



# BANK OF FINLAND ANNUAL REPORT 2004



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2004



# Bank of Finland

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# Bank of Finland – promoter 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 various functions of the Bank of Finland all work to further these goals.

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 and the maintenance of currency supply. 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 exchange reserves actively and in compliance with strict risk management rules.

The members of the Bank of Finland board are Governor Erkki Liikanen, chairman, Matti Louekoski, vice-chairman, Sinikka Salo and Pentti Hakkarainen. The nine members of the Parliamentary Supervisory Board supervise the activities of the Bank. From the beginning of March 2005, a total of about 560 staff were employed in the 6 departments of the Bank's head office and the 5 regional offices.





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

# Governor's review

The world economy experienced a period of rapid growth in 2004. International trade, in particular, grew at an exceptionally fast pace. At the same time, there was a dramatic rise in the price of commodities such as oil and metals. Two main factors lay behind this general upswing in the international economy. On one hand there was the continuation of expansionary economic policies in the leading industrial nations, on the other hand the rapid economic growth and broadening integration into the global economy of several countries in Asia – particularly China. The economic upswing did not, however, resolve certain structural imbalances that have long been hampering the world economy. These include the large US federal budget and trade deficits and the lack of growth dynamism in the EU.

The euro area has not adequately benefited from the acceleration in the world economy, and its lacklustre economic performance has been a disappointment. Imbalances in the global economy have contributed to this: the US balance of payments problem has been reflected on the exchange markets in the appreciation of the euro against the dollar, while the rise in the price of oil and other commodities has further increased inflationary pressures. Upward movement in the euro area consumer price index has, as a result, slightly exceeded the mid-term target.

Against this background, the Governing Council of the ECB has been forced to carefully monitor whether rising import prices are affecting inflation

expectations or having the sort of knock-on effect on the labour market and companies' pricing behaviour as to endanger price stability in the euro area. As the inflationary effects of oil prices were expected to be temporary and inflation expectations in general appeared relatively calm, the policy rate was left unchanged throughout 2004. Thus, the tone of monetary policy in the euro area remained supportive of growth.

It has become increasingly clear that the ebb in the euro area's economic capacity is structural in nature. Hence, sustainable improvement can only be achieved through structural reform. One vital challenge for economic policy is to restore confidence in the euro area governments abiding by their jointly agreed fiscal policy rules and public finances of all members of the euro area remaining solidly based. Another key challenge is to boost growth in productivity and investment. These two key challenges are not mutually independent. The problems with Europe's public finances are probably one of the reasons for the present slump in investment in productive capacity.

\* \* \*

The Finnish economy is in many respects better balanced than the euro area on average: growth has been stronger, inflation more moderate and general government finances more balanced than in most of our partners in the monetary union. We are also well placed to continue this stable pattern of economic development in the future, provided

central government expenditure is held within the agreed spending limits and wages development remains within the terms of the long-term incomes policy settlement agreed in autumn 2004. The outlook for the Finnish financial sector is similarly stable. Banks' capital adequacy and profitability are good despite the long-sustained and rapid growth in the volume of housing loans. According to stress test calculations carried out at the Bank of Finland, the banking sector's capital buffers could withstand a considerably weaker-than-forecast trend in the Finnish economy.

However, although stable, the development thrust of the Finnish economy is not sufficiently dynamic to ease the still intractable unemployment situation. Nor can it be considered satisfactory if set against the burdens facing the public purse in the future with an increasingly ageing population. Thus, the challenge of economic growth that currently faces the whole of Europe also applies to Finland. Meeting this challenge will require, amongst other things, productivity growth in both private and public sectors. An essential factor here is increased competition, particularly in the service sectors. It is also vital to develop the financial markets in such a way that they support innovation more effectively than at present.

The integration of financial markets and payment systems is an essential component of the economic restructuring of the euro area. From the perspective of the national central banks, including the Bank of Finland, this process will represent a considerable challenge for many years to

come. It is vital to ensure that the systems for supervising and ensuring the stability of the financial markets are kept up to date and foster greater efficiency in the European financial sector. After all, the Treaty on the European Union itself delegates the task of fostering the smooth operation of payment systems to the national central banks. For this reason, the central banks are particularly concerned by the fragmented structure of European payment systems. The aim is to establish a Single Euro Payment Area (SEPA) in which Europe's payment systems will come together to form not only a common system, but one that is also both technically high-powered and economically efficient. This will require a great deal of work on the part of central banks, commercial banks and other organisations involved in handling payment transactions.

The Bank of Finland is devoting considerable effort to enhancing its ability to analyse both the Finnish economy and the economy of the euro area as a whole. One example of this is Aino: the Bank's new model for simulating the Finnish economy, which was taken into use as a forecasting tool within the Bank in autumn 2004. Aino makes use of the latest developments in macroeconomic theory. The model takes into account the new challenges facing the Finnish economy and economic policy, population ageing, technological development and the incentive effects of taxation. Among central banks, the Bank of Finland is a pioneer in the use of such models.

\* \* \*

A major reorganisation of the Bank of Finland's internal structures was decided on, towards the end of 2004, with the new structure coming into force at the beginning of March 2005. The restructuring was motivated primarily by a wish to take an organisational structure that had with time become fragmented and regroup it into larger units in accordance with the Bank's key functions. The existing 18 departments and units were organised into just six new departments.

The updated organisational model will provide better support for implementing the Bank's strategies and facilitate the appropriate channelling of resources in line with its strategic priorities. In particular, it will facilitate the flexible reorganisation of tasks, thus enabling the Bank to cope with the large outflow of staff into retirement in the years ahead. Integrated functional units will produce synergistic benefits and increase efficiency. The restructuring will also clarify the Bank's management system and enhance functional transparency.

