



BANK OF FINLAND  
ANNUAL REPORT  
2003



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# Bank of Finland

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# Contents

Bank of Finland – promotor of stability .....	6
The Bank of Finland as part of the European System of Central Banks.....	7
Governor’s review.....	9
Monetary policy and economic policy .....	13
Bank of Finland – contribution to preparation of monetary policy .....	13
The ECB’s monetary policy was clarified .....	13
The ECB’s monetary policy in 2003 .....	14
The Bank of Finland and economic policy in Finland .....	17
Bank of Finland and international economic policy .....	19
International Monetary Fund .....	21
Monetary policy implementation in the euro area and Finland .....	23
The Eurosystem’s monetary policy operations .....	23
Finnish credit institutions’ participation in Eurosystem monetary policy operations .....	24
Merging two tiers of eligible assets into single list under consideration .....	25
Financial markets.....	27
Macroprudential analysis and oversight of financial markets .....	27
Cooperation between national authorities .....	30
International cooperation between authorities .....	32
Payments.....	35
Maintenance of currency supply .....	38
Changes in regular customers of the currency supply .....	38
Restructuring of the cash supply started at the beginning of 2004 .....	39
Demand for euro banknotes and coins increased by one fifth compared to 2002 .....	39
Number of counterfeit banknotes has increased .....	41
Foreign reserves.....	42
Bank of Finland’s foreign reserve assets .....	42
The ECB’s foreign reserves .....	44
Other central bank activities.....	45
Statistics .....	45
Compilation and publication of statistics .....	45
Cooperation within the ESCB and the EU .....	46
Other international and domestic cooperation .....	46
Research activities .....	47
Monetary research .....	47
Research on economies in transition .....	48
Scientific meetings .....	48
Information and publications .....	49

The Bank's governance and resource allocation .....	51
Budget and operating costs .....	51
Information technology .....	54
Personnel .....	56
Resource allocation, staff structure and staff mobility .....	56
Development projects .....	56
Staff reports .....	56
Employer policy .....	57
Pension fund activities .....	57
Staff competence .....	57
Wellness at work .....	58
Real estate and other holdings .....	59
OMHEX .....	59
Setec .....	60
Financial statements .....	61
Balance sheet .....	62
Profit and loss account .....	64
Appendices to the financial statements .....	65
Notes to the financial statements .....	67
Accounting conventions .....	67
Post balance sheet events .....	69
Accounting principles applied to the profit and loss account .....	70
Notes to the balance sheet .....	71
Notes to the profit and loss account .....	74
Auditors' report .....	77
Statement	
regarding the audit as defined in Article 27 of	
the European System of Central Banks Statute .....	78
Appendices .....	79
Monetary policy measures of the Eurosystem .....	79
Key measures affecting the financial markets .....	80
Main opinions issued by the Bank of Finland .....	84
Supplementary tables .....	85
Bank of Finland publications .....	107
Bank of Finland representation in ECB and EU bodies .....	108
The Bank of Finland's organisation .....	109

## Charts

1. Harmonised index of consumer prices for the euro area	14
2. Eurosystem main refinancing rate and 3-month Euribor rate	14
3. Euro exchange rates against US dollar and Japanese yen	15
4. Euro area market rates	16
5. Eurosystem interest rates and overnight rate	24
6. Finnish credit institutions' shares in Eurosystem main refinancing operations and use of standing facilities	24
7. Deposit banks' interest rate margin and the 12-month Euribor rate	28
8. Deposit banks' lending growth rate	28
9. Transactions in TARGET, quarterly turnover	36
10. Number of payments effected via TARGET, quarterly	36
11. Value of markka and euro notes put into circulation in Finland	39
12. Value of banknotes put into circulation in Finland by denomination	40
13. Value of coins put into circulation in Finland by denomination	40
14. Number of coins put into circulation in Finland by denomination	41
15. Distribution of the Bank of Finland's credit portfolio by credit rating, as of 31 Dec 2003	43
16. Distribution of the Bank of Finland's foreign reserves excl. gold, as of 31 Dec 2003	43
17. The Bank of Finland's net operating expenses 1999 – budget 2004	51

## Supplementary tables

1. Monthly balance sheet of the Bank of Finland	80
2. Main refinancing operations of the Eurosystem	84
3. Longer-term refinancing operations of the Eurosystem	86
4. Other tender operations	86
5. Key interest rates of the Eurosystem	87
6. Euro area banking system's liquidity position, averages of daily positions	88
Liquidity position of the Finnish banking system, averages of daily positions	89
7. Reserve base of euro area and Finnish credit institutions subject to reserve requirements	90
8. Reserve maintenance of euro area and Finnish credit institutions subject to reserve requirements	90
9. Euro area monetary aggregate M3 and corresponding items of Finnish monetary financial institutions	92
10. Key market interest rates	92
11. Nominal competitiveness indicators for Finland and the effective exchange rate of the euro calculated by the ECB	93
12. Harmonised index of consumer prices for euro area and Finland	93
13. General government fiscal position and debt	93
14. Irrevocable euro conversion rates as from 1 Jan 1999	93
15. Key euro exchange rates, currency-value of one euro	94
16. Other euro exchange rates, currency-value of one euro	96
17. Banknotes and coins put into circulation by the Bank of Finland	98
18. Banknotes sorted at the Bank of Finland	98
19. Bank of Finland interbank funds transfer system (BoF-RTGS)	99
20. Banks' intraday credit limits	100
21. Domestic clearing operations	100

## Bank of Finland – promotor of stability

The Bank of Finland is Finland's monetary authority and an active and constructive member of the European System of Central Banks (ESCB). The Bank's activities are regulated by the Statute of the ESCB and the Act on the Bank of Finland.

Price stability, efficient and sound financial markets as well as well-functioning and reliable payment systems provide favourable conditions for sustainable economic growth and employment. The Bank's activities are directed at promoting these objectives.

In detailing its vision for 2003, the Bank affirms its powers of influence as being based on well-focused monetary research of the highest standards, efficient international and domestic networks for cooperation, and openness in communication.

In addition to monetary policy preparation, the core functions of the Bank of Finland are: monitoring of financial market stability, operational central bank tasks in connection with payments, the implementation of monetary policy, maintenance of currency supply, and other official tasks. The Bank needs a strong balance sheet to carry out its central bank tasks and as support in the event of crises or disturbances. The Bank of Finland manages its foreign exchanges actively and in compliance with strict risk management rules.

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 supervise the activities of the Bank. At the end of 2003, a total of about 630 staff were employed in the 11 departments and 8 special units of the Bank's head office and the 5 regional offices.

# The Bank of Finland as part of the European System of Central Banks

The highest decision-making body of the European Central Bank and the Eurosystem is the Governing Council of the ECB. Matti Vanhala, Governor of the Bank of Finland, is a member of the Governing Council of the ECB. Together with the governors of the other euro area national central banks (NCBs) and the members of the Executive Board of the ECB, he participates, as a member, in the decision-making of the Governing Council on all issues concerning the ECB and the Eurosystem. Matti Louekoski, Deputy Governor of the Bank of Finland, is Matti Vanhala's personal alternate member and assistant in the Governing Council. As Governor of the Bank of Finland, Mr Vanhala also participates in the meetings of the General Council of the ECB along with the governors of the central banks of all EU Member States and the President and Vice President of the ECB.

The Governing Council convenes regularly twice a month. In the first meeting of the month, deliberations are focused in particular on current monetary conditions and interest rates. In the second meeting of the month, the Council addresses other issues within its remit. In contrast, issues addressed in the meetings of the General Council are those prescribed in the Statute of the European System of Central Banks.

In addition, the board and experts from the Bank of Finland participate in the work of the European System of Central Banks (ESCB) during the preparation stage in all its committees and most of its working groups (for further details on BoF participation in the ESCB, see the annex to the Annual Report). The committees and working groups convene according to their respective needs within their mandate, generally several times a year.





**Board of the Bank of Finland.**

From the left: Matti Louekoski, Matti Vanhala, Sinikka Salo and Pentti Hakkarainen. In the background 'Kouros', a mural by Carolus Enckell (1987).

# Governor's review

The economic atmosphere in which 2004 has begun is already more favourable than that in which the previous year began. The upturn in the world economy, foreseen by so many, was finally achieved by the middle of 2003 and the effects although somewhat subdued – could already be felt in the euro area by the end of the year. It is true to say that expectations of economic recovery in Finland are well founded, particularly when bearing the export situation in mind.

The economic growth of 2003 was strongly influenced by a rapid strengthening of the euro. The euro did not strengthen as a result of the euro area economy, rather it was a reflection of the markets' reactions to the notable deficit experienced in the United States' current account and public sector finances.

The upward adjustment of the previously under-rated euro should however to be viewed in a positive light, as it has the effect of suppressing inflationary pressures, permitting low interest rates and supporting an increase in demand on the domestic market. In recent months, however, the strengthening of the euro has been perceived in a less favourable manner. Dramatic fluctuations in exchange rates have given rise to uncertainty, which can prove a powerful brake to economic growth.

The world economy has approached this economic upturn from an exceptional position. Just as the United States of America has acted as the mover behind the present growth, there has also been an increasing lack of confidence in the nation's financial position and a subse-

quent downward pressure on the ever-weakening dollar. This inevitably causes complications when making economic development prognoses for the near future.

According to the more optimistic forecasts, robust productivity growth leading to an upward turn will stabilise the imbalance that has recently been experienced in the United States and will result in the world economy bouncing back to regain a more stable path upwards. In less positive forecasts, the instabilities of the US economy will only be adjusted through the force of crisis and we will be faced with a slowing down of the global economy.

Were the euro area member states to dismantling the structural rigidities that are currently putting a strain on their own economic growth, it is foreseeable that they could make a more positive contribution to both their own and the world economy.

The EU's financial policy framework was placed under considerable strain in 2003. Eventually a conclusion was reached, although clouded by extreme differences of opinion. The situation does not immediately appear to have weakened the member states' aim of achieving a responsible financial policy framework however, from the point of view of the Economic and Monetary Union's long-term perspective on its measures, it is a worrying state of affairs. The economic upturn that has already been experienced not only offers the opportunity to fix financial policy errors, but hopefully also offers a more favourable political atmos-

phere in which to clarify the code of conduct governing the financial policy framework.

The transition experienced in international economic structures and tightening competition reaching into new sectors created pressure throughout the euro area. The most significant economic problems in Europe are the inability, or even a lack of willingness, to identify and accept the pressures for change in the global economy. Rejection of inevitable change can only lead along the path to a deepening of economic isolation. Only a dynamic and flexible economy, capable of discovering and adjusting to new strengths and to replacing lost or redundant ones, can thrive in today's economic environment.

Without doubt, this observation equally concerns the Finnish economy. At this juncture, however, this view of international economic recovery hardly provides a reason for putting a more positive slant on forecasts concerning growth and employment in Finland. Many observations, in fact, indicate the exact opposite; muted recovery and a cautious atmosphere in the private sector. One of the key questions to come up is Finland's capacity for taking advantage of the opportunities offered by globalisation, when national limitations on resources are to be tightened with the extension of provisions in the welfare society while still aiming to maintain the same high standards as before.

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Over the year, financial stability in Finland improved due to the continuing strong returns shown by the country's financial institutions. Overall, the financial market situation in Finland at present is sound, credit risks are few and Finnish payment systems have proved as operating reliably. Despite this, the Bank of Finland has warned banks and the general public alike about the strong growth in the stock of housing loans and the risks associated with the rise in housing prices.

On the international front, the financial markets' ability to withstand shocks was put to the test in 2003, with problems in the recovery of the world economy along with the many uncertainties and instabilities that were experienced. Should the world economy experience more robust growth in 2004 than in the previous year, there may be an equivalent strengthening in the structure of the financial sector.

Over the last few years, the Nordic countries have been at the forefront of structural reform in the financial sector, whereas Continental Europe did not witness any major banking mergers during 2003. On the other hand, within the financial systems, there were developments in both the infrastructure as well as distinct moves towards integration. Systems handling large-value payments and retail payments as well as those handling foreign currency trades represent the newest generation in payment and settlement systems. The objective behind the improvements being to enhance the efficiency of pan-European payment

systems and therefore benefit banks, companies and households alike.

Ongoing changes within the financial markets, the progression towards integration and the general increase in the dialogue between nations all pose their own major challenges on the regulation and supervision of the markets. The measures undertaken by the Bank of Finland to promote stability and effective progress have naturally been integrally tied to the economic environments of both the European and Nordic countries, as well as to the operations of the European System of Central Banks. Regrettably, EU legislation is not completely up to date regarding the development of the financial markets. European Union-level legislation and harmonised supervisory practices concerning stock exchanges and settlement systems can still be considered inadequate. However, we have seen the development, by Nordic central banks, of a contingency management procedure in cooperation with financial market participants in recent times.

During 2003, the Bank of Finland sought to promote discussion on many issues concerning financial markets, for example through its newly-published financial stability report. Positive response after the report's publication was an indication of how research into the phenomena behind financial markets could be of benefit to the economy.

\* \* \*

The question of the Banks' economic position and its independence rose to the

forefront of public discussion over 2003. The discussions were initiated by the report issued by the Ministry of Finance's working group established to review the proposed amendments to the Act on the Bank of Finland. The working group concluded with the presentation of a controversial report, according to which the Bank of Finland's capital should be cut, the right to make provisions should be restricted and the Bank's profits should be transferred, in their entirety, to the State.

The Bank of Finland expressed its gravest concerns over the proposals. The proposed amendments would have substantially weakened the Bank's chances of operating effectively as the national monetary authority and bearing the risks that undertaking such responsibilities involve. Growth of the financial markets as well as international integration has added to existing market risks and the cross-border threat of contagion they pose. On top of which, the proposed amendments to the Act would have been in direct conflict with the Treaty on the European Union, regarding the economic independence of central banks.

In their statements, the European Central Bank, the Parliamentary Supervisory Council and the Bank's auditors elected by Parliament held that a weakening of the capital adequacy and risk-bearing capacity of the central bank would be a dangerous move to make. The Government announced its decision to withdraw the proposed amendments from its parliamentary proceedings in February 2004.

The Bank of Finland's results for the year were at a similar level to those of the previous year, although losses coming out of unfavourable exchange rates, caused by the strengthening of the euro – particularly against the US dollar – were covered by a decrease in the Bank's provisions. Fluctuations in exchange rates, such as those caused by the changes in the value of the dollar, will continue to affect the Bank of Finland's foreign currency reserves' euro-denominated value, and therefore also the results of the Bank if the provisions are unavailable.

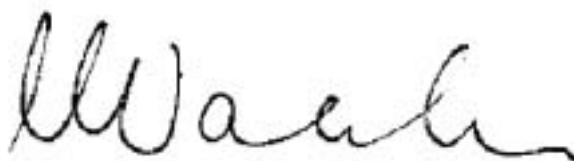
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The Bank's regional currency supply system underwent a thorough restructuring in 2003. With the restructuring came an increase in the efficiency of the regional offices. The revised currency supply arrangements will become effective over the coming year. One of the objectives behind the restructuring was to clarify the division of responsibility regarding the currency supply, to enhance the logis-

tical aspects of banknote circulation and to improve the uptake of capacity available.

The Bank of Finland shifted the emphasis away from the cash retail trade aspects of its currency supply system, which is the reasoning behind the closure of the branch offices' customer service points, with the exception of the head office in Helsinki.

The most significant change in the currency supply system has been the establishment of regional cash depots. These depots reduce the currency supply system's customers' need for cash transportation. The cash depots have been set up in several locations around Finland, serving those communities whose distance to the existing distribution centres are particularly long or where the sparse level of population density otherwise causes distribution problems. In addition to these structural changes, the Bank expanded its cash reception services in all regional offices, thus enhancing cash circulation throughout the country.



# Monetary policy and economic policy

## Bank of Finland – contribution to preparation of monetary policy

As a full member of the Eurosystem, the Bank of Finland influences the formulation of the ECB's monetary policy. Being 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. Experts from the Bank of Finland sit as members of both the Monetary Policy Committee and its working groups whose tasks include drawing 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 system for public sector financial data throughout the euro area. Many structural issues are covered in the annual structural report. In 2003, the structural report concentrated on the specialisation by industry sector of the EU member-state economies, especially in terms of macro economy and monetary policy.

## The ECB's monetary policy was clarified

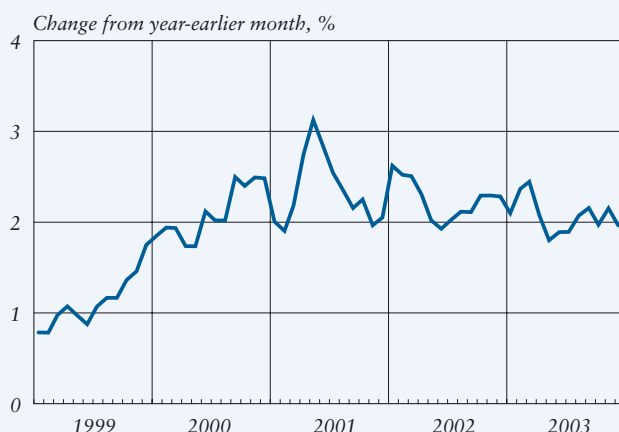
The primary objective of the Eurosystem is to maintain price stability in the euro area, as specified in the Statute of the Eu-

ropean System of Central Banks (ESCB). Consequently, in order to achieve this objective, all monetary policy decisions are made on the basis of this stability-oriented strategy. The strategy is composed of three parts: 1) definition of price stability, 2) major role of the monetary aggregate in the evaluation of risks to price stability 3) broad-based review of price developments. At its meeting on 8 May 2003, the Governing Council of the ECB evaluated the experience gained from the implementation of the ECB's strategy since the introduction of the euro. The basic principles underlying the strategy were not altered, but certain shifts in emphasis were made and the interpretation of the strategy was partly re-evaluated.

The Governing Council confirmed that price stability continues to be defined in terms of a less than 2% rise in the Harmonised Index of Consumer Prices (HICP), and that the preservation of price stability is the medium-term strategic objective. In striving to maintain price stability, the ECB seeks to keep the inflation rate below 2%, yet close to that target over the medium term. The Governing Council thus emphasised maintenance of an adequate margin as a buffer against deflation risk. This revision also takes into account potential measurement errors and differences in euro area inflation rates.

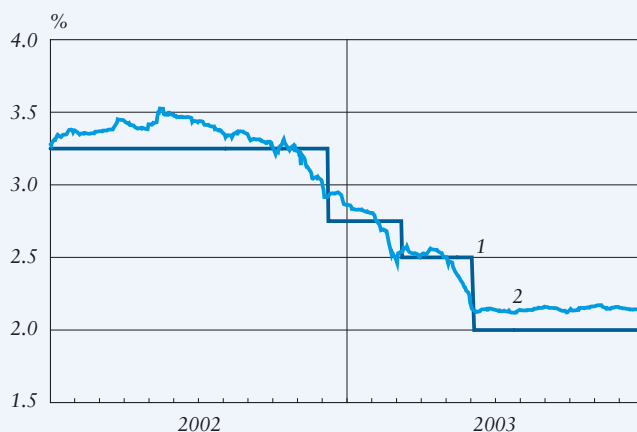
Monetary policy decisions will continue to be based on a thorough analysis of risks affecting price stability. In economic analysis, short- and medium-term risks to price stability are analysed, the

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



Source: Eurostat.

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



1. Main refinancing minimum bid rate

2. 3-month Euribor rate

Sources: European Central Bank and Reuters.

focus being on shocks affecting the euro area and the development of key macro economic variables. In monetary analysis, medium- and long-term inflation developments are analysed in terms of

various monetary indicators such as the components of the broad monetary aggregate M3 and their counterparts, with special focus on developments in lending. In order to emphasise that the reference value set for monetary growth serves as a benchmark for monetary developments, particularly over the long term, the Governing Council decided to discontinue the annual revision of the reference value. In its effort to build an overall picture of risks to price stability, the Governing Council continues to compare information obtained from these two analyses.

#### The ECB's monetary policy in 2003

Throughout 2003, euro area price stability remained virtually in line with the monetary policy objective. The annual inflation rate hovered around 2% (Chart 1). During the course of the year, consumer prices rose by 2.0%, corresponding to the annual average of 2.1%. In early 2003, weak economic performance in the euro area and the resulting moderation of inflation prospects provided room for a more relaxed monetary policy (Chart 2). Towards the end of the year, economic prospects became more favourable, being supported by international developments. Overall economic growth for the euro area remained at 0.4%.

Euro area economic growth and inflation were partly slowed down by the noticeable appreciation of the euro, which had started in early 2002 and remained brisk until early summer 2003 (Chart 3). After which, the euro fluctuated without any distinct trend, and

strengthened again in November and December. In annual terms, the appreciation of the euro vis-à-vis other key currencies was 10–20%, on average. This strengthening notwithstanding, the price-competitiveness of euro area exporters was only close to the long-term average.

At its meeting in December 2002, the Governing Council had reduced the minimum bid rate on the main refinancing operations by 0.50 percentage point to 2.75%. The decision was based on an expectation of consumer price inflation falling below 2% in 2003, owing to weak economic performance. The outlook for consumer price developments and economic performance remained virtually the same in January and February, as a result of which the Governing Council considered this policy rate to be appropriate in ensuring price stability over the medium term.

The medium-term inflation outlook was confounded by the fast expansion of M3 to more than 8% during the first few months of 2003. Monetary growth had remained persistently rapid, at 7–8%, for already a year and a half, the result being that there was ample liquidity in the euro area. Nevertheless, in the prevailing conditions of slow growth and widespread uncertainty, the Governing Council did not yet consider liquidity conditions to constitute a major threat to price stability. The stability of financial developments was also evidenced by the slowdown in lending growth at monetary financial institutions to less than 5%.

In March, the Governing Council made a cautious 0.25 percentage point cut

**Chart 3.**  
Euro exchange rate against US dollar and Japanese yen



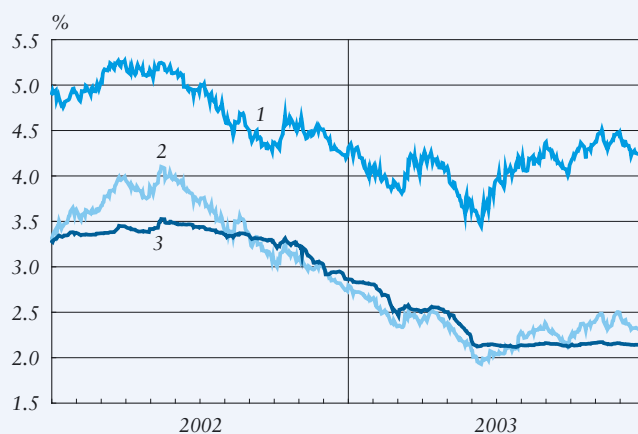
1. USD-value of one euro (LHS)  
2. JPY-value of one euro (RHS)  
Source: Reuters.

in the policy rate against the background of an improved outlook for price stability and weaker-than-expected economic growth, both driven by the appreciation of the euro. The policy rate cut lowered export and import prices for the euro area and weakened its price competitiveness in exports. The outlook for economic growth in 2003 was very dim, although quarterly growth rates were estimated as improving towards the end of the year.

In the spring, the prospective war in Iraq increased uncertainty in the global and euro area economies. Following the end of the military action, uncertainty gradually faded, giving way to economic growth. However, risks and costs relating to the reconstruction aggravated concerns over growing US budget and current account deficits. The Governing



**Chart 4.**  
**Euro area market rates**



1. German 10-year bond rate  
2. 12-month Euribor rate  
3. 3-month Euribor rate  
Source: Reuters.

Council kept the policy rate unchanged throughout the rest of the spring.

Euro area economic growth turned out to be rather weak during the first quarter of the year, and the risk of growth remaining below expectations increased. At the beginning of June, the Governing Council therefore lowered the policy rate by 0.5 percentage point to 2.0%, thus bringing the rate to a level that in nominal terms was the lowest in decades. The reduction was possible because inflation prospects were expected to alleviate clearly during 2004. There was even debate on the markets concerning the risk of deflation.

At the time of the policy rate cut in June, market rates were exceptionally low in both the United States and the euro area (Chart 4). In the United States and Germany, the interest rate on ten-year government bonds dropped to 3.1%

and under 3.5%, respectively. Short-term interest rates reflected expectations of a continued fall in the interest rates, which were further boosted by statements made by the Federal Reserve. At the end of June, the US policy rate was brought to the historically low of 1%. Interest rate expectations changed rapidly, however, and already during the summer long-term market rates rose by one percentage point.

There was an overall improvement in the summer in prospects on economic revival, and during the autumn expectations about the growth of the world economy improved further. US economic growth improved significantly, while in Asia, and particularly in China, strong growth had been under way for quite some time, and performance of the Russian economy continued to improve. The double deficit of the US economy partly contributed to uncertainty, however. Nevertheless, financing of the deficits continued without problem, mostly as a result of the very large dollar-interventions of Asian countries. In contrast, euro area economic revival was slowed down particularly by the performance of the German and French economies, which continued to be modest even towards the end of the year.

