End of period	Total limits, EUR m	Maximum usage rate of limits ¹ , %	Average usage rate of limits ² , %	End-of-day balances ³ , EUR m
	1	2	3	4
1998	3,227	44	6	951
1999	6,500	52	4	1,588
2000	4,700	39	0	1,614
2001	3,385	40	0	1,811
2002	3,927	34	0	2,011
2002				
Jan	4,034	22	0	1,740
Feb	3,665	22	0	2,015
Mar	3,865	16	0	2,219
Apr	4,285	31	0	1,928
May	3,714	22	0	2,044
Jun	3,388	12	0	2,083
Jul	3,535	5	0	1,870
Aug	3,435	15	0	2,082
Sep	3,640	24	0	2,025
Oct	3,453	34	0	2,063
Nov	3,744	27	0	2,176
Dec	3,927	14	0	1,888

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 (calculated since the beginning of 1997).

² The average usage rate of limits is the ratio of banks' average debit balances on settlement accounts with the Bank of Finland to total limits during the relevant period.

³ Average value for period.

Source: Bank of Finland.

Table 21.
Domestic clearing operations

	Debit entries		Credit entries		Total entries	
	Number, millions	Value, EUR bn	Number, millions	Value, EUR bn	Number, millions	Value, EUR bn
	1	2	3	4	5	6
1998	158.2	47.4	163.6	154.8	321.8	202.2
1999	164.9	8.1	167.8	124.5	332.0	132.6
2000	181.3	8.8	174.2	138.5	355.1	147.3
2001	210.6	9.6	188.9	159.9	399.4	169.5
2002	249.2	10.4	194.4	169.7	443.6	180.1
2002						
Jan	15.9	0.5	16.0	12.4	31.9	12.9
Feb	15.4	0.7	16.1	12.6	31.4	13.3
Mar	18.5	0.8	16.0	13.6	34.5	14.4
Apr	21.8	0.9	16.8	14.5	38.6	15.4
May	21.8	1.0	16.8	14.9	38.6	15.9
Jun	20.5	0.9	15.9	14.3	36.4	15.2
Jul	24.5	1.0	16.0	14.5	40.5	15.6
Aug	21.2	0.9	15.0	13.2	36.2	14.1
Sep	21.3	0.9	15.9	14.3	37.2	15.1
Oct	21.6	0.9	17.3	15.3	38.9	16.2
Nov	20.7	0.8	15.9	15.5	36.6	16.3
Dec	26.0	1.1	16.7	14.6	42.7	15.7

Source: Bank of Finland.

Bank of Finland publications in 2002

Euro & talous	Finnish-language quarterly.
Bank of Finland Bulletin	English-language quarterly.
Bank of Finland Annual Report	Published separately in Finnish, Swedish and English.
Studies	
Series A, studies intended for the general public	A:102 Heikki Koskenkylä (Ed.) Finnish financial markets 2002 (Seven articles).
Series E, doctoral theses and analytical studies	E:23 Mika Kortelainen Edge: a model of the euro area with applications to monetary policy, doctoral thesis.
Discussion Papers	29 research reports by various departments of the Bank of Finland appeared in the Bank of Finland Discussion Papers series.
Statistical publications	Financial markets; published monthly (trilingual edition in Finnish, Swedish and English). Finland's balance of payments – Statistical bulletin; published monthly (trilingual edition in Finnish, Swedish and English). Finland's balance of payments – Annual statistics (trilingual edition in Finnish, Swedish and English). Balance of payments and international investment position – Statistical bulletin; published quarterly (trilingual edition in Finnish, Swedish and English). Direct investment in Finland's balance of payments; published annually (trilingual edition in Finnish, Swedish and English). Finnish Bond Issues; published annually (trilingual edition in Finnish, Swedish and English).
Publications of the Institute for Economies in Transition	16 studies (in English) appeared in the series BOFIT Discussion Papers. 13 issues (in English or Finnish) appeared in the online series BOFIT Online. Russian and Baltic Economies – The Week in Review; published weekly (in Finnish and English). Russian Economy – The Month in Review; published monthly (in English). Baltic Economies – Bimonthly Review; published six times per year (in English).
Orders and subscriptions	The Bank of Finland's Annual Report and research publications are available at bookshops. Publications required for official use and research purposes may be obtained directly from the Bank of Finland at the following address: Bank of Finland, Address Register, P.O.Box 160, 00101 Helsinki; tel. +358 9 1831; fax + 358 9 174 872; email: publications@bof.fi. The Bank of Finland Bulletin, Euro & talous, Discussion Papers, Statistical publications (the latter mostly being charged for) and publications of the Institute for Economies in Transition are also available from the same address, as too is a list of Bank of Finland publications.