The reorganisation has not affected staff numbers. The number of staff has been declining in recent years, as the Bank's functions have required increasing concentrations of expertise. At the end of 1999 the Bank's operational strength was 745 employees, which by the end of 2004 had come down to 560. The aim is to further reduce staff numbers over the next few years through natural wastage as current staff members retire.

\* \* \*

The Bank of Finland's results for the year were down a third on the previous year, despite the fact that exchange rate losses caused by the strengthening of the euro – particularly against the US dollar – were covered by a decrease in the Bank's provisions. The weaker results were mainly due to covering the losses sustained by the European Central Bank and extra expenses brought about by the increase in the Bank of Finland's pension liability. The Bank nevertheless remained in profit. The development of exchange rates during 2004 demonstrates that central banks must exercise constant vigilance with regard to their own risk-bearing capacity and the sustainability of their financial base.

\* \* \*

In September the sad news reached us of the death of Governor Matti Vanhala after a long struggle with cancer. His heritage is clearly visible in the Bank of Finland today, as he left behind him an internationally respected central bank and an expert and competent staff. The respect in which he was held by all who knew him and the conversations I had with him in the summer of 2004 have been of enormous help to me in my work as his successor.





# Monetary policy and economic policy

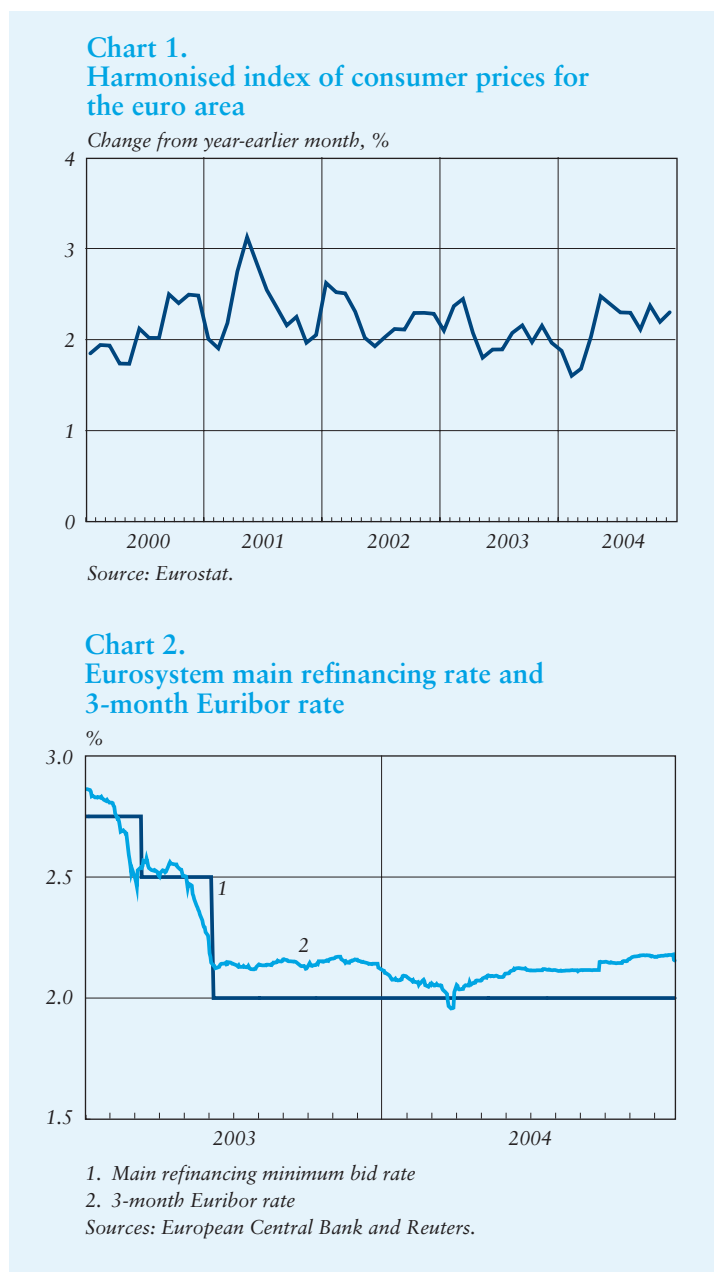
## Bank of Finland – contribution to the preparation of monetary policy

As a full member of the Eurosystem, the Bank of Finland influences the formulation of the ECB's monetary policy. As a member of the Governing Council of the ECB, the Governor of the Bank of Finland participates directly in monetary policy decision-making. In addition, Bank of Finland experts contribute to monetary policy preparation at all levels. Experts from the Bank of Finland sit as members of both the Monetary Policy Committee and its working groups whose tasks include drawing up Eurosystem staff macroeconomic projections for the euro area twice yearly. Besides the forecast for the entire euro area, forecasts are also drawn up for each individual member country on the basis of uniform assumptions.

## The ECB's monetary policy in 2004

In the pursuit of price stability, the ECB aims to keep the inflation rate below, but close to, 2% over the medium term.

Euro area price stability was encountered by both downside and upside risks in 2004. In the early part of the year inflation fell clearly below 2%, but as from spring 2004 it was considerably brisker than the target rate set for inflation (Chart 1). In annual terms, consumer prices rose 2.1% on average. Since the pick-up of inflation was considered temporary – caused by the partly temporary rise in world market prices of crude oil – and since it was believed that price stability could be maintained over the medium term,



monetary policy was not tightened during 2004 (Chart 2). The policy rate had been 2.0% since the beginning of summer 2003, ie lower than in decades in euro area countries.