The inflation rate and inflation prospects hovered around 2% throughout the remainder of the year. Markets began to expect a rise in interest rates, however. This notwithstanding, the Governing Council considered that the interest rate level was appropriate throughout the autumn, and the policy rate was not changed during the rest of the year.

In most euro area countries, the year 2003 was characterised by challenges related to the fiscal policy. France and Germany did not take adequate action to address their excessive deficits even though the Ecofin Council, made up of the ministers responsible for economic affairs and finance in the EU countries, urged them to do so. The situation escalated in November, when the Ecofin Council did not take the action recommended by the European Commission, in line with the Stability and Growth Pact, to remedy these countries' excessive deficits. On many occasions throughout the year, the Governing Council repeatedly referred to the credibility problems arising from the situation and affecting the euro area economic policy, all the time underlining the importance of observing the pact.

For its part, the Governing Council frequently emphasised the importance of structural measures in order to improve euro area growth potential and strengthen the sustainability of public finances. Indeed, throughout the year, many countries launched structural reforms relating to taxation, public spending and pension systems.

### **The Bank of Finland and economic policy in Finland**

Within the Eurosystem, the Bank of Finland has pre-eminent expertise 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 an-

nually 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 identify 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 its forecast released in March, the Bank of Finland estimated that Finland would see a slight improvement in economic growth compared to the previous year, even though global economic growth was expected to remain modest, at least for the early part of the year, owing to economic and political uncertainties. The weakness of the world economy had an adverse impact on Finnish exports, and investment seemed to diminish more than expected. In the forecast released in September, the Bank had to make a downward revision in the growth estimate for 2003, anticipating that growth would fall clearly behind last year's figures. According to preliminary data, the Finnish economy grew by 1.9% in 2003. The Bank forecast that the growth rate of consumer prices in Finland would continue to slow down clearly in 2003 and remain noticeably slower than in the euro area. This was, in fact, the case. The annual rise in consumer prices of 0.9% 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 mounting challenges arising from

## EU committees

The tasks of the European Union's Economic and Financial Committee (EFC) include preparing matters related to economic and monetary union for discussion by the EU Council convening in the composition of Economic and Finance Ministers, ECOFIN. It also prepares matters for the twice-yearly unofficial ECOFIN meetings, which are also attended by the governors of national central banks. The Committee is composed of the EU Ministers of Finance and representatives of national central banks as well as of representatives of the European Commission and the European Central Bank (ECB). From the beginning of September 2003, the Committee adopted a new practice whereby it will convene in different compositions. National central banks are only represented in the meetings of the extended composition, where matters concerning economic conditions, stability of the financial markets and IMF-related matters are discussed. The Committee will meet in the extended composition six times a year. Sinikka Salo, member of the Bank's Board, has been the Bank of Finland's representative on the committee, with Paavo Peisa, Adviser, acting as her alternate. Furthermore, the status of the working group preparing IMF-related matters to the Committee was changed in 2003 by making it into a standing subcommittee.

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. This Committee was composed of representatives from the member states' Ministries of Finance and central banks as well as from the European Commission and ECB. The Bank of Finland sent Tapio Peura, Adviser, to attend the Committee until June 2003, when the composition of the Committee was changed by reducing the number of regular members. After this change, Tapio Peura continued as alternate of the Finnish delegation.

The Banking Advisory Committee (BAC), subordinate to the European Commission, discusses issues related to banking supervision and regulation. The Bank of Finland's representative on this Committee was 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.

population ageing, structural rigidities and the intensification of international competition. In various statements and reports, the Bank stressed the importance of early preparation for the public spending pressures from an ageing population. In particular, the Bank emphasised the

necessity of raising the employment rate and enhancing the productivity of public services. Furthermore, there was an increasingly pressing need to respond to the tightening of the international competitive business environment by adjusting taxation in Finland. These issues will

## The Bank for International Settlements and the Organisation for Economic Cooperation and Development

The Governor of the Bank of Finland regularly attended the meetings of the Bank for International Settlements (BIS), which are held six times a year. The topics dealt with included international aspects of the financial markets. Representatives of the Bank of Finland attended the committees of the Organisation for Economic Cooperation and Development (OECD) as in previous years. The Bank has representatives on three committees.

continue to pose major challenges for the Finnish economic policy decision-making on many fronts.

### Bank of Finland and international economic policy

The Bank's international economic policy stance was evaluated by many cooperative bodies in which the Bank of Finland participates, such as the International Monetary Fund (IMF), the EU's Economic and Financial Committee (EFC), the Bank for International Settlements (BIS) and the Organisation for Economic Cooperation and Development (OECD). Within the ESCB, international issues were dealt with in the International Relations Committee (IRC). Finland's first representative in this committee was Sinikka Salo, member of the Bank's Board, with Olli-Pekka Lehmussaari, Adviser to the Bank's Board, being the second representative.

Particular emphasis was put on factors threatening the equilibrium of global financial markets with a view to maintaining the stability of the world economy. It was considered essential to address

the causes of disproportional current accounts of major economic areas in good time, so as to avoid any negative global impact on macro economies from possible corrective action by the markets.

As in previous years, the EU's Economic and Financial Committee (EFC) prepared matters relating to the broad economic policy guidelines, member states' public deficits and the Stability and Growth pact for discussion at the ECOFIN council. In 2003, the EFC prepared the advance warning on the threat of excessive public deficit that was issued to France and later prepared the decisions on the existence of excessive deficit in France and the persistence of excessive public deficit in Germany. The EFC also concentrated on issues relating to the EU's forthcoming expansion and the integration of the member states' financial policies. Two special conferences were arranged, attended by the member states and the chairmen of key EU committees on financial stability, where the EFC discussed the stability of the financial markets.

## International Monetary Fund

The Bank of Finland is responsible for the tasks and contacts resulting from Finland's membership in the International Monetary Fund (IMF). 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 alternate. Responsibility for the Fund's operations rests with the 24-member Executive Board and the Managing Director, who acts as the Board's Chairman. Finland's positions to matters to be discussed by the Board of Governors are transmitted via the representative of the Nordic-Baltic constituency. In 2003, the representative of the constituency was Ólafur Ísleifsson from Iceland until 15 January, who was succeeded by Vilhjálmur Egilsson from Iceland from 16 January 2003 onwards. The Icelandic representative's term on the Board of Governors ended on 9 January 2004, bringing to an end Iceland's responsibility for the coordination of the positions made by the Nordic-Baltic constituency.

As the authority responsible for matters relating to Finland's membership in the IMF, the Bank of Finland works in cooperation with other domestic authorities. Consequently, the Bank participated in managerial and expert working groups with the Ministry of Finance and the Ministry of Foreign Affairs, dealing with common issues relating to the IMF and the World Bank.

The Fund's International Monetary and Financial Committee (IMFC), an advisory committee, met twice in 2003, as did the Nordic-Baltic Monetary and Financial Committee (NBMFC). The latter committee prepares the constituency's policy stance for the meetings of both the IMFC and the Fund's Board of Governors. The Bank of Finland's representative on the NBMFC was Matti Louekoski, Deputy Governor. The work of the NBMFC was in turn prepared by the alternate members of this committee, and these meetings were chaired by Kjell Peter Söderlund from the Bank of Finland, with the secretarial functions being the responsibility of the Bank's International Secretariat. In 2003, a working group charged with the task of investigating changes effected by the EU in the workings of the constituency operated under the auspices of the Nordic-Baltic constituency. Changes have ensued from the EU's increased internal coordination in IMF-related matters and from the fact that the majority of the countries belonging to the constituency will be part of the EU as of 1 May 2004, following the expansion of the EU. This working group was also chaired by Kjell Peter Söderlund from the Bank of Finland. Pentti Hakkarainen, member of the Bank's Governing Board, was selected to the IMF's External Audit Committee, which has three external members, for the years 2004–2006.

### **International Monetary Fund**

The Bank of Finland represents Finland in the International Monetary Fund (IMF). The Bank's views on issues dealt with by the IMF were submitted through the joint representative of the Nordic-Baltic constituency. The representative acknowledged that the US policy supports economic revival, but announced concerns over the growing US budgetary deficit and the resulting global imbalances due to the nation's substantial current account deficit.

In discussing economic policy in Europe, the constituency considered the European monetary policy stance to be appropriate. With regard to fiscal policy, the representative of the constituency regretted that not all euro area countries made proper use of the period of rapid growth in improving the general government fiscal position, and emphasised that observing the rules of the Stability and Growth Pact is of vital importance. Furthermore, the Nordic countries and the Baltic states' representative remarked that facilitating structural improvements is essential to ensuring economic and employment growth in Europe.

With regard to Japan, the constituency was of the opinion that the Japanese economic situation will continue to be difficult and the country's financial system remain weak, adding also that progress in reforming the banking and corporate sectors has been slow. Constituency members urged Japan to speed up structural improvements and the authorities to adopt a firmer approach to restoring the balance of the economy.

The IMF conducted Article IV consultations in Finland in June, in order to assess the Finnish economic situation and policy. In its assessment, the Fund extends thanks to Finland for its impressive measures in restoring the balance of the general government fiscal position and carrying out structural improvements, which helped Finland to recover from the severe depression of the early 1990s. The IMF encourages Finland to continue pursuing these sound policy measures even in periods of slower economic growth. According to the assessment, unemployment and rapid population ageing continue to pose major challenges for the Finnish economy. As population ageing rapidly progresses, a key concern is the support of economic and employment growth without endangering general government sustainability over the long term.

The IMF expressed its concern about the relaxation of Finland's firm control on spending and recommended that Finland seek to maintain general government finances in surplus over the medium term by cutting public expenses, which would leave room for tax reductions without endangering the general government financial position. The Fund also recommends that Finland carry through to completion the structural reform of the labour market and the pension reform. The IMF considered that Finland's financial system continues to be sound.

The importance of the IMF's bilateral and multilateral surveillance has recently become more pronounced in the prevention of financial crises. In discus-

sions concerning the enhancement of the IMF's surveillance, the Bank of Finland considered it important that publication of country reports be increased. Via its statements and their own example, the Nordic-Baltic constituency members have sought to promote wide publication of the Fund's reports. The Bank of Finland supported the new publication policy, designed to enhance the clarity of the IMF's operations and based on 'presumed publication' of country reports.

The IMF's efforts in developing crisis management tools continued. Efforts were put into developing the Sovereign Debt Restructuring Mechanism (SDRM). However, due to a lack of sufficient support, these efforts were suspended in the spring. Work concerning debt arrangements concentrated on two sub-areas: Collective Action Clauses (CACs) and Code of Conduct. The Bank of Finland supported all these projects designed to facilitate debt restructuring, which have also been considered crucial by the EU.

In 2003, the IMF reduced the range of alternative financing arrangements available, by deciding to discontinue the Contingent Credit Lines (CCL) arrangement with effect from the end of November. None of the member countries had shown any interest in this arrangement, designed to protect countries pursuing prudent economic policies against the spreading of financial crises. The Bank of Finland was in favour of the suspension of the arrangement.

At the end of January 2003, the IMF concluded its Twelfth General Review of the adequacy of member quotas and none

of the quotas were increased. The Bank of Finland did not vote in favour of higher quotas, but considered the IMF's funding adequate. The increase was mainly supported by developing countries, as the voting power of each country is dependent on quota sizes. Instead of raising the members' quotas, the power of developing countries and economies in transition was consolidated by increasing staffing resources in their executive directors' offices and thus their opportunities of genuinely participating in the Board's discussions. This approach was supported by the Bank of Finland.

Member quotas also determine the maximum size of financing granted by the IMF through different arrangements. The IMF introduced a new operating model for making decisions on large financing arrangements that exceed standard credit limits. In this model, the Board is informed more closely than before about the terms and conditions of financing and the progress of negotiations. The Bank of Finland actively lent its support to the development of all procedural rules designed to enhance the openness of operations. The applicability of these rules was put into test for the first time in September when financing arrangements were settled with Argentina. The Nordic-Baltic constituency refrained from voting in favour of the arrangement on the grounds that the Argentinian authorities' commitment to carrying through the necessary measures to adjust the country's economic conditions was not considered adequate in order to steer the economy towards a

solid foundation and get the debt situation under control over the long term.

The IMF participated in international cooperation with regional development banks and the United Nations, with a view to improving the financial position of poor countries. The Bank of Finland approved of the view that the Fund plays an important but limited role in poor countries. The IMF saw that it was essential to continue negotiations aimed at the liberalisation of world trade, following the World Trade Organisation's ministerial meeting at Cancun. The IMF announced its willingness to consider offering temporary financing arrangements to member countries, if problems in adaptation ensue following trade liberalisation. The Bank of Finland was in favour of this motion as well as of measures designed to facilitate international market entry of products originating from developing countries.

### Monetary policy implementation in the euro area and Finland

#### The Eurosystem's monetary policy operations

Monetary policy operations in the euro area are executed in a decentralised manner. In Finland, monetary policy operations are implemented by the Bank of Finland along with its own counterparties. The operational framework for monetary policy, consisting of market operations, standing facilities and minimum reserves, remained unchanged in 2003.

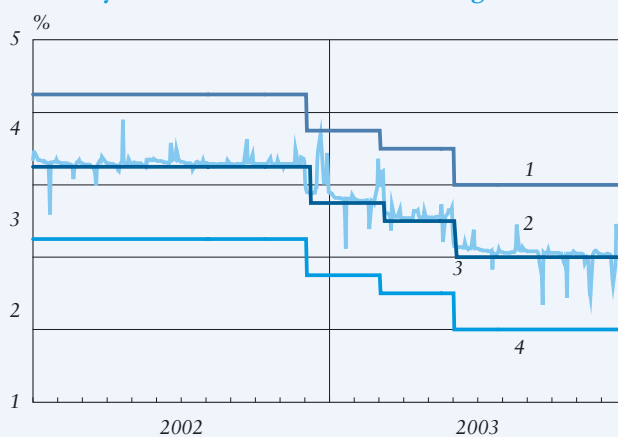
A step forward in respect of the public consultation on changing the

operational framework for monetary policy, addressed to the counterparties of monetary policy operations, was taken in January 2003 when the Governing Council of the ECB approved two of the three changes that were under consideration. The proposed changes were concerned with changing the timing of the reserve maintenance period, shortening the maturity of the main refinancing operations (MROs) and suspending the longer-term refinancing operations (LTROs). The first two changes were approved as such, but it was decided to retain the LTROs. The changes to the operational framework will enter into force during the first quarter of 2004.

The formulation of open market operations is based on estimates of the liquidity needs of the euro area banking system. In the course of 2003, the Eurosystem was able to perform a good estimate of the banking system's liquidity needs as a whole. Efficient monetary policy implementation is also reflected in the capability of the European Central Bank to steer, via its MROs, short-term interest rates in the euro area so that the spread between the minimum bid rate determined by the Governing Council for the MROs and short-term market interest rates remained very small (Chart 5). In 2003, the Eurosystem experienced three episodes of insufficient bidding, which led to somewhat larger-than-normal volatility in short-term market interest rates. The underbidding occurred as a result of strong rate cut expectations that had an impact on the bidding behaviour of euro area credit institutions. The cases



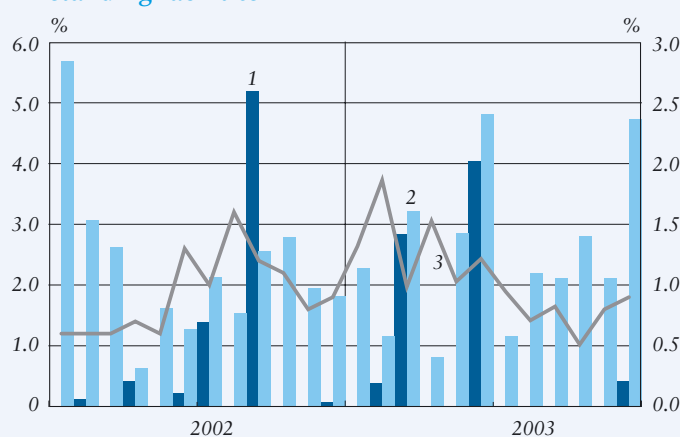
**Chart 5.**  
Eurosystem interest rates and overnight rate



1. Marginal lending rate
2. EONIA
3. Main refinancing minimum bid rate
4. Deposit rate

Source: European Central Bank.

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



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

1. Share of marginal lending (LHS)
2. Share of overnight deposits (LHS)
3. Share in main refinancing operations (RHS)

Source: Bank of Finland.

of underbidding led to a major difference in the sizes of two consecutive MROs, and in order to rebalance the size differences, the ECB twice carried out an additional one-week split operation, in connection with the normal two-week MRO. The fifth maintenance period witnessed an accumulation of excess liquidity as a result of abundant recourse to the marginal lending facility, which prompted the ECB to conduct a liquidity-absorbing fine-tuning operation.

In the course of 2003, the Governing Council of the ECB lowered the minimum bid rate on the MROs twice. In March, the minimum bid rate was lowered by 0.25 percentage point to 2.50% and, in June, by 0.50 percentage point to 2.00%. The Governing Council also lowered the interest rates on both the marginal lending facility and the overnight deposit facility, by equal amounts, in connection with the minimum bid rate cut.

#### Finnish credit institutions' participation in Eurosystem monetary policy operations

Finnish credit institutions' liquidity conditions remained good in 2003. Nevertheless, their participation in Eurosystem monetary policy operations was somewhat more active than in the previous year. The credit institutions' share in euro area liquidity allocation increased in 2003 to EUR 0.8 billion from the previous year's average of EUR 0.6 billion (Chart 6). However, the percentage share of Finnish credit institutions remained at 0.9% as in the previous year, because the average amount of liquidity allotted in

Eurosystem MROs increased to EUR 96.1 billion in 2003 from EUR 66.4 billion in 2002. Of the eleven eligible counterparties for Bank of Finland money market operations, four banks participated in MROs, as in 2002. This reflects that MRO activity continues to be highly concentrated on only a few credit institutions.

On the basis of the use of the marginal lending facility and the overnight deposit facility, Finnish credit institutions continued to maintain abundant liquidity throughout the year. Their recourse to the marginal lending facility in 2003 was on average EUR 2.1 million, accounting for 0.7% of euro area marginal lending as a whole. This was 0.3 percentage point more than in 2002. Finnish credit institutions' share of overnight deposits placed in the euro area as a whole was 2.3%, which is 0.3 percentage point less than a year earlier.

Finnish credit institutions' minimum reserve requirements constituted on average 1.6% of the total euro area reserve requirement in 2003, ie as much as in 2002.

#### **Merging two tiers of eligible assets into single list under consideration**

Lending by euro area central banks must be based on adequate collateral. Assets accepted by the Eurosystem as collateral are divided into tier 1 and tier 2 assets, of which tier 1 assets are selected on the basis of uniform euro area-wide eligibility criteria, whereas tier 2 assets are subject to national eligibility criteria. Tier 1 assets consist of marketable debt instru-

ments. Tier 2 assets, in turn, comprise instruments, such as bank loans and equities, and debt instruments issued by credit institutions that do not meet the same credit rating or listing requirements as tier 1 assets. The Bank of Finland has maintained Certificates of Deposit issued by Finnish banks on its list of tier 2 assets.

The European Central Bank and the euro area central banks have been considering the merging of the two tiers of eligible assets into a single list, as the current framework does not necessarily ensure a level playing-field for euro area banks, nor increase transparency. In order to obtain the views of market participants on implementing a single list of eligible collateral, the European Central Bank launched a public consultation on the issue. A summary of the answers to the public consultation was published on the ECB's website. The majority of the respondents supported the introduction of a single list. Furthermore, it was requested that central banks accept as large a variety of assets as possible for inclusion into the list of eligible collateral. The Eurosystem will take into account market participants' views when considering measures to improve the collateral framework.

A decision was taken to phase out the so-called out-collateral, ie the Danish, Swedish and British debt instruments that had previously been accepted as collateral for intraday credits in Finland and some other euro area countries, owing to their very low collateral use. After this measure, all assets accepted by the Eurosystem will be euro-denominated.

The collateral for monetary policy operations and intraday credits posted by Finnish credit institutions at the Bank of Finland in 2003 amounted to EUR 8.9 billion on average. Of this, some 11% represented national tier 1 assets, 38% tier 1 assets issued in other EU countries and 51% national tier 2 assets. The value of collateral posted at the Bank was EUR 0.4 billion higher than in the previous year.

The average value of assets deposited as collateral with the Bank of Finland by other euro area central banks was EUR 2.3 billion in 2003. The euro area central banks, including the Bank of Finland, act as custodians ('correspondents') for each others' and the ECB's securities that are held in their respective domestic securities settlement systems.

In 2003, collateral management operations went smoothly and without delay. However, due to a complex system environment and manual work processes, the Bank of Finland does not currently meet the turnaround times targeted by the Eurosystem for handling foreign collateral since the start of 2004. The targeted timeframes are scheduled to be met at the onset of 2005.

# Financial markets

The Bank of Finland acts with a view to promoting and developing stable, reliable and efficient financial and payment systems in Finland. The objectives derived from these tasks are pursued by the Bank both nationally and internationally, especially within the Nordic countries and the EU.

To achieve the objectives, the Bank of Finland exercised influence through the issue of publications and statements and through a deeper analysis of the stability status and potential threat scenarios. In addition, the Bank of Finland acted as payment systems overseer and allocated resources to developing regulatory and supervisory frameworks as well as crisis management procedures. The Bank of Finland has intensified the discussion contacts between financial sector service providers and the authorities. Direct cooperation with the Nordic and Baltic authorities has increased due to structural changes in the financial markets and EU enlargement. In addition, the Bank was represented on many international fora for financial market issues. The Bank is also a member of numerous committees or working groups within the ESCB, addressing the stability, reliability 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).

## Macroprudential analysis and oversight of financial markets

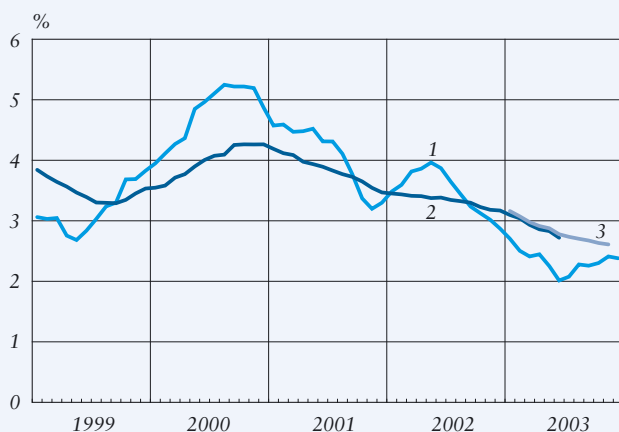
The Bank of Finland continuously undertakes macroprudential analyses of the

operation, status and development of Finnish financial markets. In 2003, the focus was on the effects of macroeconomic factors on the financial markets, the impact of the new capital adequacy framework on banks and other financial service providers and on payment systems and securities infrastructures and the risks and structural issues related to these.

The first special Euro & talous issue on financial stability was released in October. In the future, a similar report will appear once a year in the autumn. This extensive and thorough evaluation of financial stability roused much response and lively discussion in the media. In addition, two articles on financial stability in Finland were published in Finnish in the quarterly Euro & talous in 2003. English-language versions of the stability report were released as a special issue, entitled 'Financial Stability', of the Bank of Finland Bulletin and of the two articles in the quarterly Bank of Finland Bulletin. A collection of articles on the infrastructure of the Finnish financial markets was published in 2003 as well as two comprehensive A series papers on regulation and control of payment systems risks and on securitisation.

According to the reports, the delayed recovery in the global economy as well prevailing uncertainties in the international arena and the aggravated imbalances have tested the robustness of the financial markets in 2003. Furthermore, the rise in housing and real estate prices in many countries, backed up by the credit expansions, has recently given

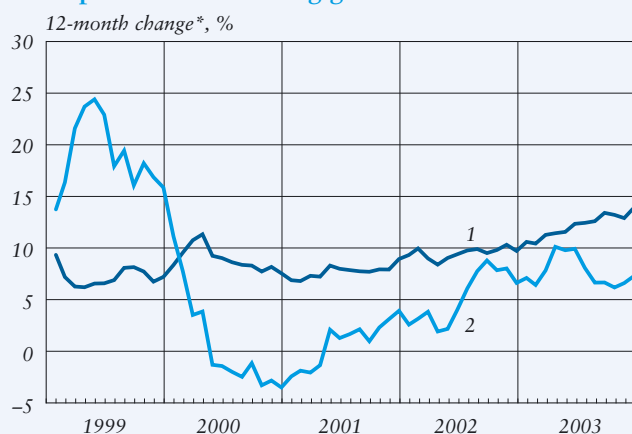
**Chart 7.**  
Deposit banks' interest rate margin and the 12-month Euribor rate



1. 12-month Euribor rate
2. Deposit banks' interest rate margin
3. Deposit banks' interest rate margin (new data collection)

Source: Bank of Finland.