Bank of Finland representation in ECB and EU bodies, 2002

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Matti Louekoski, Alternate and Accompanying person (from 18 March 2002)
Kjell Peter Söderlund, Accompanying person (until 17 March 2002)

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Kjell Peter Söderlund
(until 16 January 2002)
Olli-Pekka Lehmuusaari
(from 17 January 2002)

Budget Committee

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Accounting and Monetary Income Committee

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Tuula Colliander

Legal Committee

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(from 1 October 2002)

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Pentti Pikkarainen
Anneli Isopuro

Banking Supervision Committee

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(until 19 February 2002)
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(from 20 February 2002)

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Tuomas Saarenheimo

Banknote Committee

Urpo Levo
Paavo Perttu

Internal Auditors Committee

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Laura Vajanne

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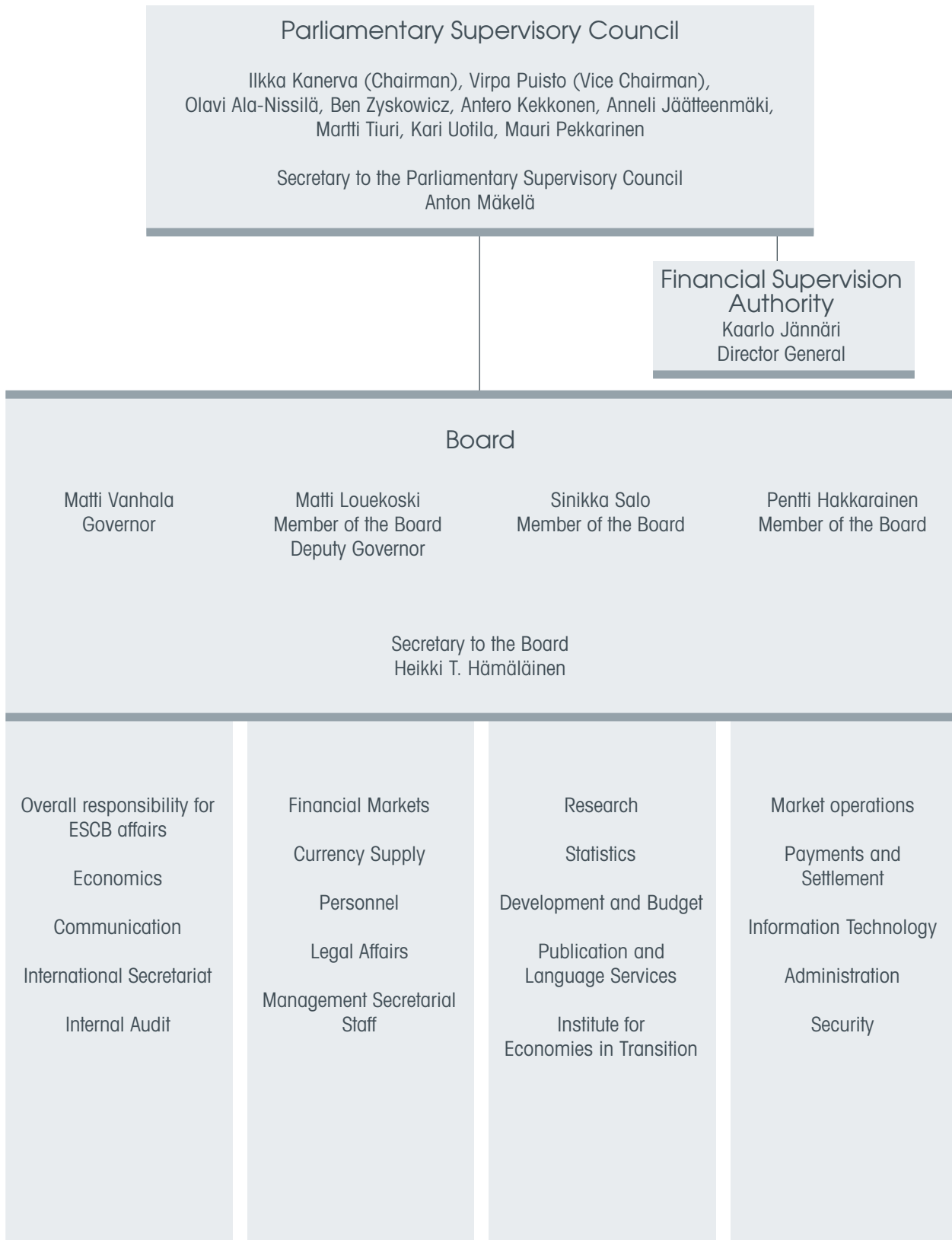
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Banking Advisory Committee

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at end-2002



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Institute for Economies in Transition Pekka Sutela			

* Adviser to the Board

** In addition to own duties

*** Organisational restructuring in 2003 resulted in department being divided into two divisions; the Back Office Division headed by Meeri Saloheimo and the TARGET Division headed by Anna-Maija Tikkanen.

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