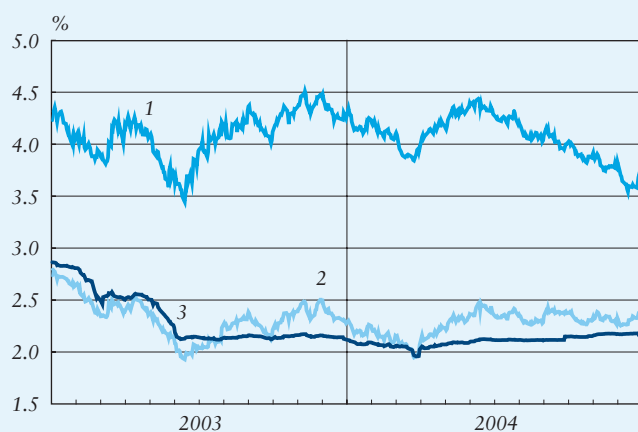
**Chart 3.**  
Euro exchange rate against US dollar and Japanese yen



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

Source: Reuters.

**Chart 4.**  
Euro area market rates



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

Source: Reuters.

In 2004, the euro area economy benefited from robust global economic growth – seen particularly strongly in the US and Asian economy. Favourable financing conditions also contributed to

the economic recovery. Export growth was somewhat dampened by the appreciation of the euro from the previous year (Chart 3). However, the price competitiveness of euro area exporters remained close to the long-term average. On the other hand, appreciation of the euro dampened the inflationary pressures caused by oil price developments. High oil prices dampened economic growth towards the end of the year. Overall economic growth for the euro area was about 2%.

Monetary growth had been strong in 2002 and 2003. As a result, there was considerably more liquidity available in the euro area than was needed to finance non-inflationary economic growth. Low interest rates fuelled a growth in lending by financial institutions (Chart 4). The growth of housing loans, in particular, was strong and housing and real estate prices rose considerably in several countries. This notwithstanding, the Governing Council did not consider the excess liquidity to constitute a threat to price stability as long as the economy recovers gradually.

In the first months of 2004 economic recovery continued in the euro area. Initially, euro area inflation slowed, but in spring it was already clearly above the target rate set for price stability. Strong world economic growth boosted demand for oil and pushed oil prices up. However, oil prices were expected to fall gradually and annual inflation was estimated to return to levels below 2% in 2005. The Governing Council considered that the stance of monetary policy



continued to be appropriate to preserve price stability over the medium term.

As a result of strong economic growth and the pick-up in inflation, the US Federal Reserve altered the stance of its monetary policy in June. It started to moderately increase the US policy rate, from the historically very low level of 1%, towards more neutral levels. Market expectations regarding interest rates also changed, and interest rates were anticipated as rising. In December 2004 the US policy rate already stood at 2.25%. The Bank of England continued to tighten monetary policy – a development it had already started in the previous year.

During the entire summer, euro area inflation remained higher than the ECB's target rate set for price stability. In the early autumn it was not estimated to fall below 2% over the remainder of the year. At the same time, expectations of further interest rate increases during 2004 began to strengthen in financial markets.

The Governing Council found that, although there were risks that prices would rise somewhat faster than was expected, the outlook still remained in line with price stability over the medium term. In September, however, the Governing Council tightened the tone of its communications concerning inflationary risks.

During the autumn of 2004 the economic outlook became more uncertain. Oil price increases threatened to weaken the strength of the recovery both inside and outside the euro area. At the same time, expectations over a rise in market rates dampened and were postponed. Euro area economic recovery

was also slowed down by weak economic growth in Germany.

Inflation remained over 2% during the last months of 2004 but, contrary to what was feared, there were no signs of oil price increases causing second-round effects in other prices and wages. The Governing Council considered the interest rate level as appropriate and the monetary policy rate remained unchanged for the rest of the year.

### **The Governing Council's statements on other economic policy issues**

The Governing Council repeatedly addressed euro area countries' weakening public finances and stressed the importance of respecting the rules of the fiscal policy framework. Significant imbalances in general government finances were more probable in an increasing number of countries, while adjustment efforts were insufficient. Five euro area countries fell within the sphere of the Stability and Growth Pact's Excessive Deficit Procedure in 2004. In addition, the general government deficit threatened to exceed the 3% reference value in several countries. The Governing Council took the view that fiscal consolidation requires firm control on spending and needs to be prioritised.

The Governing Council also participated actively in the discussion on the revision of the Stability and Growth Pact. In its opinion there was no need for changes to the text of the Treaty establishing the European Community and the Stability and Growth Pact. However, implementation of the Pact



Box 1.

### Enlargement of the EU

On 1 May 2004 the European Union enlarged for the fifth time, as it was joined by ten countries – Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia – resulting in the number of EU countries increasing from 15 to 25. The population of the ten new EU members accounted for 16.4% of the total population of the enlarged EU over 2003 levels, while their GDP accounted only for 4.5%. Four applicant countries remained outside this enlargement round – Bulgaria, Romania, Turkey and Croatia, the latter of which was accepted as a candidate in 2004.

In order to join the Union, the new member countries had to fulfil the so-called Copenhagen criteria. According to these criteria, a prospective member must have achieved stability within its state institutions. In addition, democracy, the rule of law, human rights and the rights of minorities had also to be respected in practice. A new member had to have a functioning market economy as well as the capacity to cope with economic competition within the Union. In addition, it had to have the ability to take on the obligations of membership, including the participation in common foreign and security policy as well as the Economic and Monetary Union.