**Chart 8.**  
Deposit banks' lending growth rate



1. Lending to households
  2. Lending to companies
- \* Calculated on the basis of flow data.

Source: Bank of Finland.

rise to particular concern. The main factor behind this is the extremely low level of interest rates (Charts 7 and 8). However, money and capital markets have proved robust even under very straining conditions, and the economic recovery in late 2003 helped up the situation. Share prices started to rise, price fluctuations abated and risk premia on bonds fell.

The article on financial stability in Issue No. 2/2003 of the Bank of Finland Bulletin notes that the state of the financial sector in Finland would remain stable if economic development progressed as envisaged in current forecasts. As before, the largest risk was posed by weakness in global economic developments and problems that may be transmitted from abroad.

The special issue of the Bank of Finland Bulletin entitled 'Financial Stability', released in autumn 2003, notes that current economic forecasts suggest continued stability for Finland's financial system. Stress test calculations conducted by the Bank of Finland indicate that the Finnish banking system's capital buffers could withstand both a couple of years of zero growth in the economy and a significant fall in asset prices. An extended recession in Finland as part of a broader European recession would, however, pose increasing problems for the banking sector. For example, credit losses would become much greater than they are today. The article on financial stability published in Issue No. 4/2003 of the Bank of Finland Bulletin notes that the risks to stability had been reduced since the assessment in the previous issue and

that this was due the improved economic outlook.

Integration of the Nordic financial sector progressed rapidly in 2003. Nordea, which by market share is the largest bank in Finland, announced its intention to form a 'European Company' for its banking operations. Nordea plans to concentrate its activities in the Nordic countries to one single company and pursue its operations in Finland (just as in Denmark and Norway) as a branch operation.

In October 2003, the extraordinary general meeting of Nordea altered the articles of incorporation, making it possible to operate as a European Company. As a result, the holding company has been changed into Nordea Bank AB (publ).

Nordea Bank Sverige is scheduled to merge with Nordea Bank AB in the first quarter of 2004. The other banks will be merged with Swedish bank as soon as it becomes legally possible, ie on 1 October 2004. It is planned that the legal restructuring process should be completed by 2005.

In the view of Nordea, the changes in Nordea's company structure would necessitate certain changes in taxation legislation and deposit protection. According to the principle of home country supervision, responsibility for the supervision of Nordea's future European Company will lie with the Swedish supervision authority (Finansinspektiönnen). The Nordic supervision authorities are currently discussing the expectations

**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 Dec 2003	
	2003	2002	Change, %	2003	2002	Change, %	2003	2002	Tier 1 %	Total %
Nordea Group	3,366	3,451	-2.5	1,812	1,547	17.1			7.3	9.3
* Nordea banking operations	3,658	3,754	-2.6	1,587	1,721	-7.8	63	64		
Sampo Group				464	542	-14.4			13.5	12.4
* Sampo Group's credit institution and investment services operations	404	448	-9.8	233	252	-7.5	64	64	10.9	13.5
OP Bank Group	798	857	-6.9	515	459	12.2	62	61	14.0	15.4
* OP Bank Group Central Cooperative Consolidated	161	161	0.0	174	96	81.3	45	56	7.0	11.0
Savings banks (excl. Aktia)	114	128	-10.8	41	59	-30.0	72	63	17.2	18.9
Aktia Savings Bank plc	74	75	-1.7	30	20	53.3	73	81	9.7	13.9
Local cooperative banks	76	83	-8.2	30	33	-8.0	70	68		21.0
Bank of Åland plc	30	32	-6.0	15	14	7.0	70	69	9.3	11.4
eQ Online Corporation	2	1	51.4	0	-2		100	112	35.0	35.0
All banks excl. Nordea	1,498	1,624	-7.8	865	834	3.7				

Source: Banks' financial statements and financial performance reports Feb 2004. Empty sections in the table indicate that no information is available or exists.

that host country authorities (eg Finland) may have vis-à-vis home country authorities (Sweden).

The merger between OM, owner of the Stockholm stock exchange, and HEX, marketplace operator in Finland and the Baltic area marked a significant change in the Nordic and Baltic securities markets. The Bank of Finland presented a critical review of the success potential of the merger and the challenges that the oversight and supervisory arrangements entail. The need to enhance and develop the book-entry register and clearing and settlement system functions was stressed in the review. The Bank of Finland approved the merger of OM and HEX into OMHEX and relinquished its shareholding in HEX after the merger had been consummated through share exchange and listing.

As a result of Nordea's and OMHEX's new structures, it is essential to enhance stability analysis, oversight and crisis management skills and intensify cooperation between the Nordic and Baltic central banks.

In line with its responsibilities, the Bank of Finland continued to carry out the 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)<sup>1</sup>. As a participant in the Euro-system, the Bank is also responsible for monitoring other payment systems in

<sup>1</sup> The BoF-RTGS system is a real-time gross settlement system in which payments and settlements are executed continuously on a gross basis, ie transaction by transaction.

the EU. By virtue of its role as user and shareholder, the Bank paid particular attention to the operational reliability of the HEX Group's systems, especially those of the Finnish Central Securities Depository (APK) belonging to the group, and the progress of development projects. During the project stage that preceded the introduction of the APK's new share settlement system (HEX-Clear), the Bank focused beforehand on the risks attached to the new infrastructures. The Bank demanded that the APK carefully planned and tested the system together with the participants and provided adequate incentives to maintain reliable operating conditions also in the future. The introduction of the equities clearing and settlement system went smoothly.

### 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.

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 Credit Institutions Act and certain related acts were amended in 2003. The acts were, for example, complemented with provisions that granted companies other than credit institutions to accept repayable funds from the public. However, banks retained the sole right to use the word ‘deposit’ for such funds and have their funds covered by the deposit guarantee. New provisions were also included for the purpose of implementing in Finland the directive on the taking up, pursuit and prudential supervision of the business of electronic money institutions. In addition, general payment transmission, not taking place in connection with current credit institutions activity, and issuance of electronic money became subject to authorisation. For this purpose, the law introduced a new category of credit institution, the payment organisation, supervision of which would be different to that of other credit institutions.

– The amended Emergency Powers Act became effective on 1 August 2003. The legal framework on the preparation for severe emergency conditions set out in the act was complemented with a separate section on the granting of regulatory powers to authorities. During the legislative process, the Bank of Finland took the view that it would be in the best position to take the responsibility for maintaining the operability of payment sys-

tems and other viable financial infrastructures during such emergency conditions that are referred to in the Emergency Powers Act. During emergency conditions, it is also essential that the European Commission, the ECB and individual member states work very closely together.

– In May 2002, the Council of State set up a task force to assess whether there was a need for legislation to ensure sound competition in the provision of savings products in Finland. This so-called ‘investment/insurance task force’ submitted an intermediate report in February 2003 and its final report in December 2003. In the view of the task force, life-assurance, mutual funds, bank deposits and outright securities investments alike, should be examined as competing savings products. Hence, the task force proposed that savings product regulation, especially in respect of tax treatment, should be harmonised in order to increase competition between the different providers of such products. It also considered that the application of uniform principles to marketing and contractual terms should be fostered. The task force was headed by Matti Louekoski, Deputy Governor of the Bank of Finland.

– The task force on the revision of the Act on the Bank of Finland issued a memorandum in May. The task force proposed amendments to the provisions on the Bank’s primary capital, reserves and use of profits. It was proposed that EUR 1,085 million of the Bank’s funds be transferred to the State as a one-off payment and that, in the future, all the



Bank's profits be passed on to the State. In the view of the task force, the Act on the Bank of Finland should also be complemented with legal provisions entitling the Bank to issue regulations to enterprises that maintain or participate in settlement systems. These regulations were to contain such operational details concerning the administration, internal control and/or risk management of systems that are necessary to implement guidelines, instructions or regulations issued by the European Central Bank (ECB). The memorandum issued by the task force includes the dissenting view presented by the Bank of Finland representatives on the task force.

In statements on the working group's proposal, the Board of the Bank of Finland, the Parliamentary Supervisory Board and the Bank's auditors unanimously presented the view that it would be unreasonable to reduce the Bank of Finland's permanent primary capital at a time when increased uncertainty surrounds the operating environment and disruptions and crises may occur. In addition, the Board of the Bank of Finland and the Parliamentary Supervisory Board announced that the proposed change in the Bank's right to issue norms is particularly important and necessary.

– According to the Government's proposal to Parliament in November, no capital of the Bank was to be transferred to the State, but all future profits of the Bank would be passed on to the State unless the Parliamentary Supervisory Board was to decide otherwise. In addition, it proposed that the Bank's oppor-

tunities for making transfers to the reserve fund be more limited than is currently possible. The processing of the proposal continued in 2004 and was withdrawn from Parliamentary consideration in February 2004.

### International cooperation between authorities

One of the features of international cooperation between the respective authorities that is particularly noteworthy is how much more closely the Nordic and Baltic authorities have been working together recently. Behind this close cooperation is the rapid integration of the financial markets in these regions, the most prominent examples being Nordea and OMHEX.

Within the European System of Central Banks, questions concerning financial market stability are analysed and coordinated by the Banking Supervision Committee. The committee includes representatives from all of the EU central banks as well as the member states' supervisory authorities. In 2003, one of the committee's sub-committee prepared, for example, two EU-wide reports analysing banking sector stability and another analysing structural developments in the banking sector as well as looking at the structural effects of the so-called Basel II amendments.

The progression and deepening of the EU-level integration of the financial markets gathered momentum with such factors as the process involved in the enlargement of the European Union. A prerequisite of the consolidation of the

financial markets is cooperation at the supervisory level and enhanced regulation at the EU level. The EU's Economic and Financial Committee, for its part, has had a positive impact on the rate at which progress has taken place. As far as the development of international financial markets is concerned, Finland's objective has been to increase the degree of collaboration between the financial supervisory authorities, both within the EU and beyond the European Union. On the initiative of the Economic and Financial Committee, the process of extending EU financial market regulations was commenced in 2003, with the so-called Lamfalussy Procedure, affecting both the securities market as well as other sectors of the financial markets. Additionally, during the year, the Financial Services Committee – on the initiative of the Economic and Financial Committee – commenced its activities. Cooperation between the financial markets supervisors and the Economic and Financial Committee progressed through the arrangement of two discussion fora on stability, which involved not only the members themselves but also the chairpersons of the central supervisory committees. In addition to participation in the Economic and Financial Committee, the Bank of Finland took part in the European Commission's Banking Advisory Committee (BAC). From the perspective of development of a European payment system, a key project is the European Commission's proposed legislation on a single payment area. The proposal aims at creating a uniform payment area

and improving the convergence of trading conditions and stability.

Payment and settlement systems issues are handled by the Payment and Settlement Systems Committee of the ESCB. In 2003, the committee's key task was the planning of the next generation TARGET payment system – TARGET2 – in addition to the development of new standards relating to oversight of payment systems. These standards cover, for example, oversight of euro-denominated retail payment systems within the Eurosystem as well as the electronic money system security objectives. The systems are to be evaluated in terms of these standards during 2004. Additionally, the Eurosystem and EU banking sector have worked together to develop a single market payment area. During the year, the European Central Bank and the Eurosystem launched public consultations on such issues as development of collateral arrangements within the Eurosystem and the standards governing clearing and securities and settlement systems related to the joint work being done by the Committee of European Securities Regulators and the European System of Central Banks.

The European System of Central Banks regularly assesses the ESCB's securities clearing and settlement systems used in the Eurosystem monetary policy operations and the user standards covering the links between the systems against its user standards. According to the Bank of Finland, the APK's debt instrument clearing and settlement system fulfils these jointly-established principles. The

Bank took part in discussions on the changing securities infrastructure system policies as well as on establishing standards governing clearing and securities settlement systems processes and operations, in a joint working group with the ESCB and the Committee of European Securities Regulators.

From the perspective of the regulations binding the international financial system, a key acquisition has been the Basel Banking Supervision Committee's renewal of capital adequacy requirements (better known as the Basel II Accord), which is due to come into force by the end of 2006. Within the European Union, introduction of the new capital adequacy requirements has been prepared by the Banking Advisory Committee (BAC) and its working groups. The EU's capital adequacy requirements review concerns both credit institutions and investment firms.

Problems concerning crisis management in the financial system were brought up increasingly frequently for discussion at the international level. Planning was undertaken to cope with liquidity disruptions and comparable situations with the assistance of the central banks, and international cooperation has

already made significant advances in Europe. The Bank of Finland was also a signatory to the Memorandum of Understanding between EU banking supervisors and the central banks of the European Union on high-level principles of co-operation in crisis management situations, which came into force in March 2003. In June 2003, the Nordic countries' central banks signed a Memorandum of Understanding on financial crisis management, with a cooperative agreement on the exchange of information. The MoU is applicable when a crisis threatens any bank, which is domiciled in a Nordic country and has at least one cross-border establishment in the area.

# Payments

The Bank of Finland provides financial institutions, with payment services using central bank money to facilitate primarily large-value payments between domestic and foreign monetary financial institutions. The functionality of payment systems benefits from the ability of account holders to receive intraday credit against collateral within a flexible limit system.

Customers and settlement account holders in the Bank of Finland's real-time gross payment system BoF-RTGS comprise Finnish banks, some of the local branches of foreign banks, the Finnish Central Securities Depository, OMHEX, the State Treasury Office and Automatia. Savings banks, cooperative banks and local cooperative banks have access to the system through their central monetary financial institutions. The number of account holders increased during the year by one to 18.

The Bank of Finland engages in regular dialogue with monetary financial institutions on payment system issues, touching on both fundamental questions and current operational themes. Thus it aims to play its part in ensuring that the Eurosystem takes users' opinions sufficiently into account and reacts to them in an appropriate manner.

The TARGET user forum, which focuses on operational issues convened five times during the review year.

The BoF-RTGS is part of the EU-area-wide TARGET (Trans-European Automated Real-time Gross settlement Express Transfer) system for euro-denominated payments, where payments

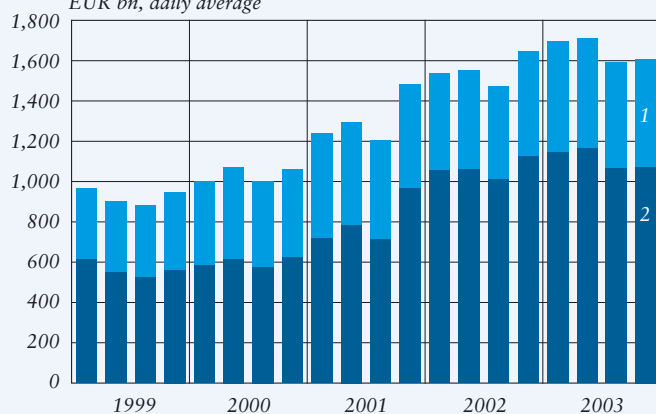
are transferred in real time and using central bank money. TARGET's primary use is the implementation of common monetary policy but its objectives also include the enhancement of cross-border euro-denominated payment transfer and the provision of a reliable and secure system for domestic and foreign large-value payments. In addition, the funds of major Finnish payment systems are transferred via BoF-RTGS.

In 2003 TARGET payment traffic in the entire euro area remained stable (Chart 9). TARGET processed a daily average of 60,000 inter-Member State payments, while the average daily number of intra-Member State payments processed in NCBs' RTGS systems amounted to around 200,000 (Chart 10). The total daily value of TARGET payments was on average EUR 1,650 billion. At the inter-Member State level, inter-bank payments accounted for 95% of the total value and 51% of the total volume, the rest being customer payments. In relative terms, Finnish account holders transfer more of their interbank gross payments in TARGET than banks from other Member States. Finland's share in all inter-Member State TARGET payments was about 0.9% of terms of volume and 1.1% in terms of value.

In 2003, the overall availability of TARGET was 99.79%. The RTGS system of the Bank of Finland and its TARGET extension have continued to function very reliably with an availability of 99.92%, although there were more technical disturbances than usual, due to various reasons.

**Chart 9.**  
Transactions in TARGET, quarterly turnover

EUR bn, daily average



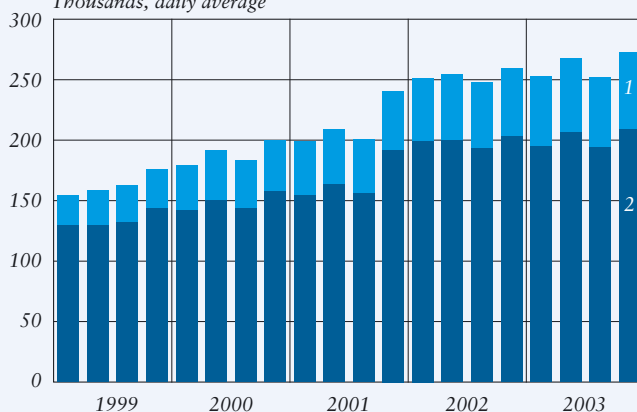
1. Cross-border transactions (Inter-Member State)

2. Domestic transactions (Intra-Member State)

Source: European Central Bank.

**Chart 10.**  
Number of payments effected via TARGET, quarterly

Thousands, daily average



1. Cross-border payments (Inter-Member State)

2. Domestic payments (Intra-Member State)

Source: European Central Bank.

The Bank of Finland's RTGS system is used in transferring funds of major systems, such as the settlement systems of the CLS Bank<sup>1</sup>, EURO 1 and the Finnish Central Securities Depository. Some of these payments tend to be concentrated on the morning hours, which puts considerable demands on continuity and backup arrangements. Although the capacity for processing payments manually in crisis situations is presently rather limited, the Bank of Finland has been able to process all critical TARGET payments.

TARGET transaction fees are the same in all RTGS systems participating in TARGET, varying between EUR 0.80–1.75 per transaction, depending on the volume of transactions. The corresponding domestic RTGS fees are EUR 0.35–0.80. In addition, there is a monthly maintenance fee and an accession charge collected from new customers. Service fees collected by the Bank of Finland amount to some EUR 300,000 a year.

The new TARGET compensation scheme came into effect on 1 July 2003. It is applied to intra-Member State and inter-Member State payments which are not processed within a day due to a TARGET malfunction, unless it is due to a reason independent of the ESCB.

The Bank of Finland's TARGET and BoF-RTGS backup arrangements are mainly of a technical nature. The backup systems of equipment and data transfer connections function so that when a malfunction occurs in the equipment that are

<sup>1</sup> Continuous Linked Settlement is a settlement service for major currencies provided by CLS Bank.

used normally, the use of account holder connections can resume almost without a perceptible delay. In accordance with TARGET's strict continuity requirements, the equipment has similar backup equipment. These backup arrangements are tested on a regular basis. A comprehensive risk analysis was performed in late 2003 using the new TARGET risk management framework. The Bank of Finland participated in developing that framework.

On 24 October 2002, the Governing Council of the ECB made a strategic decision to build a new generation TARGET system. This TARGET2 system is a crucial development project for the functioning of both central banks and markets. Its objective is to better meet customers' needs by providing harmonised services, ensuring cost efficiency and adapting swiftly to future developments including the enlargement of the EU and the Eurosystem. The TARGET2 system is to be implemented in the latter half of the decade. The first Public Consultation on its principles and structures was published in December 2002.

TARGET's parameters, core services and the methodology related to the calculation of costs have already been determined. The major issues being resolved at present are the specific management model to be used and the sharing of costs.

In October, the central banks of Germany, France and Italy came forward with an offer on the so-called Single Shared Platform (SSP) of TARGET2 and the services to be provided for central banks wishing to participate. Once sufficient statements have been received on the questions that still remain open, the NCBs will indicate whether they would shift to using the shared platform, which in turn would mean giving up their own RTGS systems. At any rate, the NCBs will continue to be responsible for account and business relationships with the banking sector of their respective countries.

# Maintenance of currency supply

One of the most important statutory duties of the Bank of Finland is the maintenance of the currency supply, meaning the issuing of cash and ensuring of the quality and authenticity of euro banknotes in Finland. A common duty of the national central banks in the euro area is to maintain an efficient currency supply in cooperation with banks and cash-in-transit companies operating in the area. The Bank of Finland has a secure, efficient and geographically comprehensive Finnish currency supply as one of its strategic objectives.

In 2003, the restructuring of the logistics and regional supply was initiated, with a trial version of the revised currency supply system being introduced at the beginning of 2004. The system includes longer office hours for the reception of banknotes and coins at the Bank of Finland's regional offices and the establishment of regional depots. As a result of these changes, the Bank increasingly focuses on the wholesale function of currency supply.

## Changes in regular customers of the currency supply

Finland's currency supply is not only among the most efficient in the euro area but also highly capable on a global level, when the criteria are the volume of cash relative to the GNP, the rate with which the banknotes are returned to the central bank or the proportion of banknotes distributed via ATMs. The efficient Finnish currency supply is based on centralised logistics and a comprehensive network of ATMs.

The Bank of Finland's largest client in the currency supply is the company Automatia Pankkiautomaatit, which is owned by the three largest deposit banks and which, by virtue of a decision of the Finnish Competition Authority, is granted the exceptional right to maintain the cash supply of Finnish banks until the end of 2005. For these operations Automatia is entitled to a non-credit settlement account with the Bank of Finland. Bank offices and other customers order and return euro banknotes and coins in a centralised manner via Automatia's order and distribution system.

The cash-in-transit companies Falck and Securitas handle the transportation of the cash on behalf of Automatia. In practice, the various cash centres of the cash-in-transit companies execute the money transportation, sorting and distribution for the banks and other customers in the cash supply network. There were a total of 21 cash centres in Finland in 2003. Automatia orders the required amount of cash from the nearest regional offices of the Bank of Finland. In total, there are five central bank offices around the country, in Vantaa, Turku, Tampere, Oulu and Kuopio.

In 2003, Rekla, which maintains the currency supply for the S Group chain stores, joined the system of the existing cash centres beside Automatia with centres of its own in the Greater Helsinki area and Kuopio. Rekla plans to extend its cash centre operations to other parts of the country in the near future.

### Restructuring of the cash supply started at the beginning of 2004

According to plans made in 2003 a new trial model for currency supply was introduced at the beginning of 2004 in order to improve the regional currency supply by establishing cash depots. The regional depots are located in Northern Finland (Rovaniemi), Southern Ostrobothnia (Seinäjoki and Vaasa), South-eastern Finland (Lappeenranta and Kouvola) and Central Finland (Jyväskylä) in the present cash centres of the cash-in-transit companies. Banks and other companies participating in the currency supply can return banknotes to the cash depots on business days until midnight, which is much later than before. The depots make it possible for banks and other client companies to avoid interest rate costs and decrease transport costs.

The Bank of Finland also took other measures to centralise the currency supply from 2004. Regional office hours were extended with the help of additional staff-hours until 6 pm, making regional money returns more efficient. Counting and sorting banknotes for individual customers is due to end in the regional offices during the first half of 2004 and as a result currency supply services will be transferred to the cash centres. In four of the Bank's regional offices the cashier's office for private customers was terminated entirely; now only the cashier's office at the Helsinki head office redeems markka-denominated banknotes and coins from the public.

**Chart 11.**  
Value of markka and euro notes put into circulation in Finland



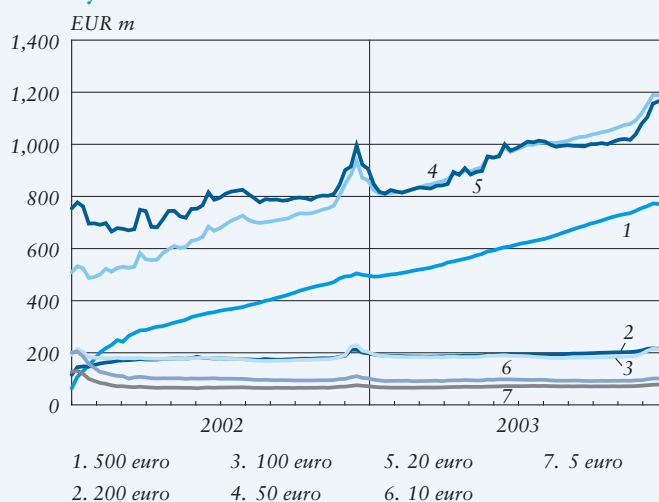
Source: Bank of Finland.

### Demand for euro banknotes and coins increased by one fifth compared to 2002

After the cash changeover the amount of euro banknotes remained clearly below the amount of markka banknotes in circulation. This was not only due to the return of markka banknotes already in 2001 but also to the fact that euro banknotes were not put into circulation until after the change of the year 2001/02. At the end of 2001 the value of markka banknotes amounted to EUR 2.4 billion while the value of euro banknotes temporarily amounted to more than EUR 3 billion at the end of 2002. Different cash stocks have clearly been topped up at least during the first two years. During 2003 the amount of euro banknotes issued in Finland increased to more than EUR 3.6 billion, ie by around one fifth. The growth was evenly spread through-

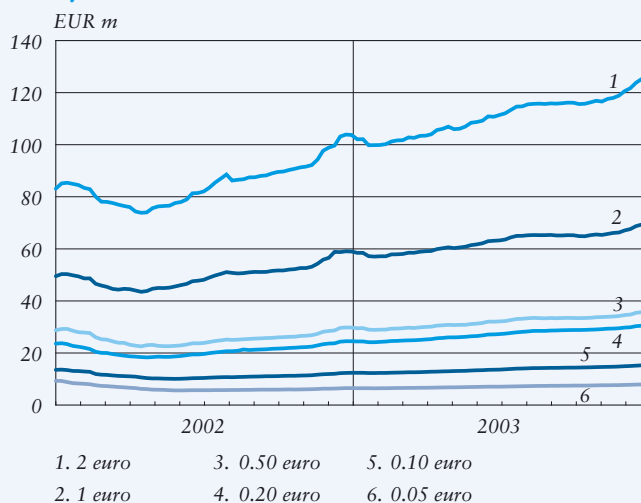


**Chart 12.**  
Value of banknotes put into circulation in Finland  
by denomination



Source: Bank of Finland.

**Chart 13.**  
Value of coins put into circulation in Finland  
by denomination



Source: Bank of Finland.

out the year except for the peak at the Christmas sales and tax refund period at the end of the year (Chart 11). The increase was more than double the value growth in private consumption, which indicates topping up of different banknote holdings and migration of banknotes to other euro countries via tourism and travel.

The largest increase of demand has been in EUR 500 banknotes and the largest banknote available from ATMs, the EUR 50 note. Although the demand for EUR 500 notes accounted for one third of the value growth in banknotes in circulation, most of the growth is based on the demand for ordinary banknotes (Chart 12). The average ATM withdrawals have become larger, but the increase in the number of withdrawals has been slower. The demand for banknotes of smaller denominations for change purposes has, however, remained stable. More than 80% of the euro banknotes are issued via ATMs and thus changes in the use of ATMs will continue to be very important to the use of banknotes.

The demand for euro coins has also been strong and the growth rate has not receded much during the two years since the changeover. As during the previous year the largest increase was in coins of the highest denominations (Charts 13 and 14). Part of the coin demand is probably due to the passion for collecting coins experienced throughout Europe.

Already in 2002 as much as 94% of the markka banknotes had been returned and no significant increase in the returns occurred in 2003 despite the information campaign at the end of the year. At the

end of 2003 the proportion of returned markka banknotes was 96% and of markka coins 73%.

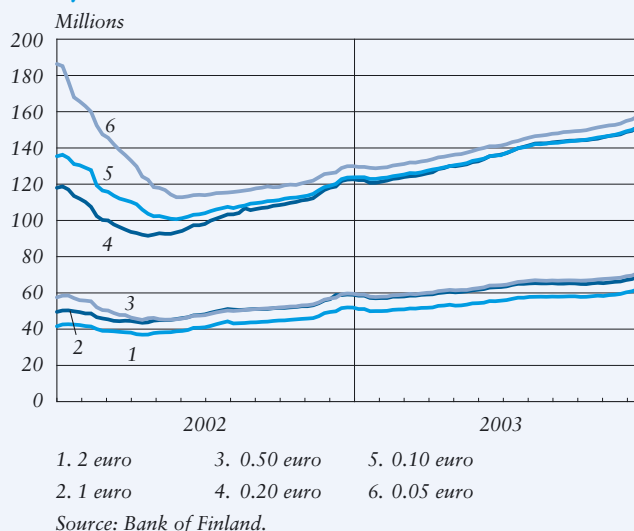
### Number of counterfeit banknotes has increased

In 2002 there were few counterfeit euro banknotes because the notes were new and hard to counterfeit. In 2002 and 2003 the number of euro counterfeits detected in Finland was smaller than in any other euro countries. In 2002 the counterfeit euro banknotes detected in Finland were fewer than 160, but in 2003 there were already more than 1,000 cases of counterfeit banknotes.

There has also been a clear increase in the number of counterfeit banknotes in the euro area overall. In 2003 the number of detected euro counterfeits rose to just over half a million. However, this represents only a few thousandths of a per cent of the total number of banknotes in circulation.

Due to the large amount of different security features based on various materials and printing methods, perfect counterfeit euro banknotes are almost impossible to create, but the risk for high-quality imitations has increased along with the better printing quality of the counterfeits. The competition between the design of euro banknote security features and the imitation of them requires continuous development of the banknotes. In fact, the European Central Bank has already started on the design of a second series of euro banknotes and increasingly better security features.

**Chart 14.**  
Number of coins put into circulation in Finland by denomination



# Foreign reserves

In accordance with its strategic policies, the Bank of Finland takes a long-term perspective in managing its foreign reserves, managing them in a professional and active manner and on the basis of strict risk-management principles. The Bank manages two types of foreign reserves: its own foreign reserves and part of the foreign reserves of the ECB. At the end of 2003, the Bank's own foreign reserves amounted to some EUR 9,210 million while the share managed on behalf of the ECB totalled about EUR 722 million.

## Bank of Finland's foreign reserve assets

The Bank of Finland 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 under the single currency has been stable. The key objectives of the Bank's investment policy are security, liquidity and return.

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

	31 Dec 2003 %
<i>US dollar</i>	30
<i>Pound sterling</i>	25
<i>Japanese yen</i>	5
<i>Danish krone</i>	22.5
<i>Swedish krona</i>	12.5
<i>Swiss franc</i>	5

Source: Bank of Finland.

The security objective refers to the requirement that the market value of assets in foreign currencies 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 whenever needed. The aim is to obtain the best possible return within these constraints.

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 the various risks and return expectations 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 (Table 2). This prevents a large change in the value of an individual currency from significantly affecting the value of reserves. The currency distribution is reviewed at 2–3 year intervals. Between the reviews, the distribution of reserve assets among the different currencies is kept as close as possible to the distribution fixed in the previous review. The Bank does not therefore attempt to take advantage of currency movements in its investment policy. In 2003, the currency distribution remained unchanged.

The interest rate risk associated with the 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 2003. The target duration is 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 among debt instruments with different maturities in all reserve currencies.

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.

Approximately a quarter of the foreign reserves is invested in debt instruments issued by entities with a high cred-

it standing, eg corporates. In the long run these investments generate higher returns than corresponding government securities, because credit risk is attached to them and 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.

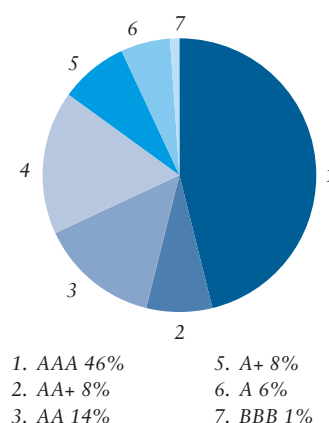
The portfolio that is assessed to be best suited to the Bank's long-term investment objectives is expressed in terms of currency distribution and currency-specific benchmark portfolios. The currency distribution and the structure of benchmark portfolios largely determine the return on invested reserves.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

A risk management unit, separate from the portfolio management function, is responsible for the risk management of the foreign reserves, the setting of benchmark portfolios and monitoring compliance with limits as well as the calculation of return. 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.

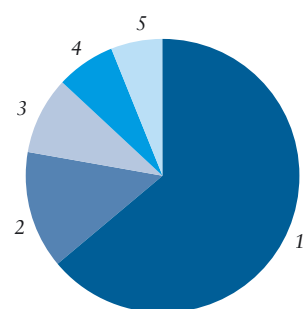
As with many other central banks, the Bank of Finland's foreign reserves

**Chart 15.**  
Distribution of the Bank of Finland's credit portfolio by credit rating, as of 31 Dec 2003



Source: Bank of Finland.

**Chart 16.**  
Distribution of the Bank of Finland's foreign reserves excl. gold, as of 31 Dec 2003



Source: Bank of Finland.

**Table 3.**  
Return on the Bank of Finland's reserve assets in 2003

Interest income	% per annum
US dollar	2.49
Pound sterling	3.38
Japanese yen	-0.14
Danish krone	3.78
Swedish krona	4.71
Swiss franc	0.45
Interest income on assets	3.48
Exchange rate changes, net	-8.10
Total return on reserve assets	-4.62

Source: Bank of Finland.

also comprise gold. The Bank of Finland's gold reserves amount to some 50 tons, about 25 tons of which is invested. This corresponds to the level at which the Bank of Finland maintained its gold deposits in September 1999, when it was one of the 15 European NCBs that agreed to restrict their gold sales and deposits. The bulk of the Bank's gold investments are short-term 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 2003 the return on the Bank of Finland's gold investments amounted to 0.91% compared with 1.48% 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 the portfolio are very similar to those applied by the Bank of Finland 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 2003 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

## Statistics

In line with ESCB statistical reporting requirements, the Bank of Finland compiles Finnish data for statistics on euro area MFIs, as well as other financial and balance of payment statistics, together with corresponding national statistics. Community legislation assigns to the Bank of Finland the public duty to compile statistics for ESCB and EU needs. In addition to regular statistical production, this also involves considerable harmonisation of statistics, which is coordinated by the ECB and Eurostat, the Statistical Office of the European Communities.

### Compilation and publication of statistics

The main task of the Statistics Department is to compile ESCB statistics, which are timely monthly and quarterly statistics. All member states apply the same EMU statistical concepts and classifications, which is necessary for the compilation of euro area-wide statistics as well as for cross-country comparisons. At the Bank of Finland, the collection of source data and compilation of statistics is conditioned not only by quality requirements but also by efficiency considerations. A notable characteristic of the Finnish financial and corporate sector, ie the high proportion of large companies, enables effective data collection and compilation but also calls for closer monitoring of the accuracy of the replies of individual reporting institutions. Broad utilisation of statistical methods and information technology improves the efficiency and operational reliability of statistical production.

The collection of harmonised MFI interest rate statistics started at the beginning of the year. Finnish monthly data based on the new conceptual framework was published for the first time in September and the compilation of corresponding longer time series for previous years is currently in progress. Considering that the new statistical premises clearly differ from the former ones and that the time series have, in practice, been interrupted, frequent contact with users and reporting institutions was necessary. In response to the ECB's requirement for more detailed securities markets statistics, a comprehensive database of Finnish securities is currently being made available. The new compilation system for the balance of payment statistics stood ready for a test run at the very end of the year.

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 available on its website. The contents of the financial markets review were thoroughly revised in 2003, following the introduction of MFI interest rate statistics. Statistics are also submitted to Eurostat, the International Monetary Fund (IMF), the Bank for International Settlements (BIS) 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**

The statistical requirements and compilation principles relevant to ESCB and EU statistics will be written into community legislation in greater detail as this has proven to be the most efficient approach to statistical harmonisation. In practice, the detailed specifications of the statistics are laid down by the ECB and Eurostat committees and working groups, with ECB regulations and guidelines being drafted in parallel with the development of the conceptual and methodological framework. Through active involvement in this work, member states will be able to guarantee that ECB regulations address their differing statistical conditions. Any derogation deadlines to individual statistical data establish the long-term timetable for their practical implementation in the individual member states.

During the year, the ESCB Statistics Committee and related working groups closely monitored the implementation of revised MFI balance sheet statistics and new interest rate statistics in member states. All member states must apply the same conceptual framework to these statistics, starting from basic data. Monitoring of the construction of a centralised securities register, designed to promote statistical harmonisation was one of the Committee's key tasks. The Committee provides the Governing Council of the ECB with regular progress reports on the statistical projects and on goals achievement relative to the quality of statistics.

For the compilation of balance of payments statistics, the Statistics Com-

mittee adopted detailed practical instructions for the reporting of country-specific data by counterparty from the beginning of 2004. The aim of the ECB is to introduce securities market statistics based on registers listed security by security throughout the EU area. This issue is being taken further by various working groups. Separate temporary sub-working groups were set up to explore common solutions to the difficult practical problems encountered in the compilation of statistics on, for example, direct investment. The International Monetary Fund (IMF) started work on a new balance of payments handbook where the euro area countries will appear as one.

### **Other international and domestic cooperation**

Other 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 exchanged information and experiences with Sweden, Denmark, Austria and Ireland in several areas of statistics. Of the accession countries, the Bank engaged in close cooperation with Estonia.

Cooperation between the Bank of Finland and the FSA in the field of financial markets statistics was further upgraded. The new International Accounting Standards that have relevance for the financial statistics will soon be published. In this context, coopera-

tion with the FSA was close. The revision of securities market statistics will also be undertaken in cooperation with the FSA.

Cooperation between the Bank of Finland and Statistics Finland is designed to fulfil the statistical reporting requirements of the ECB and Eurostat in a cost-efficient manner. According to established practice, the management of both the Bank of Finland and Statistics Finland examined issues of cooperation in the context of economic and financial statistics. Attention was focused on the existence of appropriate legislation to ensure efficient cooperation. Work on a framework agreement setting out the details of the practical cooperation was also started. The Bank of Finland will continue to contribute to the work of Statistics Finland in developing the collection and compilation of statistics on foreign trade in services for example, with both expertise and a financial input.

## Research activities

According to the Bank of Finland's strategic directions, the aim of the Bank's research activities is to produce analysis and research in its chosen areas, meeting top international standards. This ensures that the Bank of Finland makes a strong contribution to economic and financial debate both domestically and internationally.

Research has focused on the modelling of monetary policy, the future of the financial services sector and analysis of the transition economies, with emphasis on the Russian economy. Much effort is devoted to the development of the Bank's forecasting tools. The research undertaken at the Bank of Finland is predominantly conducted by the Bank's research department and the Institute for Economies in Transition.

### Monetary research

During the year, the programme on monetary policy modelling focused on the development of the Bank's forecasting and policy analysis tools. A new model of the Finnish economy as well as a model combining the euro area and the US economies were both completed. The use of real-time market information for measuring growth and inflation expectations was further explored. Connections between fiscal policy, labour markets and expectational factors and inflation and monetary policy were also investigated. Through this programme, the Bank also participated in the work of the Eurosystem-wide research network on inflation persistence.

The programme for the future of the financial services sector has studied the



effects of electronication and network competition on payment systems as well as the competition effects of the links between central securities depositories. The Bank's own payment system simulator was further developed and tested. The project for modelling payment system competition also continued. New projects were started, addressing stress tests for the banking sector and the stability and regulation of financial conglomerates.

Research findings are primarily published in the Bank of Finland's series of discussion papers, both in print and on the Internet. Findings are reported in a twice-yearly research bulletin aimed at the Finnish public. The Bank's researchers also regularly report their findings in international scientific research journals. Two doctoral and two licentiate theses were published in the Bank's series of research papers.

In January 2003 a decision was taken to start work in 2004 on writing the bicentennial history of the Bank of Finland. Sinikka Salo, Member of the Board, was selected to chair the editorial board of the history project, while Dr Antti Kuusterä, Senior Lecturer, and Dr Juha Tarkka, Head of the Bank's Research Department, were invited to write the book.

#### **Research on economies in transition**

The research efforts of the Institute for Economies in Transition (BOFIT) concentrate on macroeconomic policy, especially monetary and fiscal issues, with the geographical focus on Russia. The Insti-

tute publishes its own series of discussion papers, which is the primary outlet for most of the studies. Efforts are also being made to publish the Institute's final research papers in external journals and other publication series. In 2003, the Institute also published two books, one in English and one in English and Russian.

The preliminary findings of a survey of Russian companies undertaken by the Institute in cooperation with the Helsinki School of Economics and CEFIR, a Moscow-based research institute, were published during the year. In response to EU enlargement and the developments in Russia, there was increasing demand for the Institute's expertise, especially within the Eurosystem.

The Institute for Economies in Transition continued to release the same publications as before: BOFIT Online, Russian and Baltic economies – The Week in Review, Russian Economy – The Month in Review and Baltic Economies – Bimonthly Review. The publications are also available in electronic form, which is gaining ground more and more. Usage statistics show approximately 50,000 visits per month on the Institute's website. A decision has been made to terminate reporting on the Baltic economies from the beginning of 2004 as the Baltic economies will join the EU on 1 May 2004. A new publication was released in preparation for the reporting on China.

#### **Scientific meetings**

In 2003, the Bank organised and hosted an unusually large number of scientific meetings. Together with the ECB and

the Frankfurt-based Centre for Financial Studies (CFS), the Bank in March organised the 'Second Workshop of the ECB-CFS Research Network on Capital Markets and Financial Integration in Europe'. In May, both an international convention on simulation analyses of payment system operations and an international workshop entitled 'Bank of Finland – JIMF Workshop on Bank Competition, Risk, Regulation and Markets' were arranged. The traditional conference arranged in cooperation with the London-based CEPR network took place in October under the theme 'Heterogeneous Information and Modelling of Monetary Policy'.

The Institute for Economies in Transition promoted cooperation in the field of Russian studies in a number of ways. The Institute organised the first workshop of the European central banks addressing research on emerging market economies. The Institute's spring seminar has attained status as probably the most significant European conference in the field of research on transition economies. The seminars on the Baltic and Russian economies aimed at the general public were also popular.

## Information and publications

The Bank of Finland's aim is to be professional, active and open in its communications with the media and the public. In 2003, the Bank provided extensive information on its own activities and also participated in the growing communication activities of the European System of Central Banks and the European Central Bank. With the opening of the Bank of Finland Museum in late summer, the Bank approached the general public in particular. The Board members appeared in various events and interviews, contributing to economic policy debate at home and abroad. Over the year, experts of the Bank gave several talks to students and other groups of citizens on the Bank's current status and responsibilities.

The Governor's press conferences in connection with the publication of the Finnish edition of the Bank's quarterly bulletin continued to play a major role in the Bank's communications activities. Twice a year the Bank of Finland Bulletin contained the macroeconomic forecast, which was useful in communicating the Bank's views on the domestic economic policy debate.

Press conferences were also held in connection with the release of other new publications of which the Financial Stability Report issued in October was the most important. In this special issue of the Bank of Finland Bulletin, which will start to appear once a year, the Bank of Finland provides more fundamental analyses of the status of and outlook for the financial system. As before, the Bank also continues to publish an article on financial stability twice a year in the regular issues of the Bank of Finland Bulletin.

**Table 4.**  
Circulation figures for the Bank of Finland's publications, 2003\*

	Nos
<i>Annual report</i>	
– Finnish	2,900
– Swedish	600
– English	1,700
<i>Euro &amp; talous</i>	6,800
<i>Bank of Finland Bulletin</i>	5,000
<i>A series publications</i>	2,000–2,500
<i>E series publications</i>	1,800–2,000
<i>Discussion papers</i>	
– Finnish	600
– English	1,400
<i>Research bulletin</i>	6,400
<i>Institute for Economics in Transition*</i>	
– BOFIT Discussion Papers	1,100
– Russian and Baltic Economies	
– Finnish	900
– English (online only)	900
– Russian Economy –	
<i>The Month in Review</i>	1,100
– Baltic Economies – Bimonthly Review	900
<i>Statistical Review Financial Markets</i>	800
<i>Finland's balance of payments, monthly</i>	500
<i>Finland's balance of payments, annually</i>	500
<i>Direct investment in Finland's balance of payments</i>	500
<i>Finnish Bond issues</i>	350

\*The publications of the Institute for Economics in Transition also include direct electronic distribution.

In order to facilitate information searches, the Bank's website was equipped with a search engine in November.

The Bank of Finland Museum was opened in August. The museum is designed to inform the general public of issues of monetary policy and central banking as well as to provide a historical overview of money, monetary systems and Finnish banknotes and coins. The museum was designed by the architects Juhani Pallasmaa and Teemu Taskinen of Juhani Pallasmaa Ky, consulting architects. A management group has been set up to shape the direction of the museum's activities. The group, which also numbers an outside member, is chaired by Sinikka Salo, Member of the Board.

The museum was well received by the public, attracting a number of visitors that exceeded all expectations. By the end of December 2003, the museum had had 8,900 visitors, including 190 groups.

The Bank's publications *Euro & talous* and *Bank of Finland Bulletin* appeared on a quarterly basis. The Financial Stability Report was published as a special issue of both publications. The Bank of Finland's annual report was restructured and published in Finnish, Swedish and English. The annual report of the Parliamentary Supervisory Council was published in Finnish and Swedish in spring. Four publications appeared in publication series A and four in series E. Revised Finnish and English editions of the book *The Coins and Banknotes of Finland* appeared in summer 2003.<sup>1</sup>

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. The Bank was also responsible for the production and publication of the Finnish language versions of the ECB Monthly Bulletin. Furthermore, the publication *The Single Monetary Policy in the Euro Area* and many ECB press releases were translated into Finnish at the Bank of Finland. ECB documents were also translated into Finnish due to the introduction of public consultations. Translation and revision work was undertaken for the Bank of Finland Museum, all of which is available in Finnish as well as in Swedish and English.

<sup>1</sup> A list of Bank of Finland publications in 2003 is included in the Appendices. The publications by the Bank of Finland and the Institute for Economics in Transition, and many of the publications by the European Central Bank are available on the Bank's website (www.bof.fi).

# The Bank's governance and resource allocation

## Budget and operating costs

At the beginning of 2003, the Board of the Bank of Finland approved the strategic guidelines, which had been revised based on the work of the previous autumn. The strategies are founded on the Bank of Finland's fundamental task as promoter of financial stability. The Bank's influence is, in turn, based on the high quality of the research and analysis activities it undertakes, the network of contacts the Bank has established in Finland and abroad as well as an active communications function. The Bank's activities are directed at promoting price stability, as well as stability, reliability and efficiency in the financial markets and settlement systems.

The Bank's strategy regarding its monetary policy was defined so as to sustain economic stability in the medium term in order to achieve balanced growth and secure employment under conditions of price stability. The new strategic guidelines raise questions of economic policy and analysis to an altogether stronger position. In the future, the Bank will be an increasingly active participant in national economic policy discussions, focusing on the flexibility of economic structures.

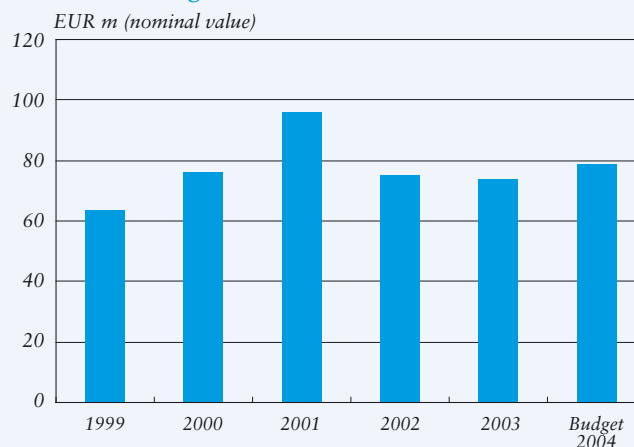
Financial market issues are to be concentrated around financial stability analysis, taking structural links with the Nordic and Baltic regions' financial markets into particular account. In evaluating the functioning and reliability of payment systems, particular attention has been paid to the application of the newest technology and related risks.

It was decided to minimise the continued development of the Bank's current payment and settlement systems (TARGET and BoF-RTGS) and, in future, to direct the necessary resources towards the development and implementation of TARGET2.

It was decided that the maintenance of currency supply could be made more effective by bringing the Bank's branch office network more closely in line with the Bank's statutory duties in this matter. By the end of 2004, personnel numbers in the Payment Instruments Department will be reduced – as a result of the strategic guidelines – to half that of early 2003. The Bank continues to develop its currency distribution logistics in cooperation with other parties in the market.

To increase efficiency in its internal functions, the Bank of Finland also established a new Economic Information Management Division, concentrating the

**Chart 17.**  
The Bank of Finland's net operating expenses  
1999 – budget 2004



Source: Bank of Finland.