The enlargement has raised concerns about the maintenance of the Union's functionality. In order to secure this functionality, a new Constitution was drafted for the EU, with the aim of simplifying, enhancing and democratising the functioning of the enlarging Union. The European Constitution was signed on 29 October 2004, but its entry into force still requires ratification by all Member States.

The adoption of the single currency, the euro, requires the achievement of so-called Maastricht convergence criteria. The stability of the exchange rate is one of these criteria. In order to prove this stability, Estonia, Lithuania and Slovenia joined the exchange rate mechanism ERM II on 28 June 2004.

The other Maastricht convergence criteria concern inflation, long-term interest rate as well as public deficit and debt. Fulfilment of the criteria is based on the premise that the 'principle of equal treatment' is applied to new member and Member States alike.

The new member countries' economic developments have, in many ways, been positive in recent years, although important challenges still lie ahead. Apart from Malta, output and productivity are increasing fast in these countries. Inflation is still very high in Latvia, Hungary and Slovakia but in the other countries it has slowed down to levels similar to the euro area.

In general, fiscal consolidation is still incomplete in the new member countries. The general government deficit has increased in many countries during 2004, fuelled partly by temporary factors related to accession to the EU. Financial positions need to be balanced considerably so that the countries can permanently fulfil the criteria concerning general government and achieve the medium-term target of budgetary positions being close to balance or in surplus, as laid down in the Stability and Growth Pact. The debt-to-GDP ratio exceeds the reference value of 60% in only Cyprus and Malta.

With the exception of Poland, exchange rates have been relatively stable in the new member countries over the last two years. Apart from Poland and Hungary, the spread of long-term interest rates vis-à-vis corresponding interest rates prevailing in the EU was fairly narrow.

could be further improved. The Governing Council considers the Stability and Growth Pact as key to ensuring macroeconomic stability on a sustainable basis.

The Governing Council also frequently emphasised the importance of structural measures in order to improve euro area growth potential, increase the employment rate and strengthen labour productivity growth and the sustainability of public finances. The Governing Council expressed its concern over the weakening trend in the euro area labour productivity growth observed since the mid-1990s. The Governing Council found that structural rigidities must be removed. Enhancing competition in product markets, and services sector in particular, could be a way to speed up the implementation of innovations and new technologies.

Through its communication, the Governing Council supported the ongoing efforts by a number of governments to proceed with structural reforms in the fiscal domain, and in labour and product markets.

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

The aim of Finland-related monitoring, forecasts and research is to provide information on the Finnish economy to meet the needs of the Eurosystem as well as domestic decision-making and discussion. It is especially important to identify and localise possible threats to the stability of economic developments in good time. The Bank of Finland takes a

public stand on topical economic policy issues on the basis of its expertise and especially from the viewpoint of economic stability. Twice a year, the Bank draws up a macroeconomic forecast of domestic economic developments over the next few years. The forecast is published in the quarterly Bank of Finland Bulletin. In 2004, reporting on the forecast was expanded considerably. At the same time, more attention was also given to structural issues. In addition to the published forecasts the Bank of Finland also revises the macroeconomic forecast twice a year as part of the Eurosystem staff macroeconomic projections.

In its forecast released in March, the Bank of Finland estimated that the Finnish economy had been able to benefit from the global economic growth. GDP growth for 2004 was estimated at 2.6%. In its September forecast the Bank revised the growth upwards to 3%. This more positive forecast was particularly based on the recovery of investments and improved export prospects. At the same time, however, it had to be noted that the peak of the cycle was already at hand. According to preliminary data the Finnish economy had grown in line with the September forecast in 2004. Poor employment developments, unfavourable export prices and weak economic growth in Germany – an important export area for Finland – were ongoing causes for concern throughout the year. In March the Bank of Finland was also still concerned about the risk of overheating

### Aino: the Bank of Finland's new model of the Finnish economy

In autumn 2004 the Bank of Finland introduced a new macroeconomic model for the preparation of forecasts. The new model is known as Aino and, similar to its predecessor BOF5, it includes a systematic description of economic agents' behaviour across the economy as a whole. In addition to forecasting, the model also assists the preparation of alternative calculations and assessments of the effects of economic policy measures.

Development of a new model was affected by the new challenges faced by the Finnish economy and economic policy. One of these challenges being the major change in production technology experienced over the last decade. Important long-term questions also include issues related to population ageing and, through it, those related to saving, fiscal policy and taxational effects. The new model enables these factors to be taken into consideration in calculations.

The Aino model takes advantage of recent developments in dynamic macroeconomic theory. The model is based on economic agent's optimisation behaviour and general equilibrium principles. In Aino, consumers and corporates are forward looking. Consumers make optimal decisions on consumption and labour supply and seek to hold consumption growth as stable as possible throughout their whole life-cycle. This way the model takes into consideration that all factors expected to affect the future amount of earned income, income transfers or financial assets can be seen in the consumer's behaviour already today. Shifts in the population age structure have been taken into account by separating between the behaviour of the working-age population and that of pensioners.

According to the model, capital and labour inputs are technically complementary in

companies' production technology. Long-term economic growth depends on labour productivity and labour supply. Labour supply is determined on the basis of consumers' consumption and labour supply decisions, which are also affected by taxation. Labour demand is determined on grounds of companies' decision making. When the equilibrium in labour market changes wages adjust to the new situation slowly. In addition, prices do not adjust immediately and therefore companies have to take how they expect their costs and competitive factors to develop in the future into account in their decision-making process.