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

<i>1. Operating expenses and income</i>	<i>Budget 2004</i>	<i>Outturn 2003</i>	<i>Outturn 2002</i>	<i>Outturn 2001</i>
<b>EXPENSES</b>				
<i>Salaries and fees</i>	28.8	30.1	30.7	29.5
<i>Social security</i>	3.8	3.8	3.8	3.8
<i>Pensions</i>	16.4	14.4	13.5	13.6
<i>Training</i>	1.8	1.2	1.2	1.4
<i>Travel</i>	2.1	1.7	1.8	1.8
<i>IT services</i>	4.2	3.6	3.9	4.0
<i>Other purchased services</i>	6.1	6.1	7.4	6.4
<i>Real estate expenses</i>	7.0	6.1	6.5	5.6
<i>Other</i>	5.6	5.2	4.5	4.2
<b>Total</b>	<b>75.8</b>	<b>72.3</b>	<b>73.4</b>	<b>70.1</b>
<b>DEPRECIATION</b>				
<i>IT equipment</i>	2.0	0.7	0.4	2.1
<i>Money handling machines</i>	0.9	0.8	0.8	0.5
<i>Buildings</i>	10.3	10.1	9.9	8.7
<i>Other fixed assets</i>	1.2	1.1	1.3	1.2
<b>Total</b>	<b>14.4</b>	<b>12.8</b>	<b>12.5</b>	<b>12.5</b>
<b>Total</b>	<b>90.3</b>	<b>85.1</b>	<b>85.8</b>	<b>82.6</b>
<i>Banknote printing</i>	0.7	1.2	2.0	25.7
<b>Total operating expenses</b>	<b>91.0</b>	<b>86.3</b>	<b>87.8</b>	<b>108.3</b>
<b>Income</b>				
<i>Maintenance of currency supply</i>	0.0	0.0	-0.5	-1.7
<i>Services sold to the Financial Supervisory Authority</i>	-2.4	-2.2	-1.9	-1.7
<i>Real estate</i>	-8.1	-7.9	-7.8	-6.8
<i>Other</i>	-2.0	-2.3	-2.2	-2.4
<b>Total income</b>	<b>-12.6</b>	<b>-12.4</b>	<b>-12.5</b>	<b>-12.6</b>
<b>Net operating expenses and income</b>	<b>78.4</b>	<b>74.0</b>	<b>75.3</b>	<b>95.6</b>
<b>2. Purchases</b>				
<i>IT equipment and software</i>	5.2	3.2	4.3	3.8
<i>Money handling machines</i>	0.0	0.0	0.1	2.3
<i>Other equipment and machinery</i>	1.6	1.8	1.6	2.6
<b>Total purchases</b>	<b>6.8</b>	<b>5.1</b>	<b>6.0</b>	<b>8.8</b>
<b>3. Real estate projects</b>				
<i>Head of premises</i>	6.4	1.7	4.6	9.7
<i>Vantaa premises</i>	1.2	2.3	2.0	0.8
<i>Other premises</i>	0.4	0.1	0.4	0.0
<b>Total real estate projects</b>	<b>7.9</b>	<b>4.1</b>	<b>7.0</b>	<b>10.5</b>

Source: Bank of Finland.

economic information management functions of three departments. The Board also decided to combine the Communications Unit with the Publication and Language Services Department, from the beginning of 2004. In order to make better use of the premises available, plans were drawn up with the aim of minimising the use of rented office space and of providing working space for all of the head office personnel in the buildings owned by the Bank of Finland in the Kruununuhaka district of Helsinki.

As a result of the move towards achieving greater effectiveness in the Bank's operations the number of people working at the Bank of Finland continued to decrease as did the number of staff on fixed-term contracts. Total wages and salaries paid in 2003, EUR 30.1 million, was down somewhat from 2002 levels and the Bank's operating expenses budget also covers pensions paid. In 2003, EUR 14.4 million were paid in pensions, up 6.5% on the previous year's payments.

Development of the information systems concentrated on renewal of the core banking systems. The core banking system project 'Hermes' reached the testing phase by autumn 2003 and has been gradually taken into use from the beginning of 2004.

The Bank of Finland Museum reached completion and opened its door to the public 26 August 2003. The total costs incurred in establishing the Museum, including renovation costs, came to approximately EUR 2.5 million.

Actual real estate investments for the year were lower than budgeted. The

ongoing project to improve the head office facilities have already created approximately EUR 1.7 million in costs, with close on half of that going to the renovation of the Museum building. In addition to which, two major projects were begun to enhance the area utilisation in the head office premises, with most of these costs being spread over the coming years. Renovation of the façade of the Vantaa premises accounted for about EUR 2.0 million of the real estate expenses.

## Information technology

In the Bank of Finland's information technology for its banking services, the Bank's main priority lay with maintaining sound service levels in the TARGET and RTGS systems, particularly after making large changes 2002, and implementing a new system for the Bank's foreign reserves management. Significant economist application developments were made, especially in applications used for statistical purposes. Firm virus prevention measures were unavoidable and required considerably more resources than expected. Although there were numerous viral attacks, it was possible to avoid any damage they might otherwise have caused.

The TARGET and RTGS system with its TARGET messaging and monitoring components worked well on the platform introduced in 2002, although disturbances occurred a little more frequently than before. The Bank started using SwiftNet for SWIFT messaging. A separate database with user interfaces was established for the compilation of data from the payment systems. The transfer of payment data to the time series database was automated. The Bank participated in the preparations for the new TARGET2 payment system.

The introduction of the Finance KIT software selected for the foreign reserves management started at the beginning of the year as cooperation between four departments and the program supplier. This so-called Hermes project comprises customising of the software package for the Bank's needs, adding extra properties

for the Bank and a new module for ESCB accounting as well as interfaces to other IT systems. The implementation is divided into two phases. Testing of the first phase started in November 2003 and start of live operations is targeted for early spring 2004. Planning of the second, smaller phase was commenced in late autumn. That phase will also be implemented in 2004. In addition, the project comprised development and automation of the work processes according to the concept of Straight Through Processing.

The IT systems for currency supply statistics were updated and the entry of new observations into the time series database was automated. An advance information system for cash returns was also brought into operation.

In the Bank's ongoing development of its time series systems, shared components were designed according to the system architecture for the Bank's analysis programs. Decisions were made to comprehensively modernise the PATU software used for analysis of time series data. The specification of the new software was commenced in autumn 2003. The revision covers both functions and technical solutions.

A new system for balance-of-payments statistics was completed for trial runs, according to schedule, in December 2003. Its design was based on the Microsoft system software. In addition, a tool for multidimensional data analysis was selected for the reporting and processing of data and this software can also be applied broadly in the organisation. A

securities database was created and regular data transfer was started from the Central Securities Depository to the Bank's database.

A search engine service was added to the Bank's website. The Internet-based system for regulatory reporting was developed to a level satisfying to the involved parties although the completed forms still had to be returned as encrypted email attachments. The IT solutions and services of the Bank of Finland Museum were purchased from external providers.

An updating of the Microsoft architecture was carried out in 2002–2003, but part of the finalisation of the project was left to 2004. The server environments and databases were updated and the email system in the workstations and servers replaced. The remaining updating of the workstations and standardisation of the workstation environment for different user groups progressed by stages during the late autumn 2003. Some new solutions were introduced in the standardisation of the workstations, such as back-up of user data, smart card login, back-up and filing of email messages and increased efficiency in licence management.

Maintenance of the Bank's IT security required increased resources in 2003. Both internal work as well as externally purchased services was committed to security monitoring, preventing of problems, searching, testing and the introduction of new solutions and continuous training.

Within the ESCB, efforts were made to increase the capacity of the data com-

munication network through new network technology and updated communication systems. Preparations and planning were completed in 2003, but the implementation is to be carried out in 2004. In addition, the Bank participated in the application of a new risk analysis model for TARGET and development of the continuity planning for the ECB.



## Personnel

In spring, the Board approved human resources management development priorities for the Bank of Finland for 2003–2006. The outlined priorities were an appropriate number of staff as set out in the Bank's strategic objectives, the attainment of expertise standards at top international levels in core areas, cost-efficient and customer-oriented organisation and professional supervisory work.

### Resource allocation, staff structure and staff mobility

At the end of 2003 the Bank of Finland employed 626 staff, 515 in the various head office departments and 111 in currency supply maintenance. Of the total staff, 40% held expert positions. Nine (9) Bank employees were on long leaves of absence to work at the European Central Bank (ECB). Fixed-term employees accounted for 5% of staff. The number of staff in attendance declined by 6.9% from the previous year.

The Financial Supervision Authority (FSA) employed 138 staff at the end of 2003. The FSA uses the Bank of Finland's support services for its operations.

The number of staff involved in currency supply maintenance was reduced, with the aim of improving productivity at the regional currency management units. To this effect, adjustment measures were introduced and applied to a total of 41 employees approaching retirement age. The major effects of the adjustment measures will be felt only in 2004.

To boost internal mobility, the Bank of Finland defined its job rotation policy

more closely. Staff encouraged to change duties to broaden or strengthen their skills.

### Development projects

In spring 2003, the ESA and P pay schemes were combined in a single HAY pay scheme which is easier to administer, represents a clearer supervisory tool and covers all staff categories.

In the course of 2003 the prospects for enhancing and outsourcing wage calculation processes were explored. On the basis of the outcome, a decision on the future organisation of wage calculation services will be taken in the course of 2004.

The prospects for enhancing human resources management through the use of information technology (eHR) were investigated in 2003. The project is designed to improve access to information by supervisors and staff, introduce electronic human resources management, eliminate overlapping administrative routines, reduce the number of forms and design electronic work flow processes. In spring and autumn, preliminary surveys were undertaken to define the function, contents and requirements of the eHR model. On the basis of these preliminary surveys and after completion of the bidding process the project will proceed in 2004.

### Staff reports

A personnel audit and an equal opportunities report were made available to management and supervisors as tools for human resources management. The Bank

of Finland also participated in HRM benchmarking surveys undertaken within the framework of the ESCB.

### **Employer policy**

In the early part of the year, a collective civil service agreement (VES) was concluded on the terms and conditions of staff employed on an hourly or part-time basis. Collective bargaining negotiations were launched in the autumn and a two-year collective civil service agreement was concluded in February 2004.

The Bank conducted negotiations under the cooperation agreement with the Staff Association on the adjustment of the currency management and the invitation to bid for the Bank's copying service.

### **Pension fund activities**

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. The Bank attends to the pension liabilities through a pension fund entered in the Bank's balance sheet (see page 70 for closer details). The pension fund increased in volume as the number of employees taking retirement doubled from the year before. The sum total of pension payments grew by around 6.6% from the year before.

As of 31 December 2003, the Bank of Finland paid pensions to 838 persons. In the course of 2003, 53 employees retired from the Bank or the FSA. Old-

age pensions were paid to 605 persons totalling EUR 12,187,903 and disability pensions to 69 persons totalling EUR 514,233. Survivors' pensions were paid to 107 persons totalling EUR 1,225,065.

### **Staff competence**

The Bank's training expenditure totalled EUR 1.26 million (3.8% of payroll). This sum was divided between vocational training (47%), leadership and management training (11%), interactive skills, communications and language training (20%) and IT training (22%).

In autumn 2003, competence development discussions were introduced as a separate part of staff development discussions. To promote these competence development discussions, a new electronic form was designed and competence management courses were arranged.

Supervisory training for middle management and supervisors was continued. Training programmes were also arranged for group and team leaders and attended by altogether 50 participants from the Bank and the FSA. A supervisor training programme intended for experts was introduced in autumn 2003. It is designed to develop advanced project management skills. An assessment of the key competencies required and the challenges of departmental secretarial work was undertaken in the year.

The Bank of Finland has taken an active interest in the development of ESCB-wide training programmes. In 2003 leadership training and an ESCB introductory training seminar were arranged, as well as international influ-

ence skills programmes under the auspices of various national central banks of the ESCB. These programmes were attended by 34 representatives of the Bank of Finland and the FSA. Nearly one-third of the Bank of Finland and FSA staff took part in in-house language and interactive skills training.

IT training focused on basic training necessitated by the introduction of the Outlook mail system and the Office XP and Windows XP versions. Basic exams leading up to the computer 'driving licence' (ECDL) were tailored for the Bank. Courses were also offered in project work, testing and systems development tools.

In 2003, in-house economic and legal training focused on the use and development of macro models, payment and settlement systems, corporate governance and economic geography. The Bank's 17 courses represented a total of 714 trainee days, one-third of which were covered by participants from other central banks who took part in a 10-day-course in macro model training. Economists from the Bank also participated in 9 courses provided by central-bank-funded institutions around the world.

Technical training assistance was provided to the central banks of the transition economies for the tenth year running, concentrating on three study visits from the Russian central bank in 2003. These represented 72 trainee days. During the year, the Bank of Finland, together with some other national central banks of the ESCB, joined a training project designed to improve the compe-

tence of the Russian central bank in the field of banking supervision. The project is coordinated by the ECB and funded by the TACIS program. The actual work of the project is due to commence in 2004.

Part of the Bank's research projects took the form of post-graduate academic research studies. The preparation of doctoral and licentiate theses required around 3 man-years over the year, covering five different projects.

The Bank of Finland outlined its policy for supporting long-term degree-oriented training projects.

### **Wellness at work**

The findings of the social climate survey undertaken towards late 2002 were made available in January 2003 and reported to supervisors and staff on several occasions. Departments are preparing their development plans on the basis of the findings.

Open rehabilitation within the framework of the Aslak programme was arranged for experts at the Finnish Back Institute and rehabilitative treatment at the Siuntio rehabilitation centre was offered to department heads.

Occupational health care focused on pre-emptive care. The wellbeing of staff was promoted by systematic efforts into recreational programmes, supervised physical training and health promotion meetings.

## Real estate and other holdings

The Bank of Finland only owns such real estate and property shares that it needs for its own activity.

The Bank's operations are mainly carried out on 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 comprised a total of 47,500 m<sup>2</sup>, of which the Bank has rented 1,500 m<sup>2</sup> from the outside. In addition, 40,600 m<sup>2</sup> 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 tight security. The Tampere office building, where the Bank has ordinary business and office tenants, is an exception to this rule.

Of the land attached to the Vantaa real estate, the section that is not required for the activities of the Bank of Finland has been incorporated in the town plan as being suitable for construction of top-security office buildings. Together with an external partner, the Bank has established Security Valley Real Estates Ltd, which is to market the area and plan the security services.

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 mind. In addition, investments were made in necessary renovations. The total investments in real estate during the year amounted to EUR 4.1 million.

## OMHEX

In cooperation with the Government of Finland and the major commercial banks, the Bank of Finland in 1989 established the Helsinki Money Market Center and subscribed to 52% of its share capital. The operations of the company focused on clearing and settlement of securities in the money market through a book-entry system. In 1996, the business operations were sold to the Finnish Central Securities Depository (APK) and at the same time the Bank of Finland became shareholder in the APK. The Helsinki Money Market Center entered into voluntary liquidation procedures under the name of Rahakontti. The liquidation process was not brought to completion until late 2003 after VAT refunds.

Towards the end of 1998, the APK became a subsidiary of HEX through a private placement. With its collateral management system, the APK has provided the counterparties of the Bank of Finland important services in the monetary policy operations of the Eurosystem.

In spring 2003, the Swedish OM made an offer to the shareholders of HEX on the exchange of shares. The offer was accepted and the Swedish listed company OM HEX AB was established on 4 September 2003.

The Bank of Finland no longer considered it appropriate to remain a shareholder of the listed company OM HEX. The Bank's holdings, which comprised a little more than 2% of the share capital, were sold via the stock exchange during the autumn.

## Setec

In late 2003 the Bank of Finland sold its 40% holding in Setec's share capital to funds managed by the capital management company CapMan. The preparations for the sale were started towards the end of 2002 and several domestic and foreign potential buyers participated in the competitive bidding.

Setec was established more than 10 years ago out of the Bank's note printing works. The Bank sold 60% of the company's share capital to external investors in 1998. At that time the Finnish National Fund for Research and Development (Sitra), Finnish Industry Investment, Varma Mutual Pension Insurance Company and Sampo Life Insurance Company became major owners in addition to the Bank of Finland. The note printing works had started their operations at the Bank of Finland already in 1885.

Setec develops and manufactures high-security products such as smart cards and products for visual identification. The sale was a natural conclusion to the Bank's decision to withdraw from the company. The Bank's holdings in the company were no longer necessary for the performance of its central bank duties. Lately the proportion of the traditional banknote production has only accounted for a few per cent of the company's turnover. Setec is still operating in the Security Valley premises in the vicinity of the Helsinki-Vantaa airport.

# Financial statements

## Balance sheet, EUR million

	31 Dec 2003	31 Dec 2002
<b>Assets</b>		
<i>Gold and gold receivables (1)</i>	521	515
<i>Claims on non-euro area residents denominated in foreign currency (2)</i>	8,131	8,694
<i>Receivables from the IMF</i>	776	816
<i>Balances with banks and security investments, external loans and other external assets</i>	7,355	7,878
<i>Claims on euro area residents denominated in foreign currency (3)</i>	790	721
<i>Claims on non-euro area residents denominated in euro (4)</i>	0	0
<i>Balances with banks, security investments and loans</i>	0	0
<i>Lending to euro area credit institutions related to monetary policy operations denominated in euro (5)</i>	2,850	2,970
<i>Main refinancing operations</i>	2,850	2,970
<i>Longer-term refinancing operations</i>	–	–
<i>Other claims on euro area credit institutions denominated in euro (6)</i>	1	1
<i>Intra-Eurosystem claims (7)</i>	4,071	3,605
<i>Share in ECB capital</i>	70	70
<i>Claims equivalent to the transfer of foreign currency reserves</i>	699	699
<i>Net claim related to the allocation of euro banknotes within the Eurosystem</i>	3,303	2,836
<i>Other assets (8)</i>	767	808
<i>Euro area coins</i>	30	66
<i>Tangible and intangible fixed assets</i>	211	212
<i>Other current assets</i>	386	23
<i>Other</i>	141	507
<b>Total assets</b>	<b>17,132</b>	<b>17,315</b>

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

	31 Dec 2003	31 Dec 2002
<b>Liabilities</b>		
<i>Banknotes in circulation (1)</i>	6,923	5,853
<i>Liabilities to euro area credit institutions related to monetary policy operations denominated in euro (2)</i>	2,146	3,759
<i>Current accounts (covering the minimum reserve system)</i>	2,146	3,759
<i>Deposit facility</i>	0	–
<i>Liabilities to other euro area residents denominated in euro (3)</i>	1	5
<i>Liabilities to non-euro area residents denominated in euro (4)</i>	0	1
<i>Liabilities to non-euro area residents denominated in foreign currency (5)</i>	248	0
<i>Deposits, balances and other liabilities</i>	248	0
<i>Counterpart of special drawing rights allocated by the IMF (6)</i>	168	185
<i>Intra-Eurosystem liabilities (7)</i>	2,777	2,159
<i>Other liabilities (8)</i>	166	77
<i>Revaluation account (9)</i>	530	689
<i>Provisions (10)</i>	2,610	3,120
<i>Capital and reserves (11)</i>	1,386	1,304
<i>Primary capital</i>	841	841
<i>Reserve fund</i>	545	463
<i>Profit for the financial year (12)</i>	177	163
<b>Total liabilities</b>	<b>17,132</b>	<b>17,315</b>



**Profit and loss account, EUR million**

	1 Jan – 31 Dec 2003	1 Jan – 31 Dec 2002
<i>INTEREST INCOME (1)</i>	366	442
<i>INTEREST EXPENSE (2)</i>	-119	-209
<i>NET INTEREST INCOME (3)</i>	247	233
<i>REALISED GAINS/LOSSES RELATED TO FOREIGN EXCHANGE RATE MOVEMENTS (4)</i>	-662	-215
<i>REALISED SECURITIES PRICE DIFFERENCES (5)</i>	72	94
<i>CHANGE IN FOREIGN EXCHANGE RATE AND PRICE DIFFERENCE PROVISIONS (6)</i>	590	121
<b><i>NET RESULTS OF FINANCIAL OPERATIONS, WRITE DOWNS AND RISK PROVISIONS</i></b>	<b>247</b>	<b>233</b>
<i>NET SHARE OF MONETARY INCOME (7)</i>	6	14
<i>SHARE IN ECB PROFIT (8)</i>	11	25
<i>OTHER CENTRAL BANKING INCOME (9)</i>	6	15
<b><i>CENTRAL BANKING PROFIT BEFORE MONETARY INCOME AND OTHER INCOME</i></b>	<b>269</b>	<b>287</b>
<i>OTHER INCOME (10)</i>	78	41
<b>OPERATING EXPENSES</b>		
<i>Staff cost (11)</i>	-55	-53
<i>Administrative expenses (12)</i>	-19	-20
<i>Depreciation of fixed assets (13)</i>	-4	-3
<i>Banknote production services (14)</i>	-1	-2
<i>Other expenses (15)</i>	-10	-10
<b>CHANGES IN PROVISIONS (16)</b>	<b>-81</b>	<b>-77</b>
<b>PROFIT FOR THE FINANCIAL YEAR (17)</b>	<b>177</b>	<b>163</b>

## Appendices to the financial statements

	1 Jan – 31 Dec 2003		1 Jan – 31 Dec 2002	
<b>Foreign currency futures contracts, EUR m</b>				
Purchase contracts <sup>1</sup>	642.0		–	
Sales contracts <sup>1</sup>	–		–	
<b>Shares and other interests, nominal value, EUR m</b> (Bank of Finland's holding in parentheses)				
Setec	0	(0%)	2.7	(40%)
Rahakontti	0	(0%)	0	(52%)
HEX, Helsinki Securities and Derivatives Exchange, Clearing House	0	(0%)	1.9	(7%)
Bank for International Settlements	11.5	(1,67%)	11.5	(1,67%)
Shares in housing companies	6.2		6.3	
Real estate shares	–		–	
Other shares and interests	0.1		0.1	
Total	17.8		22.5	
<b>Bank of Finland's liability share in the APK fund, EUR m</b>				
	0.3		0.2	
<b>Liability arising from pension commitments, EUR m</b>				
The Bank of Finland's pension liability	425.5		412.6	
– of which covered by reserves	367.2		351.7	
<b>Staff banking office, EUR m</b>				
– Deposits	19.6		20.4	
– Loans	6.0		7.8	

<sup>1</sup> Middle rate for the currency on the last business day of the year.

### The Bank of Finland's real estate

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

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

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The Board proposes to the Parliamentary Supervisory Council that EUR 88,434,864.43 of the profit of EUR 176,869,728.87 be transferred to the reserve fund according to section 21 of the Act on the Bank of Finland and that the remaining EUR 88,434,864.44 be made available for the needs of the state.

Helsinki, 25 February 2004

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 are drawn up in accordance with these harmonised principles. In accordance with section 11 of the Act on the Bank of Finland, the Parliamentary Supervisory Council confirms, on the proposal of the Board, the principles applied in drawing up the annual accounts.

The format of the profit and loss account was changed in 2002 to follow the format recommended by the ESCB. 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 or 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. 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.

### Gold and items denominated in foreign currency

In the annual accounts, foreign currency-denominated items and gold have been converted into euro at the rates and prices prevailing on the balance sheet date. 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.

### 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

Transactions between the national central banks of EU countries are primarily processed via TARGET, the Trans-European Automated Real-time Gross settlement Express Transfer system. These transactions give rise to bilateral balances in accounts held between EU central banks. These bilateral balances are novated to the ECB daily, leaving each NCB with a single net bilateral position vis-à-vis the ECB only.

### 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 year of purchase.

### 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.<sup>1</sup> 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

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

key.<sup>2</sup> 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 interest<sup>3</sup>, are disclosed under the sub-item 'Intra-Eurosystem claims/liabilities: Net claim/liability related to the allocation of euro banknotes within the Eurosystem'. In the Bank of Finland's balance sheet, the item is on the 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

<sup>2</sup> 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.

<sup>3</sup> 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).

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.<sup>4</sup> 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. For 2003, the Governing Council decided not to distribute the seigniorage income to the NCBs. According to a decision of the Governing Council, the amount of expenses that the issuing and administration of euro banknotes has caused the ECB may be deducted from the seigniorage income.

## Post balance sheet events

### Changes to the capital key of the ECB

In accordance with Article 29.3 of the ESCB statute, the capital key of NCBs for subscription to the capital of the ECB

<sup>4</sup> 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).

<sup>5</sup> Article 29.3 of the ESCB statute stipulates that the weightings assigned to the national central banks shall be adjusted every five years after the establishment of the ESCB. As the initial capital key of the ECB was established by the ECB Governing Council in 1998, the first adjustment of the capital key will take place at the end of 2003 with effect from 1 January 2004 until 31 December 2008.

shall be adjusted every five years<sup>5</sup>. The first quinquennial change took effect on 1 January 2004. On 1 May 2004 a second change of the ECB's capital key will follow, as a result of the accession of 10 new Member States. The capital keys of NCBs were adjusted on 1 January 2004 on the basis of Council Decision of 15 July 2003 on the statistical data to be used for the determination of the key for subscription of the capital of the European Central Bank and are expected to be adjusted on 1 May 2004 on the basis of the same Council Decision.

### Share in ECB capital

On 1 January 2003, the capital key share of the Bank of Finland increased by 2.3% to 1.4298%. Consequently, asset item 'Share in ECB capital' increased from EUR 70 million to EUR 71 million as a result of the additional capital contribution that was transferred to the ECB.

### NCB's claim equivalent to the transfer of foreign reserve assets to the ECB

The adjustments to the capital key weightings and the resulting changes in the euro area NCBs' shares in the ECB's subscribed capital also make it necessary to adjust the claims which the ECB has credited to the euro area NCBs and which are equivalent to those NCBs' respective contributions of foreign reserve assets to the ECB. The foreign reserve assets transferred to the ECB increased from EUR 699 million to EUR 715 million on 1 January 2004.

### Changes as from 1 May 2004

Upon one or more countries becoming Member States and their respective national central banks becoming part of the ESCB, the subscribed capital of the ECB and the limit on the amount of foreign reserve assets that may be transferred to the ECB shall be automatically increased.

### 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 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 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.

### Pension fund

In 2001 the decision was made to create a pension fund in the Bank of Finland's balance sheet for the management of the Bank's pension liability. The purpose of this measure, which came into force from the beginning of 2002, is to 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.

### 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.

## Notes to the balance sheet

### Assets

#### 1. Gold and gold receivables

The Bank's holdings of gold total 1,577,345 troy ounces. In the annual accounts, gold has been valued at market price. At the beginning of the 1999 the Bank of Finland – and the other central banks participating in the Eurosystem – transferred about 20% of its gold holdings to the ECB.

	31 Dec 2003	31 Dec 2002
<i>Holdings of gold (troy ounces)</i>	1,577,345	1,577,069
<i>Price:</i>		
<i>euro per troy ounce</i>	330.36	326.83
<i>Market price value, EUR</i>	521,098,433	515,433,389
<i>Change in the market value, EUR</i>	5,665,044	18,562,651

*The slight change in the amount of gold is the result of balancing transactions.*

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

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

Receivables from the IMF consist of the following items (in millions):

	31 Dec 2003		31 Dec 2002	
	EUR	SDR	EUR	SDR
<i>Reserve tranche in the IMF</i>	615.0	522.1	618.1	476.8
<i>Special Drawing Rights (SDRs)</i>	154.3	131.0	190.6	147.0
<i>Other receivables from the IMF</i>	6.8	5.8	7.5	5.8
	776.1	658.9	816.2	629.6

Finland's quota in the IMF amounts to SDR 1,263.8 million. The reserve tranche is the part of the Bank's quota that has been paid to the IMF in foreign currency. Another part of the quota was formerly paid to the IMF in markka. The IMF has lent this part back to the Bank of Finland. The net effect of the markka quota on the Bank's balance sheet is zero, since the above-mentioned receivables and the liability are included in the same item.

The Bank of Finland's SDR allocation amounts to EUR 154.3 million. The SDRs are reserve assets created and allocated by the IMF to its member countries. They are used in currency transactions as normal currency units. The value of 'Receivables from the IMF' changes on the basis of foreign exchange transactions between the member countries. In addition, its value is affected by interests earned and paid as well as remuneration on the Bank's claims in the IMF.

The Bank of Finland's receivables from the IMF total EUR 776.1 million. On 31 December 2003, the exchange rate between SDR and EUR was 1.178.

In addition to IMF counteritems, this item includes balances with banks and security investments, as well as



claims on non-euro area residents denominated in foreign currency.

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

### **3. Claims on euro area residents denominated in foreign currency**

This item consists of balances with banks and investments in securities of euro area residents denominated in foreign currency.

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

This item includes euro-denominated receivables from the Bank for International Settlements (BIS).

### **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.

Main refinancing operations are liquidity-providing operations which are executed weekly on the basis of standard tenders and have a maturity of two weeks. Main refinancing operations play a pivotal role in fulfilling the objectives of Eurosystem's market operations and provide the bulk of refinancing to the banking sector. Claims on the main refinancing operations amounted to EUR 2,850 million.

Longer-term refinancing operations and one fine-tuning operation were also conducted during 2003. There were, however, no outstanding balances on these operations at the end of the year. Longer-

term refinancing operations are liquidity-providing transactions that are executed once a month on the basis of standard tenders. Fine-tuning reverse transactions are executed on an ad hoc basis in order to smooth the effects on interest rates caused by unexpected liquidity fluctuations in the money market.

### **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 intra-Eurosystem claims. The share in the ECB's capital of each national central bank participating in the Eurosystem is determined on the basis of a so-called capital key. The capital key is calculated relative to the population and gross domestic product of each country, and is adjusted every five years. The most recent adjustment was made at the beginning of 2004. At the end of 2003, The Bank of Finland's share in the ECB's capital was EUR 70 million, ie 1.3970%. The Bank's claims on the ECB equivalent to the foreign reserves and gold transferred to the ECB were EUR 699 million. This item also includes net claim related to the allocation of the value of euro banknotes in the Eurosystem.

### **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). The item also includes pen-

sion 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, valued at EUR 6,923 million, of the total amount of euro banknotes in circulation.

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

This item includes credit institutions' RTGS account balances. Credit institutions meet their reserve requirements by maintaining the average of their daily RTGS account balances at least as high as the reserve requirement during the maintenance period. The minimum reserve system primarily pursues the aims of stabilising money market interest rates and enlarging the structural liquidity shortage of the banking system.

This item also consists of credit institutions' overnight deposits.

### 3. Liabilities to other euro area residents denominated in euro

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

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

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

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

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

### 6. Counterpart of Special Drawing Rights allocated by the IMF

This item is the counteritem of SDRs (cf. item on the asset side). Originally the amount of SDRs and their counteritem were equal. As a result of transactions, the Bank of Finland's claims related to SDRs are currently bigger than their counteritem. The counteritem has remained at SDR 143 million for several years.

### 7. Intra-Eurosystem liabilities

This item consists of the Bank of Finland's liabilities resulting from TARGET payments. The counterpart to the liability is ECB, since the claims and liabilities between NCBs resulting from TARGET payments have been netted so that each bank has one balance with the ECB. The item also includes account balances of other NCBs with the Bank of Finland.

### 8. Other liabilities

This item consists of accruals and other liabilities.

### 9. 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.

## 10. Provisions

Under section 20 of the Act on the Bank of Finland, provisions can be made in the annual accounts, if they are necessary for safeguarding the real value of the Bank's funds or for smoothing out variations in profit and loss arising from changes in exchange rates or market values of securities. These provisions totalled EUR 2,243 million.

In addition, a provision is made in the annual accounts to cover Bank of Finland's pension liabilities. The Bank of Finland's pension liabilities total EUR 426 million; 86% of this amount is covered by the pension provision, ie EUR 367 million.

## 11. Capital and reserves

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

## 12. Profit for the financial year

The profit for the financial year 2003 totalled EUR 177 million.

## Notes to the profit and loss account

### 1. Interest income

Interest income amounted to EUR 366 million. The largest proportion, EUR 305 million, consisted of interest income on foreign reserve assets. The remaining EUR 62 million consisted of interest income on intra-Eurosystem claims, of which EUR 48 million was interest income on monetary policy operations and EUR 14 million interest income on foreign reserve assets transferred to the ECB.

### 2. Interest expense

Interest expense amounted to EUR 119 million. Interest totalling EUR 46 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 66 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 3 million, is entered on a net basis.

### 3. Net interest income

Net interest income, calculated as the difference between interest income and expense, amounted to EUR 247 million.

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

This item includes realised gains and losses arising from the sale of currency

positions. In 2003, realised losses related to foreign exchange movements amounted to EUR 662 million.

#### **5. Realised securities price differences**

This item includes realised gains and losses arising from the sale of securities. In the accounts, securities are treated on an item-by-item basis. In 2003, the realised gains related to securities price movements amounted to EUR 72 million.

#### **6. Change in foreign exchange rate and price difference provision**

In 2003, the provision was reduced by EUR 590 million, in accordance with the financial reporting policy.

#### **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 2003, the amount of each NCB's monetary income was determined by using the actual income that derives from the ' earmarkable assets ' that are held against the liability base. The liability base consists of the following items: banknotes in circulation; liabilities to credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem liabilities resulting from TARGET transactions; and net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled. ' Earmarkable assets ' con-

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

#### **8. Share in ECB profit**

This item consists of the ECB's profit distribution of EUR 11 million for the financial year 2002.

#### **9. Other central banking income**

This item includes dividend income, commissions and fees and other income.

#### **10. Other income**

This item consists of the FSA's supervision fees, EUR 15 million, the income of the Bank's pension fund, EUR 24 million, and miscellaneous other income.

#### **11. Staff costs**

Salaries amounted to EUR 37 million. Social security costs amounted to EUR

17 million and include EUR 15 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 4 million.

#### **14. Banknote production services**

Purchase of banknotes amounted to EUR 1 million.

#### **15. Other expenses**

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

#### **16. Changes in provisions**

Other provisions in accordance with section 20 of the Act on the Bank of Finland were increased by EUR 65 million. The addition to the pension provision in the profit and loss account amounted to EUR 16 million.

#### **17. Profit for the financial year**

The profit for the financial year 2003 totalled EUR 177 million. The Board proposed to the Parliamentary Supervisory Council that EUR 88.4 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 2003 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 Ernst & Young 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 27 February 2004.

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, 11 March 2004

Johannes Leppänen

Reino Majala  
Authorised Public Accountant

Matti Saarinen

Timo Seppälä

Veli Vanhanen

./. 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 2003. 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, 27 February 2004

Ernst & Young Oy  
Authorised Public Accounting Firm

Eija Niemi-Nikkola  
Authorised Public Accountant

# Appendices

## Monetary policy measures of the Eurosystem in 2003

### January

On 23 January 2003 the Governing Council of the ECB decided to implement two measures to improve the efficiency of the operational framework for monetary policy. The measures, scheduled to come into effect during the first quarter of 2004, were as follows:

The timing of the reserve maintenance period would be changed so that it would always start on the settlement day of the main refinancing operation (MRO) following the Governing Council meeting at which the monthly assessment of the monetary stance is pre-scheduled. Furthermore, the implementation of changes to the standing facility rates would be aligned with the start of the new reserve maintenance period.

The maturity of the MROs will be shortened from two weeks to one week.

On 23 January 2003 the Governing Council of the ECB also decided to maintain at EUR 15 billion the allotment amount for each of the longer-term refinancing operations to be conducted in 2003. This amount took into consideration the expected liquidity need of the euro area banking system in 2003 and reflected the desire of the Eurosystem to continue to provide the bulk of liquidity through its main refinancing operations.

### March

On 6 March 2003 the Governing Council of the ECB decided to lower the minimum bid rate on the main refinancing operations by 0.25 percentage point to 2.50%, starting with the following main re-

financing operation. In addition, it decided to lower the interest rates on both the marginal lending facility and the deposit facility by 0.25 percentage point, to 3.50% and 1.50% respectively, both with effect from 7 March 2003.

### May

On 8 May 2003 the Governing Council of the ECB announced the results of its evaluation of the ECB's monetary policy strategy and confirmed its definition of price stability announced in 1998: 'Price stability is defined as a year-to-year increase in the Harmonised Index of Consumer Prices (HICP) for the euro area of below 2%. Price stability is to be maintained over the medium term. In the pursuit of price stability, the Governing Council will aim to maintain inflation rates close to 2% over the medium term.

The Governing Council confirmed that its monetary policy decisions will continue to be based on a comprehensive analysis of the risks to price stability. At the same time, the Council stated a wish to clarify communication on the cross-checking of information related to economic and monetary analysis, in coming to its unified overall judgement of the risks to price stability.

To underscore the longer-term nature of the reference value for monetary growth as a benchmark for the assessment of monetary developments, the Governing Council also decided to discontinue conducting a review of the reference value on an annual basis. However, it would continue to assess the underlying conditions and assumptions.

### June

On 5 June 2003 the Governing Council of the ECB decided to lower the minimum bid rate on the main refinancing operations by 0.50 percentage point to 2.00%, starting with the following 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 3.00% and 1.00% respectively, both with effect from 6 June 2003.



## Key measures affecting the financial markets in 2003

### Measures by the European System of Central Banks (ESCB)

#### February and November

Both in February and November, the European Central Bank (ECB) released a report on the stability of the EU banking sector. The reports analyse banking sector stability and the potential sources of downside risks to it. In November, the ECB also released a report on structural developments in the EU banking sector. The report analyses structural changes in the banking sector and the reasons for them.

#### March

The banking supervisory authorities and the central banks of the European Union (EU) agreed on a Memorandum of Understanding (MoU) on high-level principles of cooperation in crisis management situations. The MoU will apply in crisis situations with a possible cross-border impact on individual credit institutions or banking groups or in situations of disturbances in money and financial markets and/or market infrastructures (including payments infrastructures). The Memorandum of Understanding became effective on 1 March 2003.

The ECB and the national central banks of Austria, Belgium, France, Germany, Italy, Portugal and Spain agreed on a Memorandum of Understanding (MoU) on the exchange of information among credit registrars. The MoU contains the principles for an exchange of information whereby each central credit register is able to obtain infor-

mation on credit relationships originating outside national borders.

#### May

The ECB released a report on electronic money system security objectives ('the EMSSO report').

#### June

The ECB launched a public consultation on measures to improve the collateral framework of the Eurosystem. The aim of the consultation was to find out whether counterparties felt it would be useful to move from the current two tiers of assets to a single list of collateral. In addition, the ECB wanted to know how much and what kind of eligible assets should be available.

The Governing Council of the ECB adopted oversight standards for euro retail payment systems which will ensure a harmonised and systematic oversight of retail payment systems in the euro area.

The ECB released a progress report entitled 'Towards a Single Euro Payments Area' which reviews recent developments in payment infrastructures and assesses the banking industry's efforts to harmonise their infrastructures for intra-EU retail payments in euro.

#### July

The ECB published a summary of the comments received from market participants on the long-term strategy for TARGET (TARGET2). In this context, the ECB also released individual TARGET users' requests for interfaces and communication standards for TARGET2 and comments on the functions and service levels required of the system.

#### August

The ECB and the Committee of European Securities Regulators (CESR) issued a joint public consultation announcement to obtain comments on the ESCB-CESR standards for securities clearing and settlement systems in the European Union and their scope of application.

#### October

On 15 October 2003, the ECB issued an opinion on a draft government proposal to amend the Act on the Bank of Finland Act and other related acts. According to the opinion, the legislative proposal is incompatible with the Treaty and its intentions as regards the proposed transfer of the Bank's profits to the State and limitation of the Bank's right to create financial provisions, since this would infringe on the principle of independence for central banks. The ECB also takes the view that the proposal would have an adverse effect on the credibility and financial standing of the Eurosystem as a whole. In its opinion, the ECB also considered the proposed extension of the Bank of Finland's power to issue norms as regards oversight to be justified.

### EU regulatory projects and their implementation in Finland

#### February

The directive of the European Parliament and of the Council on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate took effect on

11 February 2003. The aim of the directive is to ensure that, through the use of oversight, supervisory authorities ensure that the own funds of financial and insurance conglomerates always meet the required capital adequacy levels. In Finland, the Ministry of Finance carried out the initial preparatory work on the implementation of the directive. New areas of legislation included the extended scope of the law, the national supervisory authorities' relations with the international supervisory authorities and the capital adequacy calculations. The new legislation will include legal provisions on the application of Finnish law on multinational conglomerates.

#### **March**

The European Commission submitted its final proposal for a directive on the harmonisation of transparency requirements with regard to information about issuers whose securities are admitted to trading on a regulated market.

#### **April**

The Giovannini Group, which advises the European Commission on issues relating to securities clearing and settlement arrangements, submitted its second report. The report includes proposals for action to remove the barriers to cross-border clearing and settlement activity identified in the 2001 report.

#### **June**

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

The European Commission launched its third public consultation on a new capital adequacy framework for banks and investment firms. It also released its third study of the impacts of the new capital adequacy framework on capital requirements in the EU banking sector.

#### **July**

The European Parliament and Council Regulation on euro-denominated cross-border payments entered into force in respect of credit transfers. In practice, this means that the fee charged to a cross-border payment in euro must not exceed that charged to a domestic credit transfer if the International Bank Account Number (IBAN) and Bank Identifier Code (BIC) have been used in the payment order.

#### **September and October**

In September, the European Parliament endorsed the main principles of the proposal for a directive presented in December 2002 on investment services and regulated markets. In October, the Council reached a political agreement on the proposed directive.

In October, the Finnish Government proposed that the Mutual Funds Act be amended to correspond to the amended directive. According to the proposal, the scope of mutual fund investment activity should be extended to derivatives, other mutual fund units, deposits and money market instruments, and it should be made easier to set up index funds. It was also proposed that the processing

of applications concerning management companies, custodial institutions, mutual funds and special mutual funds be transferred from the Ministry of Finance to the Financial Supervision Authority.

#### **November**

The European Commission submitted its fifth and last progress report on the risk capital action plan to the Council and the European Parliament.

The European Commission put forward its final proposal on the amendment of a total of eight directives. The proposed amendments to these directives, pertaining to banking, insurance and occupational pensions, securities field or financial conglomerates, are related to the new committee architecture for the financial services sector. In the context of the Lamfalussy process, two new committees began to function at the beginning of 2004: the Committee of European Banking Supervisors (CEBS) and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS).

The Government's proposal for legislation on financial collateral was passed by Parliament in December. The aim of the proposal was to implement the directive on financial collateral arrangements. Due to The Hague Convention on the Law Applicable to Certain Rights in respect of Securities held with an Intermediary, adopted earlier, the directive on financial collateral arrangements and the directive on settlement finality may have to be made more precise.

### **December**

The European Commission issued a communication concerning a new legal framework for payments in the internal market. The communication presents the general principles that should govern the new regulatory framework and includes preliminary suggestions for future EU legislation. The aim of the new legal framework is to create a single payment area, enhance competitive conditions and promote financial stability.

### **Other key regulatory projects and measures**

#### **January**

The Group of Thirty, which is composed of representatives of the clearing and financial services sectors and central banks, released a report stressing the key role that securities settlement systems play in enhancing public confidence in the financial markets. The report presented 20 recommendations regarding securities clearing and settlement.

#### **February, July and August**

In Finland, amendments to the Credit Institutions Act and certain related acts entered into force in February, July and August. The acts were, for example, complemented by provisions permitting non-credit institutions to accept repayable funds from the public. In addition, payment transmission and issue of electronic money were made subject to authorisation, if not pursued in connection with credit institution activities as presently defined.

#### **June**

The Governors of the Nordic central banks signed a Memorandum of Understanding (MoU) on financial crisis management. The MoU is applicable when a severe problem occurs in a bank which is domiciled in a Nordic country and has at least one cross-border establishment in another Nordic country.

#### **July**

The new Act on the Financial Supervision Authority (FSA), complemented with provisions on the FSA's goals and functions, entered into force on 1 July 2003. Under the new act, the Parliamentary Supervisory Board became responsible for monitoring general appropriateness and efficiency of the FSA's actions. The major legislative changes affecting practical supervision relate to granting the FSA new supervisory powers, especially the right to impose administrative sanctions. Under the new act, the FSA has the right to issue public admonitions and warnings and to remove unsuitable persons from credit institutions' or investment firms' administrative bodies. In addition, the FSA was empowered to grant and cancel credit institution and investment firm authorisations.

#### **August**

In Finland, the amendment of the Emergency Powers Act entered into force. As a result of the amendment, the Council of State has regulatory power in respect of financial markets and the insurance sector during such conditions of severe emergency referred to in the act. Hence, the act corresponds to the

demands imposed by Finland's participation in the euro area. As a result of the amendment of the Emergency Powers Act, credit institutions, certain financial institutions, management companies, the Finnish Central Securities Depository (APK), insurance and pension providers and the Central Pension Security Institute, under special legislative provision, have become obliged to prepare for the maintenance of financial and insurance activities that are most essential under exceptional conditions.

#### **October**

In a Government proposal on the amendment of the Investment Firms Act, a revision of the total capital of the Investor Compensation Fund and the methods of raising it was proposed. The proposal aims at easing the financial burden of the undertakings participating in the fund by allowing them to use commitments to lend from non-member credit institutions, instead of or in addition to insurance, for raising the funds. The amendment became effective on 1 January 2004.

#### **November**

The Government's proposal on the amendment of the Act of the Bank of Finland was submitted to Parliament on 14 November 2003. According to the proposal, all the profits of the Bank of Finland would be transferred to the State, unless the Parliamentary Supervisory Board for some specific reason was to decide otherwise. Under the proposal, the Bank would be permitted to create financial reserves in the annual accounts in order to

offset variations in the Bank's results. It was also proposed that the Bank should be given powers to issue regulations to enterprises that maintain or participate in settlement systems. These regulations would contain such operational details concerning the administration, internal control and/or risk management of systems that are necessary to implement guidelines, instructions or regulations issued by the European Central Bank (ECB). In addition, the Parliamentary Supervisory Board would be authorised to appoint all members of the Bank of Finland Board, except the Governor, who would continue to be appointed by the President of the Republic of Finland. The proposal submitted to Parliament deviated from the draft proposal on the basis of which the ECB issued its opinion. Therefore, on 22 December 2003, the Parliamentary Economic Committee submitted the Government's final proposal on the amendment of the Act on the Bank of Finland to the ECB for an opinion. The processing of the proposal continued into 2004.

## Main opinions issued by the Bank of Finland 2003

### Opinions concerning legislation on and development of the financial markets

- To the Ministry of Finance concerning confirmation of the total amount of contributions to be accrued in the Investor Compensation Fund in 2003, 30 April
- To the Ministry of Finance concerning confirmation of amendments to the rules of the Investor Compensation Fund, 30 April
- To the Ministry of Justice concerning alternative approaches to developing a credit register law, 30 April
- To the Ministry of Finance concerning amendment of the Mutual Funds Act and certain related acts, 23 May
- To the Ministry of Trade and Industry concerning official supervision of compliance with International Accounting Standards and organisation of supervision in Finland, 13 June
- To HEX concerning amendments to the rules of the Finnish Central Securities Depository (APK) as regards the introduction of the HEXClear system, 13 June
- To the Ministry of Justice concerning a Convention adopted by the Hague Conference on Private International Law, 15 August

- To the Ministry of Finance concerning confirmation of amendments to the rules of the Finnish Central Securities Depository (APK), 21 August
- To the Ministry of Finance concerning restriction of the use of index clauses, 23 September
- To the Competition Authority on the cash dispenser network operated by Automatia, 30 September
- To the Ministry of Finance concerning amendment of the Investment Firms Act, 9 October
- To HEX concerning amendments of decisions issued by the managing director of the Finnish Central Securities Depository (APK) in connection with the introduction of the HEXClear system, 15 October
- To the European Commission concerning the third consultative document on a new capital adequacy framework for investment firms of banks (a joint statement with the Ministry of Finance and the Financial Supervision Authority), 22 October
- To the Ministry of Finance concerning a draft government proposal to Parliament for the amendment of legislation on the reorganisation, winding-up and bankruptcy of credit institutions, 6 November

- To the Council of State concerning a change of the absolute guarantee given by Asset Management Company Arsenal Ltd and Asset Management Company Arsenal-SSP Ltd, 10 December

### Other opinions

- To the Ministry of Finance concerning a memorandum on competitive taxation submitted by the taxation task force, 17 January
- To the Ministry of Finance concerning an application filed by PCA Corporate Finance Oy to set up a branch in Estonia, 28 February
- To the Ministry of Justice concerning amendment of chapters 33, 36 and 37 of the Penal Code, 7 March
- To the Ministry of Finance concerning amendment of the Statistics Act, 1 April
- To the Ministry of Finance concerning amendment of the Act on the Bank of Finland, 17 June
- To the Ministry of Education concerning amendment of the Act on Financial Aid for Students, 10 September
- To the Ministry of Education concerning confirmation of the maximum interest rate and service fee applicable to student loans, 5 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**

<i>Assets</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>
<b>1 Gold and gold receivables</b>	<b>515</b>	<b>515</b>	<b>515</b>
<b>2 Claims on non-euro area residents denominated in foreign currency</b>	<b>8,965</b>	<b>8,810</b>	<b>8,905</b>
2.1 Receivables from the IMF	813	816	815
2.2 Balances with banks and security investments, external loans and other external assets	8,151	7,994	8,090
<b>3 Claims on euro area residents denominated in foreign currency</b>	<b>627</b>	<b>683</b>	<b>778</b>
<b>4 Claims on non-euro area residents denominated in euro</b>	<b>0</b>	<b>0</b>	<b>0</b>
4.1 Balances with banks, security investments and loans	0	0	0
4.2 Claims arising from the credit facility under the ERM II	–	–	–
<b>5 Lending to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>1,817</b>	<b>1,772</b>	<b>2,434</b>
5.1 Main refinancing operations	1,756	1,344	2,006
5.2 Longer-term refinancing operations	62	428	428
5.3 Fine-tuning reverse operations	–	–	–
5.4 Structural reverse operations	–	–	–
5.5 Marginal lending facility	–	–	–
5.6 Credits related to margin calls	–	–	–
<b>6 Other claims on euro area credit institutions denominated in euro</b>	<b>1</b>	<b>2</b>	<b>1</b>
<b>7 Securities of euro area residents denominated in euro</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>8 General government debt denominated in euro</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>9 Intra-Eurosystem claims</b>	<b>3,486</b>	<b>3,553</b>	<b>3,553</b>
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	2,718	2,784	2,784
<b>10 Other assets</b>	<b>792</b>	<b>787</b>	<b>771</b>
<b>Total assets</b>	<b>16,205</b>	<b>16,122</b>	<b>16,957</b>

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

<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
485	485	486	476	476	476	520	520	521
8,468	8,398	8,440	8,385	8,404	8,273	8,240	8,163	8,131
832	835	801	778	854	854	809	811	776
7,636	7,564	7,639	7,607	7,550	7,419	7,431	7,352	7,355
743	708	721	680	671	797	740	806	790
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
-	-	-	-	-	-	-	-	-
2,670	920	2,527	2,430	2,233	2,564	891	1,627	2,850
2,242	913	2,519	2,423	1,795	2,126	803	1,627	2,850
428	7	7	7	438	438	89	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
1	1	4	4	4	4	4	1	1
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
3,630	3,616	3,616	3,687	3,764	3,764	3,753	3,764	4,071
70	70	70	70	70	70	70	70	70
699	699	699	699	699	699	699	699	699
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
2,862	2,847	2,847	2,918	2,996	2,996	2,985	2,996	3,303
1,001	999	1,008	1,205	1,199	1,190	1,259	1,233	767
17,000	15,128	16,802	16,867	16,753	17,070	15,408	16,115	17,132