Investment decisions are described in Aino in such a way that a company can either make new investments or increase the existing capacity utilisation and thus capital depreciation. The use of capital causes interest costs, and building up capital stock requires time. Therefore, when making investment decisions companies must take what the economic operating environment will be like by the time the investment has matured into account.

The public sector distributes income transfers between consumers and uses the labour force to produce public services. It finances its operations by collecting direct and indirect taxes from the private sector and borrowing in the capital markets. Aino takes into account the fact that, in the long run, tax revenues must be in harmony with the expenditure caused by public consumption and investment, income transfers and interest expenditure on public debt.

Similar dynamic models based on general equilibrium principles are also developed and used in other central banks and research institutes. The Bank of Finland is however one of the forerunners in using such models in the preparation of forecasts.

in the Finnish housing market. During the summer, however, the rise in housing prices settled down. Inflation remained very slow during the whole year due, for example, to greater competition in the market. In fact, the reduction in excise duties on alcohol led periodically to negative inflation. Overall, price developments for 2004 were closely in line with the Bank of Finland inflation forecast.

During 2004 the Bank of Finland initiated discussions regarding for example corporate and capital income taxation as well as productivity and competitiveness. Population ageing is threatening the long-term sustainability of general government and requires a rise in the employment rate. However, the Bank has emphasised that this alone is not enough, and that a rise in productivity is also essential. This in turn calls for investment and effective competition policy. Corporate and capital income taxation is one of the central factors guiding investments.

## 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, these operations are implemented by the Bank of Finland. The operational framework for the monetary policy of the Eurosystem consists of market operations, standing facilities and minimum reserves.<sup>1</sup>

In the first quarter of 2004, changes were made to the Eurosystem's operational framework for monetary policy. The Governing Council had decided on these changes at the beginning of 2003 and they were published in August 2003. The changes came into effect mainly in the reserve maintenance period that began on 10 March 2004.

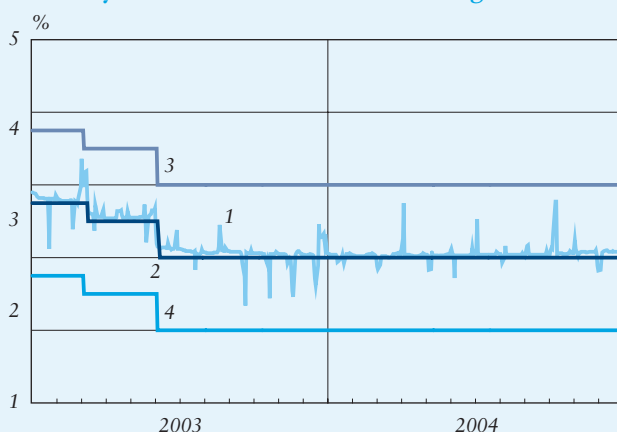
These changes entailed the maturity of the main refinancing operations (MROs) being shortened from two weeks to one week. In order to improve the transparency of these operations, the ECB will announce the amount of neutral liquidity to be allotted, in conjunction with every operation.<sup>2</sup> Longer-term refinancing operations are conducted on the last Wednesday of each calendar month. In accordance with the decision of the Governing Council on 12 January 2004, the allotment amount for each of the longer-term refinancing operations to be conducted in the year 2004 was increased from EUR 15 billion to EUR 25 billion. The timing of the reserve maintenance periods was changed so that they always start on the settlement day of the main refinancing operation following the rate-setting meeting of the Governing Council<sup>3</sup>. The interest rate changes come into effect in the standing facilities on the first day of the new reserve maintenance period.

<sup>1</sup> More information in the ECB's publication 'The implementation of monetary policy in the euro area: general documentation on Eurosystem monetary policy instruments and procedures'. February 2004 ([www.bof.fi](http://www.bof.fi)).

<sup>2</sup> More information in the ECB Monthly Bulletin article 'The liquidity management of the ECB'. May 2002.

<sup>3</sup> Governing Council meeting at which the monthly deliberations on the interest rate stance are pre-scheduled.

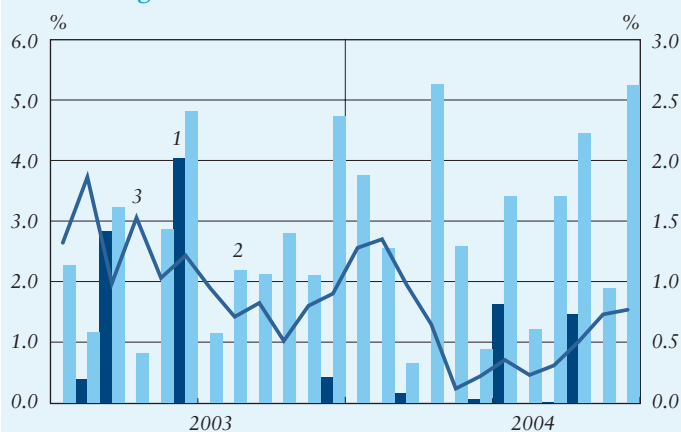
**Chart 5.**  
Eurosystem interest rates and overnight rate



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

Source: European Central Bank.

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



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

Source: Bank of Finland.

In 2004, the Governing Council left the minimum bid rate of the MROs unchanged at 2.00%, where it has remained since June 2003. Meanwhile, the interest rate for the marginal lending facility has stayed at 3.00%, and the interest rate for the overnight deposit facility at 1.00%. In 2004 there were a total of 52 main refinancing operations and 12 longer-term refinancing operations (Supplementary tables 2 and 3).