**Table 1.**  
(cont.)

<i>Liabilities</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>
<b>1 Banknotes in circulation</b>	<b>5,388</b>	<b>5,482</b>	<b>5,539</b>
<b>2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</b>	<b>1,679</b>	<b>5,642</b>	<b>1,179</b>
2.1 Current accounts (covering the minimum reserve system)	1,679	5,642	1,179
2.2 Deposit facility	–	–	–
2.3 Fixed-term deposits	–	–	–
2.4 Fine-tuning reverse operations	–	–	–
2.5 Deposits related to margin calls	–	–	–
<b>3 Other liabilities to euro area credit institutions denominated in euro</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>4 Liabilities to other euro area residents denominated in euro</b>	<b>2</b>	<b>2</b>	<b>2</b>
4.1 General government	–	–	–
4.2 Other liabilities	2	2	2
<b>5 Liabilities to non-euro area residents denominated in euro</b>	<b>2</b>	<b>1</b>	<b>1</b>
<b>6 Liabilities to euro area residents denominated in foreign currency</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>7 Liabilities to non-euro residents denominated in foreign currency</b>	<b>154</b>	<b>11</b>	<b>148</b>
7.1 Deposits, balances and other liabilities	154	11	148
7.2 Liabilities arising from the credit facility under the ERM II	–	–	–
<b>8 Counterpart of special drawing rights allocated by the IMF</b>	<b>185</b>	<b>185</b>	<b>185</b>
<b>9 Intra-Eurosystem liabilities</b>	<b>3,329</b>	<b>–692</b>	<b>4,368</b>
9.1 Liabilities related to promissory notes backing the issuance of ECB debt certificates	–	–	–
9.2 Liabilities related to TARGET and correspondent accounts (net)	3,329	–692	4,368
9.3 Liabilities related to other operational requirements within the Eurosystem	–	–	–
<b>10 Other liabilities</b>	<b>189</b>	<b>215</b>	<b>258</b>
<b>11 Revaluation account</b>	<b>689</b>	<b>689</b>	<b>689</b>
<b>12 Capital and reserves</b>	<b>4,587</b>	<b>4,587</b>	<b>4,587</b>
12.1 Primary capital	841	841	841
12.2 Reserve fund	463	463	463
12.3 Pension provisions	352	352	352
12.4 Other provisions	2,931	2,931	2,931
<b>Total liabilities</b>	<b>16,205</b>	<b>16,122</b>	<b>16,957</b>

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

<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>	<i>Dec</i>
5,717	5,888	5,953	6,098	6,196	6,246	6,322	6,431	6,923
2,294	5,035	2,338	2,115	2,670	3,204	2,612	2,401	2,146
2,294	5,035	2,338	2,115	2,670	3,203	2,611	2,401	2,146
-	-	0	0	0	1	1	0	0
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
10	10	4	2	13	2	1	1	1
-	-	-	-	-	-	-	-	-
10	10	4	2	13	2	1	1	1
1	1	1	0	1	1	1	1	0
-2	-2	-2	-2	-2	0	-	-	-
65	26	73	120	17	0	16	54	248
65	26	73	120	17	0	16	54	248
-	-	-	-	-	-	-	-	-
180	180	180	175	175	175	175	175	168
3,292	-1,404	2,821	2,868	2,171	1,920	722	1,463	2,777
-	-	-	-	-	-	-	-	-
3,292	-1,404	2,821	2,868	2,171	1,920	722	1,463	2,767
-	-	-	-	-	-	-	-	9
276	310	349	341	363	372	403	433	166
580	580	580	643	643	643	651	651	530
4,587	4,506	4,506	4,506	4,506	4,506	4,506	4,506	4,173
841	841	841	841	841	841	841	841	841
463	545	545	545	545	545	545	545	545
352	352	352	352	352	352	352	352	367
2,931	2,768	2,768	2,768	2,768	2,768	2,768	2,768	2,420
17,000	15,128	16,802	16,867	16,753	17,070	15,408	16,115	17,132

**Table 2.**  
Main refinancing operations of the Eurosystem

Date of settlement	Bids, EUR m	Allotment, EUR m	Allotment to Finnish credit institutions, EUR m	Participating credit institutions, number	Variable rate tenders			Running for (...) days
					Minimum bid rate, %	Marginal rate, %	Weighted average rate, %	
	1	2	3	4	5	6	7	8
<b>2003</b>								
8 Jan	133,781	82,000	494	302	2.75	2.83	2.84	14
15	120,349	79,000	1,400	270	2.75	2.80	2.81	14
22	123,705	91,000	677	313	2.75	2.80	2.81	14
29	114,931	83,000	1,079	272	2.75	2.79	2.81	14
5 Feb	115,836	86,000	1,032	279	2.75	2.78	2.79	14
12	100,544	75,000	1,133	269	2.75	2.76	2.78	14
19	125,104	95,000	461	283	2.75	2.77	2.78	13
26	110,698	83,000	883	261	2.75	2.75	2.76	14
4 Mar	54,090	54,090	400	159	2.75	2.75	2.75	15
12	126,251	106,000	1,000	293	2.50	2.57	2.63	13
12	75,870	65,000	1,174	151	2.50	2.55	2.64	7
19	129,827	83,000	376	269	2.50	2.58	2.59	14
24	115,518	104,000	1,629	220	2.50	2.53	2.55	15
2 Apr	112,031	71,000	250	247	2.50	2.53	2.54	14
9	133,547	101,000	1,160	267	2.50	2.53	2.53	14
16	126,889	77,000	614	281	2.50	2.53	2.54	14
23	156,979	12,500	1,629	279	2.50	2.54	2.55	14
30	106,071	38,000	69	270	2.50	2.55	2.55	14
7 May	120,843	76,000	431	255	2.50	2.53	2.54	14
7	67,356	53,000	124	440	2.50	2.53	2.54	7
14	145,595	97,000	1,287	264	2.50	2.53	2.54	14
21	157,067	96,000	84	274	2.50	2.57	2.58	14
28	184,856	106,000	829	286	2.50	2.59	2.61	12
4 Jun	72,372	72,372	1,000	154	2.50	2.50	2.50	14
9	145,751	129,000	939	238	2.00	2.09	2.11	16
18	111,215	62,000	279	263	2.00	2.12	2.12	14
25	166,404	150,000	2,240	297	2.00	2.10	2.12	14

Sources: European Central Bank and Bank of Finland.

Date of settlement	Bids, EUR m	Allotment, EUR m	Allotment to Finnish credit institutions, EUR m	Participating credit institutions, number	Variable rate tenders			Running for (...) days
					Minimum bid rate, %	Marginal rate, %	Weighted average rate, %	
	1	2	3	4	5	6	7	8
2 Jul	111,698	56,000	168	227	2.00	2.10	2.11	14
9	130,689	101,000	1,005	287	2.00	2.08	2.10	14
9	67,965	43,000	764	122	2.00	2.09	2.10	7
16	147,621	98,000	973	262	2.00	2.08	2.09	14
23	141,573	134,000	1,450	292	2.00	2.06	2.08	14
30	114,569	73,000	280	257	2.00	2.06	2.07	14
6 Aug	174,505	144,000	1,777	279	2.00	2.05	2.06	14
13	118,015	61,000	0	268	2.00	2.05	2.06	14
20	192,891	144,000	963	321	2.00	2.06	2.06	14
27	121,927	75,000	831	297	2.00	2.08	2.08	14
3 Sep	185,556	140,000	1,018	316	2.00	2.07	2.08	14
10	125,756	68,000	694	288	2.00	2.07	2.08	14
17	177,865	150,000	1,266	331	2.00	2.07	2.08	14
24	109,738	81,000	860	304	2.00	2.06	2.07	14
1 Oct	164,023	123,000	650	292	2.00	2.05	2.06	14
8	135,884	82,000	667	304	2.00	2.05	2.06	14
15	153,304	113,000	371	321	2.00	2.05	2.05	12
22	119,327	90,000	364	310	2.00	2.04	2.05	14
27	135,867	117,000	439	255	2.00	2.04	2.05	15
5 Nov	125,765	84,000	621	290	2.00	2.04	2.05	14
11	126,830	118,000	1,050	243	2.00	2.03	2.04	15
19	113,354	99,000	477	281	2.00	2.00	2.02	14
26	126,291	126,291	1,150	280	2.00	2.00	2.02	14
3 Dec	137,154	121,000	565	260	2.00	2.00	2.03	14
10	129,319	116,000	1,369	246	2.00	2.00	2.01	13
17	128,410	123,000	757	279	2.00	2.00	2.02	13
23	154,381	108,000	1,250	324	2.00	2.05	2.08	14
30	166,862	145,000	1,600	297	2.00	2.02	2.09	15

**Table 3.**  
Longer-term refinancing operations of the Eurosystem

<i>Date of settlement</i>	<i>Bids, EUR m</i>	<i>Allotment, EUR m</i>	<i>Allotment to Finnish credit institutions, EUR m</i>	<i>Number of participants</i>	<i>Marginal rate, %</i>	<i>Weighted average rate, %</i>	<i>Running for (...) days</i>
	1	2	3	4	5	6	7
<b>2003</b>							
30 Jan	31,716	15,000	62	156	2.78	2.80	90
27 Feb	24,863	15,000	366	118	2.48	2.51	91
27 Mar	33,367	15,000	0	133	2.49	2.51	91
30 Apr	35,096	15,000	7	164	2.50	2.51	92
29 May	30,218	15,000	0	120	2.25	2.27	91
26 Jun	28,694	15,000	0	124	2.11	2.12	91
31 Jul	25,416	15,000	350	134	2.08	2.10	91
28 Aug	35,939	15,000	89	143	2.12	2.13	91
25 Sep	28,436	15,000	0	106	2.10	2.12	84
30 Oct	32,384	15,000	0	150	2.13	2.14	91
27 Nov	25,402	15,000	0	128	2.12	2.13	91
18 Dec	24,988	15,000	0	114	2.12	2.14	105

Source: European Central Bank.

**Table 4.**  
Other tender operations

<i>Date of settlement</i>	<i>Type of operation</i>	<i>Bids, EUR m</i>	<i>Allotment, EUR m</i>	<i>Fixed rate tenders Fixed rate, %</i>	<i>Variable rate tenders</i>		
					<i>Marginal rate, %</i>	<i>Weighted average rate, %</i>	<i>Running for (...) days</i>
	1	2	3	4	5	6	7
<b>2003</b>							
23 May	Fixed rate liquidity-absorbing fine-tuning operation	3,850	3,850	2.5	–	–	3

Source: European Central Bank.

**Table 5.**  
**Key interest rates of the Eurosystem**

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

Source: European Central Bank.

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

Maintenance period ending in <sup>1</sup>	Liquidity-providing factors					Liquidity-absorbing factors					Credit institutions' current accounts	Base money
	Euro-system's net assets in gold and foreign currency	Monetary policy operations of the Eurosystem				Deposit facility	Other liquidity-absorbing operations	Banknotes in circulation	Central government deposits with the Euro-system	Other factors, net		
		Main re-financing operations	Longer-term re-financing operations	Marginal lending facility	Other liquidity-providing operations							
	1	2	3	4	5	6	7	8	9	10	11	12
<b>2002</b>												
Dec	371.50	168.10	45.00	1.10	2.00	0.20	0.00	350.70	51.70	55.50	129.50	480.50
<b>2003</b>												
Jan	360.90	176.30	45.00	0.50	0.00	0.30	0.00	353.90	43.70	53.30	131.60	485.80
Feb	356.40	168.60	45.00	0.30	0.00	0.30	0.00	340.70	50.20	48.00	131.10	472.20
Mar	352.50	179.50	45.00	0.20	0.00	0.10	0.00	347.80	59.10	40.60	129.60	477.50
Apr	337.40	179.40	45.00	0.10	0.00	0.20	0.00	358.50	52.10	20.50	130.60	489.30
May	333.10	177.10	45.00	0.40	0.00	0.20	0.10	366.20	42.60	15.50	130.90	497.30
Jun	331.30	194.70	45.00	0.40	0.00	0.30	0.20	373.20	52.60	13.20	131.90	505.30
Jul	320.40	204.70	45.00	0.40	0.00	0.30	0.00	382.70	52.40	2.90	132.20	515.20
Aug	315.80	213.40	45.00	0.20	0.00	0.10	0.00	391.60	51.50	-1.6	132.80	524.60
Sep	315.00	214.00	45.00	0.10	0.00	0.60	0.00	391.70	54.40	-4.4	132.00	524.20
Oct	321.30	208.40	45.00	0.10	0.00	0.20	0.00	395.50	48.30	-1.1	131.90	527.50
Nov	321.80	205.80	45.00	0.10	0.00	0.30	0.00	399.40	43.40	-2.2	131.80	531.40
Dec	320.10	235.50	45.00	0.60	0.00	0.10	0.00	416.10	57.00	-4.5	132.60	548.70
<b>2004</b>												
Jan	309.20	232.60	45.00	0.30	0.00	0.10	0.00	427.60	37.00	-11.2	133.60	561.40

<sup>1</sup> Maintenance periods start on the 24<sup>th</sup> of the month and run to the 23<sup>rd</sup> of the following month.  
Source: European Central Bank.

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

Maintenance period ending in <sup>1</sup>	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	
	Euro-system's net assets in gold and foreign currency <sup>2</sup>	Monetary policy operations of the Eurosystem					Deposit facility	Other liquidity-absorbing operations	Banknotes in circulation	Central government deposits with the Euro-system			Other factors, net <sup>2</sup>
		Main re-financing operations	Longer-term re-financing operations	Marginal lending facility	Other liquidity-providing operations								
	1	2	3	4	5	6	7	8	9	10	11	12	
<b>2002</b>													
Dec	9,961.7	1,502.7	94.9	0.9	0.0	4.3	0.0	5,496.9	0.0	3,969.5	2,089.4	7,590.7	
<b>2003</b>													
Jan	9,833.8	2,052.3	0.0	0.0	0.0	6.4	0.0	5,570.5	0.0	4,391.6	1,917.5	7,494.4	
Feb	9,784.3	1,954.3	49.7	1.1	0.0	3.4	0.0	5,395.0	0.0	4,392.8	1,998.1	7,396.5	
Mar	9,828.3	1,657.6	388.5	5.6	0.0	3.9	0.0	5,476.7	0.0	4,364.7	2,034.7	7,515.3	
Apr	9,607.7	1,777.4	427.7	0.0	0.0	1.9	0.0	5,629.1	0.0	4,202.1	1,979.8	7,610.8	
May	9,372.5	1,602.1	384.2	0.0	0.0	5.0	0.0	5,776.1	0.0	3,606.7	1,971.1	7,752.2	
Jun	9,385.9	1,476.7	66.3	15.2	0.0	13.7	0.0	5,897.9	0.0	3,064.4	1,968.3	7,879.8	
Jul	9,272.3	2,184.6	7.3	0.0	0.0	3.1	0.0	6,028.2	0.0	3,443.0	1,989.9	8,021.2	
Aug	9,306.7	1,849.5	272.4	0.0	0.0	2.5	0.0	6,156.3	0.0	3,138.2	2,131.5	8,290.3	
Sep	9,362.7	1,745.3	426.9	0.0	0.0	12.1	0.0	6,202.6	0.0	3,365.8	1,954.4	8,169.0	
Oct	9,333.7	1,447.0	438.4	0.0	0.0	5.7	0.0	6,269.2	0.0	3,010.5	1,933.7	8,208.6	
Nov	9,274.2	1,187.0	156.3	0.0	0.0	5.8	0.0	6,330.9	0.0	2,350.0	1,930.9	8,267.6	
Dec	9,285.2	1,825.0	8.9	2.4	0.0	3.4	0.0	6,538.1	0.0	2,612.0	1,968.2	8,509.6	
<b>2004</b>													
Jan	9,101.0	2,617.9	0.0	0.0	0.0	3.6	0.0	6,924.8	0.0	2,886.3	1,907.8	8,836.2	

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

<sup>2</sup> Data on the liquidity position of the Finnish banking system has been harmonised with the corresponding euro area data.  
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	Deposits (over 2 years' agreed maturity and notice period)	Repos	Debt securities over 2 years' agreed maturity
	1	2	3	4	5	6
<b>2002</b>						
Dec	11,116.8	6,139.9	409.2	1,381.9	725.5	2,460.3
<b>2003</b>						
Jan	11,100.8	6,048.5	426.0	1,385.7	773.9	2,466.7
Feb	11,214.2	6,092.6	434.0	1,396.4	808.2	2,483.0
Mar	11,229.9	6,117.2	427.4	1,404.1	782.7	2,498.5
Apr	11,312.6	6,154.9	431.4	1,406.9	815.2	2,504.2
May	11,340.5	6,182.9	423.1	1,401.2	815.9	2,517.3
Jun	11,381.7	6,217.9	415.4	1,421.4	781.0	2,545.9
Jul	11,394.7	6,176.0	417.8	1,430.0	800.8	2,570.1
Aug	11,408.0	6,184.3	404.3	1,442.5	787.6	2,589.3
Sep	11,396.7	6,173.3	405.1	1,433.2	791.7	2,593.3
Oct	11,497.0	6,194.8	420.2	1,445.3	814.0	2,622.7
Nov	11,559.6	6,241.2	423.0	1,451.5	813.2	2,630.7
Dec	11,537.7	6,284.9	412.8	1,458.3	759.0	2,622.8

Source: European Central Bank.

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

Maintenance period ending in <sup>1</sup>	Required reserves	Actual reserves	Excess reserves	Deficiencies	Interest rate on minimum reserves, %
	1	2	3	4	5
<b>2002</b>					
Dec	128.8	129.5	0.8	0.0	3.06
<b>2003</b>					
Jan	130.9	131.6	0.7	0.0	2.87
Feb	130.4	131.1	0.7	0.0	2.78
Mar	128.9	129.6	0.7	0.0	2.67
Apr	130.0	130.6	0.6	0.0	2.53
May	130.3	130.9	0.6	0.0	2.54
Jun	131.2	131.9	0.6	0.0	2.34
Jul	131.6	132.2	0.6	0.0	2.09
Aug	132.1	132.8	0.7	0.0	2.06
Sep	131.3	132.0	0.6	0.0	2.07
Oct	131.2	131.9	0.6	0.0	2.05
Nov	131.0	131.8	0.7	0.0	2.03
Dec	131.8	132.6	0.8	0.0	2.00
<b>2004</b>					
Jan	132.8	133.6	0.9	0.0	2.02

<sup>1</sup> Maintenance periods start on the 24<sup>th</sup> of the month and run to the 23<sup>rd</sup> 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	Deposits (over 2 years' agreed maturity and notice period)	Repos	Debt securities over 2 years' agreed maturity
	1	2	3	4	5	6
<b>2002</b>						
Dec	117,131	88,760	12,719	5,597	7	10,049
<b>2003</b>						
Jan	119,174	89,765	13,001	5,263	17	11,127
Feb	116,950	88,604	12,063	5,297	52	10,933
Mar	116,247	88,161	12,031	4,986	1	11,069
Apr	116,818	88,217	11,815	5,234	37	11,515
May	117,754	89,041	12,102	5,219	11	11,382
Jun	125,385	96,422	11,792	5,367	0	11,804
Jul	115,585	87,459	11,936	5,308	15	10,867
Aug	114,987	86,410	11,968	5,382	116	11,111
Sep	114,125	84,131	13,927	5,361	138	10,567
Oct	116,390	84,795	15,131	5,674	46	10,743
Nov	122,088	89,808	15,814	5,696	15	10,755
Dec	117,958	86,992	14,667	5,712	0	10,587

Source: Bank of Finland.

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

Maintenance period ending in <sup>1</sup>	Required reserves	Actual reserves	Excess reserves	Deficiencies	Interest rate on minimum reserves, %
	1	2	3	4	5
<b>2002</b>					
Dec	2,085	2,089	3.8	0.0	3.06
<b>2003</b>					
Jan	2,023	2,024	0.3	0.0	2.87
Feb	1,994	1,998	4.1	0.0	2.78
Mar	2,020	2,023	2.5	0.0	2.67
Apr	1,978	1,979	0.7	0.0	2.53
May	1,969	1,971	2.1	0.0	2.54
Jun	1,966	1,968	2.5	0.0	2.34
Jul	1,988	1,990	1.9	0.0	2.09
Aug	2,129	2,132	2.1	0.0	2.06
Sep	1,953	1,954	1.2	0.0	2.07
Oct	1,933	1,934	1.2	0.0	2.05
Nov	1,926	1,931	4.7	0.0	2.03
Dec	1,964	1,965	1.4	0.0	2.00
<b>2004</b>					
Jan	2,078	2,079	1.5	0.0	2.02

<sup>1</sup> Maintenance periods start on the 24<sup>th</sup> of the month and run to the 23<sup>rd</sup> of the following month.  
Source: Bank of Finland.

**Table 9.**  
Euro area monetary aggregate M3 and corresponding items of Finnish monetary financial institutions<sup>1</sup>

	Euro area monetary aggregate M3			Deposits of Finnish monetary financial institutions included in M3 <sup>2</sup>		
	Stock, EUR bn	12-month change <sup>3,4</sup> , %	3-month mov avg of 12-month change <sup>3,4</sup> , %	Stock, EUR bn	12-month change <sup>3</sup> , %	3-month mov avg of 12-month change <sup>3</sup> , %
	1	2	3	4	5	6
1999	4,710.6	5.7	5.5	68.1	6.7	5.8
2000	4,913.4	4.1	4.0	65.6	-3.8	-3.4
2001	5,447.8	8.0	7.9	67.1	6.7	7.7
2002	5,806.1	6.9	7.1	72.5	5.4	4.9
2003	6,173.4	7.0	7.0	78.9	8.6	8.0
<b>2003</b>						
Jan	5,800.3	7.3	7.4	74.5	6.4	6.7
Feb	5,840.4	8.1	7.8	73.7	8.2	5.9
Mar	5,877.2	8.0	8.3	71.7	3.2	5.4
Apr	5,967.4	8.7	8.5	72.4	4.9	3.7
May	6,015.7	8.6	8.6	71.9	2.9	3.8
Jun	6,012.2	8.5	8.6	72.4	3.6	3.5
Jul	6,019.7	8.7	8.5	72.5	4.1	4.1
Aug	6,018.3	8.3	8.2	73.3	4.7	5.1
Sep	6,015.7	7.6	8.0	74.0	6.5	6.1
Oct	6,065.1	8.1	7.7	76.0	7.1	7.1
Nov	6,117.2	7.4	7.5	77.0	7.7	7.8
Dec	6,173.4	7.0	7.0	78.9	8.6	8.0

1 Excl. negotiable instruments held by central governments and non-euro area residents.  
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	3.306	3.313	3.320	3.353	3.412	3.493	4.41	4.98
2003	2.32	2.346	2.338	2.330	2.304	2.310	2.334	3.28	4.13
<b>2003</b>									
Jan	2.82	2.855	2.846	2.832	2.758	2.723	2.705	3.35	4.26
Feb	2.76	2.775	2.723	2.687	2.578	2.530	2.504	3.08	4.06
Mar	2.75	2.601	2.560	2.530	2.451	2.422	2.411	3.12	4.09
Apr	2.57	2.576	2.556	2.533	2.469	2.448	2.447	3.23	4.23
May	2.56	2.520	2.439	2.401	2.308	2.272	2.252	2.96	3.91
Jun	2.21	2.177	2.164	2.152	2.084	2.038	2.014	2.84	3.70
Jul	2.08	2.131	2.132	2.130	2.093	2.074	2.076	3.16	4.01
Aug	2.10	2.122	2.132	2.140	2.172	2.214	2.279	3.48	4.18
Sep	2.02	2.126	2.138	2.147	2.178	2.205	2.258	3.44	4.20
Oct	2.01	2.100	2.117	2.144	2.173	2.232	2.303	3.50	4.26
Nov	1.97	2.087	2.156	2.159	2.224	2.314	2.410	3.64	4.39
Dec	2.06	2.131	2.139	2.146	2.199	2.278	2.381	3.56	4.33

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 <sup>1</sup>	Narrow plus euro area indicator <sup>1</sup>	Broad indicator <sup>1</sup>	Effective exchange rate of the euro, narrow group of countries <sup>1</sup>
	January-March 1999 = 100			
	1	2	3	4
1999	96.0	97.8	97.8	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
2003	100.1	100.1	101.0	100.2
<b>2003</b>				
Jan	96.3	98.1	99.0	95.8
Feb	97.5	98.7	99.6	97.1
Mar	98.3	99.2	100.1	97.9
Apr	98.8	99.4	100.2	98.6
May	102.1	101.0	102.0	102.5
Jun	102.3	101.2	102.1	102.7
Jul	101.3	100.7	101.5	101.4
Aug	100.4	100.2	101.0	100.3
Sep	99.8	99.8	100.7	99.9
Oct	100.9	100.4	101.4	101.3
Nov	100.7	100.3	101.3	101.2
Dec	103.1	101.6	102.7	104.0

<sup>1</sup> 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
1999	1.1	1.3
2000	2.1	3.0
2001	2.3	2.7
2002	2.3	2.0
2003	2.1	1.3
<b>2003</b>		
Jan	2.1	1.4
Feb	2.4	2.1
Mar	2.4	1.9
Apr	2.1	1.3
May	1.8	1.1
Jun	1.9	1.2
Jul	1.9	1.0
Aug	2.1	1.2
Sep	2.2	1.2
Oct	2.0	0.9
Nov	2.2	1.2
Dec	2.0	1.2

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	
	2002	2003	2002	2003
	1	2	3	4
Belgium	0.1	0.2	106.1	103.5
Germany	-3.5	-4.2	60.8	63.8
Greece	-1.2	-1.7	104.7	100.6
Spain	0.1	0.0	53.8	51.3
France	-3.1	-4.2	59.0	62.6
Ireland	-0.2	-0.9	32.4	33.5
Italy	-2.3	-2.6	106.7	106.4
Luxembourg	2.4	-0.6	5.7	4.9
Netherlands	-1.6	-2.6	52.4	54.6
Austria	-0.2	-1.0	66.7	66.4
Portugal	-2.7	-2.9	58.1	57.7
Finland	4.3	2.3	42.6	45.3
Euro area	-2.2	-2.8	69.0	70.4

Sources: Data on Finland – Statistics Finland. All other data – European Commission forecast, autumn 2003.