In the course of 2004, the Eurosystem was able to perform a sound estimate of the banking system's liquidity needs as a whole. The effectiveness of monetary policy implementation is reflected in the fact that the ECB was able to keep the spread between the minimum bid rate of these operations and short market rates close most of the time (Chart 5).

The endings of the reserve maintenance periods have become a challenge, following the changes in the operational framework for monetary policy, and short money market rates have fluctuated heavily after some maintenance periods. Therefore the ECB conducted three fine-tuning operations to adjust the level of liquidity in 2004 (Supplementary table 4). In addition, there was one fine-tuning operation on the last day of the last maintenance period of 2004, on 18 January 2005.

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

The participation of Finnish credit institutions in the Eurosystem's monetary

policy operations increased slightly from 2003. The credit institutions' share in euro area liquidity allocation increased in 2004 to EUR 1.2 billion from the previous year's average of EUR 0.8 billion (Chart 6). However, the percentage share of Finnish credit institutions decreased to 0.5% because the average amount of liquidity allotted in Eurosystem MROs increased to EUR 220.3 billion in 2004 from EUR 96.1 billion in 2003. This was mainly due to the change of the maturity of the MROs from two weeks to one week in March 2004. Following the change, only one operation was in effect instead of two concurrently valid operations as previously. In addition, the increase in the stock of banknotes which continued in late 2004 contributed to the increase in liquidity in the euro area.

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 2004 was on average EUR 1.3 million, accounting for 0.6% of euro area marginal lending as a whole. The gross amount of credit taken via the marginal lending facility was 41% less than in 2003. Finnish credit institutions' share of overnight deposits placed in the euro area as a whole was 2.5%, which is 0.4 percentage points more than a year earlier.

Finnish credit institutions' minimum reserve requirements constituted on average 1.6% of the total euro area reserve requirement in 2004, ie about as much as in 2003.

#### **Decision to introduce a single list of collateral and the use of collateral by Finnish credit institutions**

Euro area central banks grant credit institutions liquidity based on adequate collateral. Assets accepted by the Eurosystem as collateral have so far been divided into tier one and tier two assets. Tier one assets have been selected on the basis of uniform euro area-wide eligibility criteria, while tier two assets have been subject to national eligibility criteria. However, in 2004, the ECB Governing Council approved in principle the introduction of a single list of collateral to be implemented in the next few years. This means that the same eligibility criteria will be applied to all debt instruments in all euro area countries.

The main change for Finnish credit institutions in introducing a single list of eligible assets is the requirement that debt instruments issued by credit institutions from May 2007 onwards will have to be listed on regulated markets to maintain their eligibility. Hence banks' CDs presently on the Bank of Finland's tier two list will be accepted in the list of eligible assets only if they are listed on the stock exchange. Another major change in introducing a single list of eligible assets is the acceptance of bank loans as collateral. The timetable of accepting bank loans and their eligibility criteria will be announced later once preparations in the Eurosystem have proceeded further. The fastest schedule of acceptance to the Eurosystem's single list of collateral will be applied to euro-denominated debt instruments by issuers from G10 outside

the EEA (US, Canadian, Swiss and Japanese). These will become eligible already in May 2005.

The framework for valuation haircuts applied to collateral by the Eurosystem was revised in 2004. The calculation of valuation haircuts accounts now not only for the remaining maturity and type of interest for the debt instrument but also its liquidity and initial margin. Previously, the initial margin was added to the credit issued in calculation of the amount to be covered.

The collateral for monetary policy operations and intraday credits posted by Finnish credit institutions at the Bank of Finland in 2004 amounted to EUR 8.2 billion on average. Of this, some 9.6% represented national tier one assets, 47.9% tier one assets issued in other EU countries and 42.5% national tier two assets. Cross-border collateral has become slightly more popular from the previous year.

The operating environment for collateral management is gradually changing. Increase in the use of cross-border collateral and particularly the consequent increase in the variety of assets pose a challenge to the development of systems for custody services and collateral management. Once bank loans are accepted as collateral in a few years, new operating procedures will have to be developed. In 2004 the Bank of Finland launched a project to find a new, flexibly adaptable collateral management system for future needs.

The average value of assets deposited as collateral with the Bank of Finland by other euro area central banks was EUR 1.9 billion in 2004. All euro area central banks act as custodians and correspondents for one another.

# Payments

The Bank of Finland's BoF-RTGS system (Bank of Finland Real-time Gross Settlement System) serves financial institutions operating in Finland primarily by providing central bank money to facilitate the processing of large transactions. BoF-RTGS is a real-time payment system, in which payments are processed one by one on a gross basis. The smooth operation of the payment system is fostered by the ability of account holders to receive collateralised interest-free intraday credit in the scope of a flexible limit system.

There is also an international dimension to the BoF-RTGS, as the system is part of the EU-wide central banks' TARGET system (Trans-European Automated Real-time Gross Settlement Express Transfer System). TARGET was taken into use at the beginning of 1999 when the euro was adopted as scriptural money. The system was created by interlinking the RTGS systems of the 15 EU member states and the payment mechanism of the European Central Bank. Message traffic in TARGET is based on the SWIFT<sup>1</sup> network and message standards. Ever since its inception, TARGET has been clearly the largest payment system in terms of turnover in Europe.

The TARGET system and its BoF-RTGS component continued to function reliably in 2004, despite some individual incidents. At the time that the incidents occurred, the most important payments were processed using backup

arrangements. These incidents had no severe consequences.

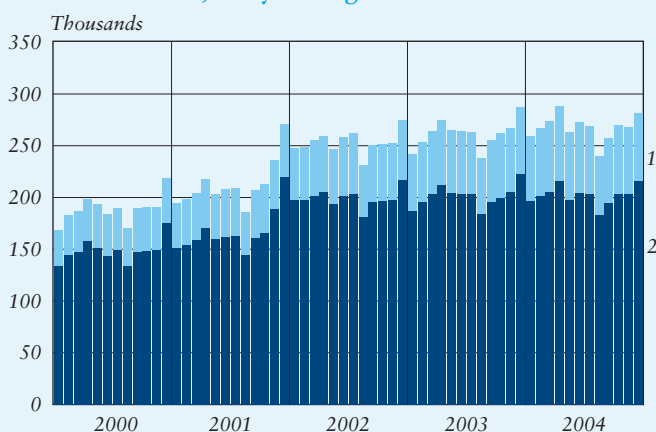
During last year the central banks participating in TARGET tested their ability to process all systemically important euro-denominated inter-member state payments, also using backup arrangements. The ECB compiled a final test report in autumn 2004 stating that all central banks are also capable of processing critical payments appropriately in crisis situations. The ESCB maintains constant focus on the operational reliability of TARGET.

In 2004, the value of payments processed in BoF-RTGS amounted to a total of EUR 3,143 billion, while the total value of TARGET payments processed in the whole EU area reached EUR 444,000 billion. The number of payments in the EU area has increased slightly from last year. At the inter-member state level, there was an average of 65,000 TARGET payments on a daily basis, while an average of 202,000 intra-member state payments were processed daily in central banks' RTGS systems (Chart 7). The daily turnover of the entire TARGET amounted on average to EUR 1,714 billion (Chart 8). In terms of volume, 48.6% of inter-member state TARGET payments were interbank payments, the rest being customer payments. For the first time during the operation of TARGET, the number of customer payments exceeded the number of interbank payments in 2004. However, in terms of value, only 4.9% of the turnover was customer payments. Finland's share in all inter-Member State

<sup>1</sup> SWIFT = Society for Worldwide Interbank Financial Telecommunication.

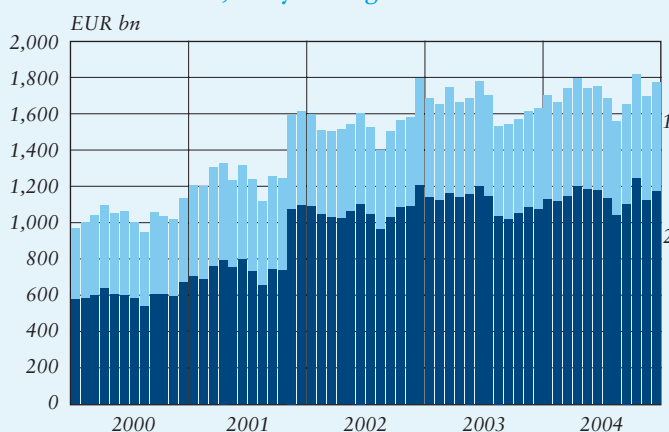


**Chart 7.**  
Monthly volume of TARGET payments within EU15, daily average



1. Inter-Member State payments  
2. Intra-Member State payments  
Source: European Central Bank.

**Chart 8.**  
Monthly value of TARGET payments within EU15, daily average



1. Inter-Member State payments  
2. Intra-Member State payments  
Source: European Central Bank.

TARGET payments was about 0.8% of terms of volume and 1.1% in terms of value.

Development of TARGET2, the new version of TARGET, continued intensely in 2004 on the basis of the offer regarding a Single Shared Platform (SSP), presented last year by the central banks of Germany, Italy and France. The TARGET2 initiative is very important for the functioning of both central banks and the markets. The objective of TARGET2 is to better meet customers' needs and also to provide, with the help of a more centralised system, harmonised services in a cost-effective manner and to adapt quickly to future developments as well as the enlargement of the EU and the Eurosystem.

On 22 July, the Governing Council of the European Central Bank adopted the general functional specifications of the new TARGET system aimed at its users and central banks. In addition, detailed specifications were distributed in October to the users for comments. Already in spring 2004, the central banks agreed on a three-tier governance model for the Single Shared Platform. Other crucial questions that required extensive consideration included the costs and their allocation, pricing, banks' liquidity management system, and the linking of different clearing and settlement systems used in Europe into the SSP.

The aim is to gradually implement the new TARGET system during 2007. Each national central bank will support their respective national TARGET users so that the system can be taken into use

as smoothly as possible. In order to complete this task, a cooperation group has been set up in Finland. The group meets at the Bank of Finland and through this group the Bank, among other things, disseminates up-to-date information on progress in the TARGET2 project. Regular dialogue with financial institutions concerning also other payment systems issues has taken place as usual during the whole year.

On 16 December 2004, the Governing Council accepted the offer submitted jointly by the central banks of Germany, Italy and France on building an SSP for TARGET2 operations. National central banks have to verify their participation in it by 14 January 2005, in writing. The decision to use the SSP also means a decision to give up the central bank's own RTGS system when changing over to the new TARGET2. However, it must be emphasised that the national central banks will continue to be responsible for account and business relationships with the financial institutions in their home countries.

# Foreign reserves

In accordance with its strategic policies, the Bank of Finland takes a long-term perspective in managing its own foreign reserves, handling them in a professional and active manner and on the basis of strict risk-management principles. Based on largely similar principles, the Bank also manages part of the European Central Bank's foreign reserves. The Bank's own foreign reserves totalled about EUR 8,440 million at the end of 2004. The share managed on behalf of the ECB amounted to some EUR 647 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. 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 sufficiently quickly 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 1). 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. In 2004, the currency distribution remained unchanged.