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

Country	Currency	Units of currency per euro	Markka per unit 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

	<i>US dollar</i>			<i>Japanese yen</i>		
	<i>Low</i>	<i>Average</i>	<i>High</i>	<i>Low</i>	<i>Average</i>	<i>High</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
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
2003	1.0377	1.1312	1.2630	124.40	130.97	140.31
<b>2003</b>						
<i>Jan</i>	1.0377	1.0622	1.0870	124.40	126.12	129.17
<i>Feb</i>	1.0706	1.0773	1.0910	126.21	128.60	130.38
<i>Mar</i>	1.0570	1.0807	1.1080	126.06	128.16	129.34
<i>Apr</i>	1.0582	1.0848	1.1131	127.82	130.12	132.98
<i>May</i>	1.1218	1.1582	1.1901	132.78	135.83	140.31
<i>Jun</i>	1.1413	1.1663	1.1854	135.68	138.05	139.45
<i>Jul</i>	1.1138	1.1372	1.1543	131.93	134.99	138.20
<i>Aug</i>	1.0816	1.1139	1.1392	127.06	132.38	136.95
<i>Sep</i>	1.0783	1.1222	1.1652	125.40	128.94	132.54
<i>Oct</i>	1.1579	1.1692	1.1788	126.21	128.12	129.92
<i>Nov</i>	1.1424	1.1702	1.1994	124.80	127.84	131.24
<i>Dec</i>	1.1975	1.2286	1.2630	130.67	132.43	135.05

Source: European Central Bank.

	<i>Pound sterling</i>			<i>Swedish krona</i>		
	<i>Low</i>	<i>Average</i>	<i>High</i>	<i>Low</i>	<i>Average</i>	<i>High</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
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
2003	0.64950	0.69199	0.72350	8.8848	9.1242	9.3148
<b>2003</b>						
<i>Jan</i>	0.64950	0.65711	0.66470	9.0670	9.1733	9.2535
<i>Feb</i>	0.65530	0.66977	0.68420	9.0996	9.1455	9.2489
<i>Mar</i>	0.67570	0.68255	0.69080	9.1640	9.2265	9.3133
<i>Apr</i>	0.68270	0.68902	0.69700	9.1095	9.1541	9.2468
<i>May</i>	0.69960	0.71322	0.72350	9.0833	9.1559	9.1984
<i>Jun</i>	0.68700	0.70224	0.71750	9.0675	9.1182	9.2488
<i>Jul</i>	0.68675	0.70045	0.71160	9.1255	9.1856	9.2763
<i>Aug</i>	0.69035	0.69919	0.70650	9.1997	9.2378	9.3148
<i>Sep</i>	0.68870	0.69693	0.70480	8.8848	9.0682	9.1810
<i>Oct</i>	0.68580	0.69763	0.70870	8.9420	9.0105	9.0850
<i>Nov</i>	0.68300	0.69278	0.70210	8.9525	8.9939	9.0730
<i>Dec</i>	0.69585	0.70196	0.70620	8.9327	9.0228	9.1085

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

	<i>Greek drachma</i>	<i>Danish krone</i>	<i>Swiss franc</i>	<i>Icelandic krona</i>	<i>Norwegian krone</i>	<i>Bulgarian lev</i>	<i>Cyprus pound</i>
	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
2003	..	7.4307	1.5212	86.65	8.0033	1.9490	0.58409
<b>2003</b>							
Jan	..	7.4324	1.4621	84.45	7.3328	1.9555	0.57691
Feb	..	7.4317	1.4674	83.70	7.5439	1.9540	0.58038
Mar	..	7.4274	1.4695	84.31	7.8450	1.9510	0.58292
Apr	..	7.4255	1.4964	83.38	7.8317	1.9473	0.58657
May	..	7.4246	1.5155	84.44	7.8715	1.9464	0.58694
Jun	..	7.4250	1.5411	86.25	8.1619	1.9463	0.58607
Jul	..	7.4332	1.5476	87.66	8.2893	1.9465	0.58730
Aug	..	7.4322	1.5400	88.79	8.2558	1.9463	0.58616
Sep	..	7.4273	1.5474	88.81	8.1952	1.9469	0.58370
Oct	..	7.4301	1.5485	89.17	8.2274	1.9473	0.58418
Nov	..	7.4370	1.5590	88.60	8.1969	1.9476	0.5833
Dec	..	7.4419	1.5543	89.68	8.2421	1.9533	0.58459
	<i>Polish zloty</i>	<i>Romanian leu</i>	<i>Slovenian tolar</i>	<i>Slovakian koruna</i>	<i>Turkish lira</i>	<i>Australian dollar</i>	<i>Canadian dollar</i>
	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
2003	4.3996	37551	233.8493	41.489	1694851	1.7379	1.5817
<b>2003</b>							
Jan	4.0704	35539	230.7055	41.638	1767136	1.8218	1.6364
Feb	4.1656	35403	231.3664	41.987	1762350	1.8112	1.6299
Mar	4.3363	35831	231.8070	41.749	1804143	1.7950	1.5943
Apr	4.2971	36569	232.3136	41.038	1767550	1.7813	1.5851
May	4.3343	37632	232.9908	41.125	1720476	1.7866	1.6016
Jun	4.4339	38059	233.6600	41.507	1664000	1.7552	1.5798
Jul	4.4368	37148	234.4369	41.804	1596957	1.7184	1.5694
Aug	4.3699	37166	234.9962	41.955	1564214	1.7114	1.5570
Sep	4.4635	37918	235.2211	41.489	1546627	1.6967	1.5330
Oct	4.5952	38803	235.6663	41.304	1679067	1.6867	1.5489
Nov	4.6174	39927	236.1345	41.102	1726781	1.6337	1.5361
Dec	4.6595	40573	236.6662	41.132	1761551	1.6626	1.6131

Sources: European Central Bank and Bank of Finland.

	<i>Czech koruna</i>	<i>Estonian kroon</i>	<i>Hungarian forint</i>	<i>Lithuanian litas</i>	<i>Latvian lats</i>	<i>Malta lira</i>
	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
2003	31.846	15.6466	253.62	3.4527	0.6407	0.4261
<b>2003</b>						
<i>Jan</i>	31.489	15.6466	240.39	3.4529	0.6195	0.4194
<i>Feb</i>	31.641	15.6466	245.12	3.4524	0.6231	0.4217
<i>Mar</i>	31.751	15.6466	245.60	3.4528	0.6253	0.4234
<i>Apr</i>	31.618	15.6466	245.59	3.4530	0.6286	0.4240
<i>May</i>	31.387	15.6466	245.78	3.4528	0.6513	0.4295
<i>Jun</i>	31.412	15.6466	261.21	3.4527	0.6549	0.4285
<i>Jul</i>	31.880	15.6466	263.73	3.4528	0.6473	0.4274
<i>Aug</i>	32.287	15.6466	259.56	3.4527	0.6397	0.4264
<i>Sep</i>	32.355	15.6466	255.46	3.4530	0.6383	0.4265
<i>Oct</i>	31.989	15.6466	255.77	3.4525	0.6483	0.4281
<i>Nov</i>	31.9743	15.6466	259.31	3.4528	0.6471	0.4275
<i>Dec</i>	32.329	15.6466	264.74	3.4525	0.6631	0.4304
	<i>Hong Kong dollar</i>	<i>New Zealand dollar</i>	<i>Singapore dollar</i>	<i>South Korean won</i>	<i>South African rand</i>	<i>IMF SDRs</i>
	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
2003	8.8079	1.9438	1.9703	1346.90	8.5317	0.807084
<b>2003</b>						
<i>Jan</i>	8.2841	1.9648	1.8433	1250.06	9.2343	0.777905
<i>Feb</i>	8.4022	1.9457	1.8803	1282.82	8.9347	0.786083
<i>Mar</i>	8.4279	1.9497	1.8954	1335.44	8.6966	0.788704
<i>Apr</i>	8.4605	1.9700	1.9282	1337.38	8.3192	0.792287
<i>May</i>	9.0321	2.0083	2.0074	1390.03	8.9060	0.822616
<i>Jun</i>	9.0955	2.0069	2.0233	1392.33	9.2160	0.824306
<i>Jul</i>	8.8689	1.9386	1.9956	1342.27	8.5842	0.813229
<i>Aug</i>	8.6873	1.9137	1.9531	1312.67	8.2375	0.804200
<i>Sep</i>	8.7377	1.9227	1.9591	1306.88	8.2141	0.803543
<i>Oct</i>	9.0530	1.9446	2.0282	1364.70	8.1540	0.816478
<i>Nov</i>	9.0836	1.8608	2.0233	1388.09	7.8806	0.816454
<i>Dec</i>	9.5386	1.8982	2.1016	1463.90	7.9934	0.838020



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

	2003				2003
	I	II	III	IV	
<b>Banknotes put into circulation by the Bank of Finland</b>					
500 euro	262.5	305.7	322.9	345.2	1,236.3
200 "	88.6	99.1	101.5	113.7	402.9
100 "	147.8	172.4	181.7	196.4	698.3
50 "	1,153.1	1,387.7	1,359.7	1,320.2	5,220.6
20 "	1,642.0	1,978.1	1,945.3	1,861.2	7,426.6
10 "	96.7	113.8	120.7	124.9	456.2
5 "	54.7	68.9	71.9	74.0	269.5
<b>Total number, millions</b>	<b>128.2</b>	<b>154.7</b>	<b>153.9</b>	<b>149.9</b>	<b>586.6</b>
<b>Withdrawn banknotes, number in millions</b>	<b>4.42</b>	<b>7.02</b>	<b>7.44</b>	<b>8.42</b>	<b>27.30</b>
<b>Coins put into circulation by the Bank of Finland</b>					
<b>Ordinary coins</b>					
2 euro	9.6	16.3	13.8	17.9	57.6
1 "	5.6	8.2	6.9	8.5	29.2
0.50 "	2.8	3.9	3.9	4.5	15.1
0.20 "	2.1	3.2	3.0	3.3	11.5
0.10 "	0.8	1.2	1.2	1.2	4.4
0.05 "	0.4	0.6	0.6	0.7	2.2
0.02 "	0.1	0.1	0.1	0.1	0.3
0.01 "	0.0	0.0	0.0	0.0	0.1
<b>Commemorative coins</b>					
100 euro	0.3				0.3
50 "				0.53	0.5
10 "	0.6	0.04	0.2	0.14	1.0
5 "		0.8			0.8
<b>Total</b>	<b>22.3</b>	<b>34.4</b>	<b>29.5</b>	<b>36.8</b>	<b>123.0</b>
<b>Withdrawn coins, number in millions</b>					
Ordinary coins	–	–	–	–	–
Commemorative coins	–	–	–	–	–

Source: Bank of Finland.

**Table 18.**  
Banknotes sorted at the Bank of Finland, number in millions

Euro banknotes	2002	2003	Markka banknotes	2000	2001
	500 euro	1.2		1.8	1,000 markka
200 "	1.7	1.8	500 "	10.5	14.9
100 "	5.2	6.7	100 "	531.6	548.4
50 "	73.3	84.4	50 "	52.7	51.3
20 "	311.0	290.5	20 "	59.1	80.7
10 "	30.8	30.3	10 "	–	–
5 "	32.6	31.0			
<b>Total</b>	<b>455.8</b>	<b>446.5</b>	<b>Total</b>	<b>659.0</b>	<b>702.6</b>

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	Value, EUR bn	Transactions					
						Incoming TARGET-payments, number in thousands	Value, EUR bn	TARGET-payments, total number in thousands	TARGET-payments, total value, EUR bn	Transactions, total number in thousands	Transactions, total value, EUR bn
	1	2	3	4	5	6	7	8	9	10	11
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
2003	18	152.2	1,461.5	132.0	1,503.2	141.9	1,502.5	273.9	3,005.7	426.2	4,467.2
<b>2003</b>											
Jan	17	13.2	132.0	9.8	120.8	11.5	119.6	21.3	240.4	34.4	372.4
Feb	17	12.4	141.8	8.9	101.4	10.8	105.4	19.7	206.8	32.1	348.6
Mar	17	14.1	129.8	10.3	125.9	11.9	123.7	22.2	249.7	36.4	379.4
Apr	17	12.9	126.0	10.5	97.7	11.4	98.2	21.9	195.9	34.8	321.9
May	18	11.9	126.2	10.7	110.2	11.7	112.7	22.4	222.9	34.2	349.1
Jun	18	12.0	106.9	10.9	131.8	11.9	132.3	22.8	264.1	34.8	371.0
Jul	18	12.7	106.4	11.4	135.8	12.1	131.3	23.4	267.1	36.2	373.5
Aug	18	11.3	97.7	10.3	128.1	10.8	128.6	21.1	256.8	32.5	354.5
Sep	18	12.4	114.0	11.6	133.8	12.1	133.5	23.7	267.2	36.1	381.2
Oct	18	13.7	115.9	12.6	129.7	12.7	131.4	25.4	261.1	39.0	377.0
Nov	18	12.5	119.6	12.0	134.2	12.0	133.4	24.0	267.6	36.5	387.2
Dec	18	13.2	145.2	13.0	153.8	13.0	152.4	26.0	306.2	39.2	451.4

Source: Bank of Finland.

**Table 20.**  
Banks' intraday credit limits

<i>End of period</i>	<i>Total limits, EUR m</i>	<i>Maximum usage rate of limits<sup>1</sup>, %</i>	<i>Average usage rate of limits<sup>2</sup>, %</i>	<i>End-of-day balances balances<sup>3</sup>, EUR m</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
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
2003	4,540	32	2	1,951
<b>2003</b>				
<i>Jan</i>	3,837	18	0	1,830
<i>Feb</i>	3,835	19	0	2,255
<i>Mar</i>	4,084	26	1	1,690
<i>Apr</i>	4,438	23	0	2,116
<i>May</i>	4,691	34	1	2,031
<i>Jun</i>	4,490	30	1	1,915
<i>Jul</i>	4,789	41	2	1,885
<i>Aug</i>	4,736	40	3	2,024
<i>Sep</i>	4,679	42	1	2,009
<i>Oct</i>	5,364	47	3	1,810
<i>Nov</i>	4,866	41	2	2,013
<i>Dec</i>	4,666	38	3	1,838

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Average value for period.

Source: Bank of Finland.

**Table 21.**  
Domestic clearing operations

	<i>Debit entries</i>		<i>Credit entries</i>		<i>Total entries</i>	
	<i>Number, millions</i>	<i>Value, EUR bn</i>	<i>Number, millions</i>	<i>Value, EUR bn</i>	<i>Number, millions</i>	<i>Value, EUR bn</i>
	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>
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
2003	272.7	11.1	201.3	162.6	474.0	173.7
<b>2003</b>						
<i>Jan</i>	15.9	0.5	16.0	12.4	31.9	12.9
<i>Feb</i>	15.4	0.7	16.1	12.6	31.4	13.3
<i>Mar</i>	22.4	0.9	16.3	12.8	38.7	13.7
<i>Apr</i>	22.4	0.9	17.2	13.7	39.6	14.6
<i>May</i>	23.2	1.0	16.0	13.1	39.2	14.0
<i>Jun</i>	25.1	1.0	17.4	14.4	42.5	15.4
<i>Jul</i>	25.5	1.0	15.9	13.4	41.4	14.4
<i>Aug</i>	22.9	0.9	14.9	12.1	37.8	13.0
<i>Sep</i>	24.4	1.0	17.3	14.2	41.7	15.2
<i>Oct</i>	24.2	1.0	18.4	14.9	42.6	15.8
<i>Nov</i>	22.0	0.9	16.4	13.2	38.4	14.1
<i>Dec</i>	29.4	1.3	19.3	15.9	48.7	17.2

Source: Bank of Finland.

## Bank of Finland publications in 2003

<b>Euro &amp; talous</b>	Finnish-language quarterly
<b>Bank of Finland Bulletin</b>	English-language quarterly.
<b>Bank of Finland Annual Report</b>	Published separately in Finnish, Swedish and English.
<b>Studies</b>	
<b>Series A, studies intended for the general public</b>	A:103 Timo Iivarinen – Harry Leinonen – Matti Lukka – Veikko Saarinen, Regulation and control of payment system risks – a Finnish perspective (Finnish language version).
	A:104 Katja Taipalus – Kari Korhonen – Pertti Pylkkönen, Arvopaperistaminen (Securitisations).
	A:105 Heikki Koskenkylä (ed.), Finnish financial markets 2002.
	A:106 Timo Iivarinen – Harry Leinonen – Matti Lukka – Veikko Saarinen, Regulation and control of payment risks – a Finnish perspective (English language version of A:103).
<b>Series E, doctoral theses and analytical studies</b>	E:24 Jukka Topi, Effects of moral hazard and monitoring on monetary policy transmission.
	E:25 Hanna Freystätter, Price setting behavior in an open economy and the determination of Finnish foreign trade prices.
	E:26 Tuomas Välimäki, Central bank tenders: three essays on money market liquidity auctions. Doctoral thesis.
	E:27 Heikki Hella, On robust ESACF identification of mixed ARIMA models. Doctoral thesis.
<b>Discussion Papers</b>	35 research reports by various departments of the Bank of Finland appeared in the Bank of Finland Discussion Papers series.
<b>Statistical publications</b>	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). 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).
<b>Publications of the Institute for Economies in Transition</b>	17 studies (in English) appeared in the series BOFIT Discussion Papers. 11 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).
<b>Orders and subscriptions</b>	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, PO 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, 2003

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Matti Louekoski, Alternate and Accompanying Person

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(from 1 November 2003)  
Mauri Lehtinen

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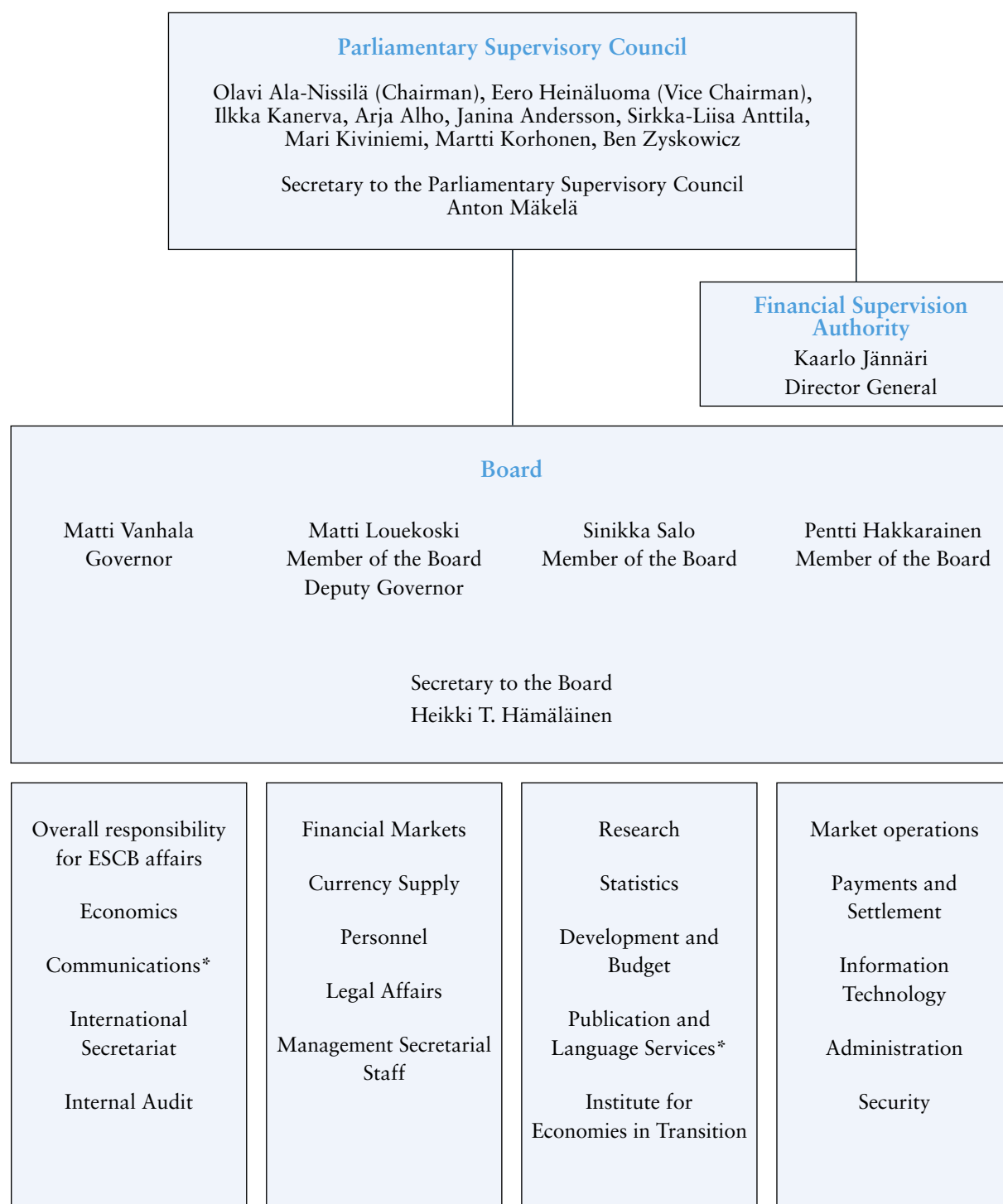
Tapio Peura, Member  
(until 12 June 2003)  
Tapio Peura, Alternate  
(from 13 June 2003)

#### Banking Advisory Committee

Pentti Hakkarainen

# The Bank of Finland's organisation

at end-2003



\* Merger of the Communications Unit with the Publication and Language Services Department, as of 1 January 2004.

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## Special Units

<b>Communications<sup>4</sup></b> Antti Juusela	<b>Internal Audit</b> Taina Kivelä	<b>International Secretariat<sup>***</sup></b> Kjell Peter Söderlund Olli-Pekka Lehmuusaari*	<b>Legal Affairs</b> Arno Lindgren
<b>Management Secretarial Staff</b> Heikki T. Hämäläinen	<b>Organisation and Management Development<sup>5</sup></b> Antti Vuorinen**	<b>Security</b> Veli-Matti Lumiala	
<b>Institute for Economies in Transition</b> Pekka Sutela			

\* Adviser to the Board.

\*\* In addition to own duties.

\*\*\* From 1 February 2004, Paavo Peisa will act as adviser to the Board in the International Secretariat.

<sup>1</sup> From the 1 January 2004, economic information management was amalgamated with the Statistics Department's Information Management Division. The Economic Information Management Division is headed by Ilkka Lyytikäinen. Helka Jokinen is Acting Head of the Statistics Department.

<sup>2</sup> From the 1 January 2004, the Operations Division will be headed by Harri Lahdenperä and the Risk Management Division will be headed by Marjaana Hohti.

<sup>3</sup> From the 1 January 2004, Pekka Konttinen will be head of the Kuopio, Oulu, Tampere and Turku Regional Offices.

<sup>4</sup> From the 1 January 2004, the Communications Unit was merged with the Publication and Language Services Department into the Communications Department, headed by Antti Juusela. The department is divided into two divisions: Language Services headed by Taina Seitovirta and Press and Communications headed by Heli-Kirsti Airisniemi.

<sup>5</sup> From 1 January 2004, the Organisation and Management Development Unit will be headed by Terhi Kivilahti.





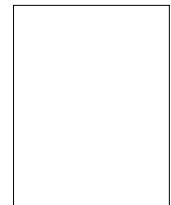
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