The interest rate risk associated with the reserves has been measured and managed mainly in terms of duration until late 2004. 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

**Table 1.**  
Distribution of the Bank of Finland's foreign reserve assets

|                       | 31 Dec 2004<br>% |
|-----------------------|------------------|
| <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.

applied to all the currencies included in the Bank of Finland's foreign reserves, remained unchanged in 2004. In the latter half of the year, the value-at-risk (VaR) method was adopted for risk management purposes. 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 volatility. 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 are invested in debt instruments issued by entities with a high credit rating, eg corporate entities. 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.

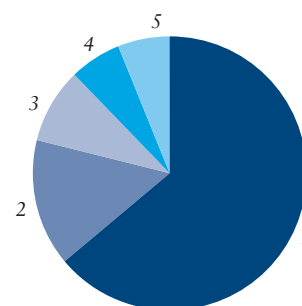
The portfolio that is assessed to be best suited to the Bank's long-term investment objectives is expressed in terms of currency distribution and currency-specific benchmark portfolios. The currency distribution and the structure of benchmark portfolios largely determine the return on invested reserves. 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 whose responsibilities do not include investment operations.

Return on the Bank of Finland's reserve assets is shown in Table 2.

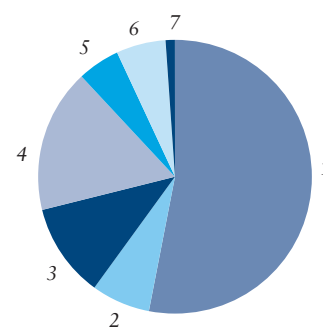
As with many other central banks, the Bank of Finland's foreign reserves

**Chart 9.**  
Distribution of the Bank of Finland's foreign reserves excl. gold, as of 31 Dec 2004



1. Governments' domestic debt instruments 64%
  2. Supranational organisations' and governments' foreign debt instruments 15%
  3. Money market instruments 9%
  4. Corporate debt instruments 6%
  5. Financial debt instruments 6%
- Source: Bank of Finland.

**Chart 10.**  
Distribution of the Bank of Finland's credit portfolio by credit rating, as of 31 Dec 2004



1. AAA 53%
  2. AA+ 7%
  3. AA 11%
  4. AA- 17%
  5. A+ 5%
  6. A 6%
  7. BBB 1%
- Source: Bank of Finland.

**Table 2.**  
Return on the Bank of Finland's reserve assets in 2004

| Interest income                | % per annum |
|--------------------------------|-------------|
| US dollar                      | 1.87        |
| Pound sterling                 | 5.33        |
| Japanese yen                   | 0.74        |
| Danish krone                   | 4.73        |
| Swedish krona                  | 5.62        |
| Swiss franc                    | 1.84        |
| Interest income on assets      | 3.76        |
| Exchange rate changes, net     | -2.53       |
| Total return on reserve assets | 1.23        |

Source: Bank of Finland.

also comprise gold. The importance of gold as a crisis currency in foreign reserves has been emphasised in recent years. This is due to increases in political and other uncertainties, which have a bearing on the international financial markets, such as terrorism and the growth of financial deficits in certain countries. Furthermore, gold can greatly diversify currency risk. The price of gold, correlating negatively in particular with the US dollar, has increased in recent years while the dollar has depreciated.

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. In spring 2004, the Bank of Finland signed a five-year extension to this agreement, which entered into force on 27 September.

Gold investment is 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 2004 the return on the Bank of Finland's gold investments amounted to 1.03% compared with 0.91% 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 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 2004 the ECB's foreign reserves amounted to approximately EUR 36.4 billion. The ECB's Annual Report provides information on the management of the reserves.

### **Reform of the reserve management system**

At the end of 2004, Trema's Finance KIT system was adopted to handle the Bank's reserve management. Trading in own reserves, clearing, risk management, accounting and the compilation of the main statistics are carried out using the Finance KIT system. Similarly, the system is used for the clearing of transactions done with the ECB's reserves. The system represents so-called STP technology (Straight Through Processing) in reserve management, where the entire reserve management process includes as few manual stages as possible.

# Financial markets

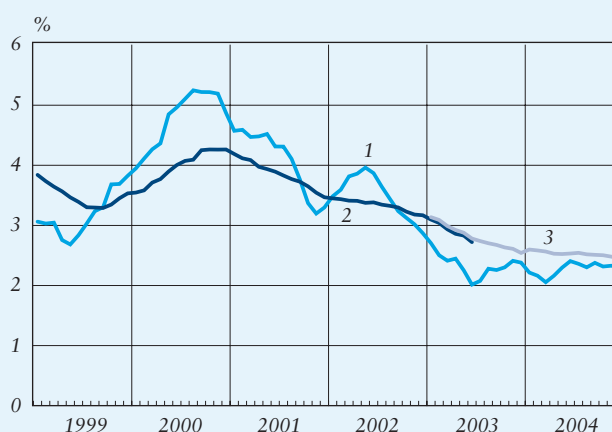
The Bank of Finland acts with a view to promoting and developing stable, reliable and efficient financial and payment systems in Finland. The same objectives are also pursued by the Bank on an international level, especially within the euro area, the EU and the Nordic countries.

## Macroprudential analysis and oversight of financial markets

Through macroprudential analysis, the Bank of Finland seeks to reduce the vulnerability of the financial system and to anticipate possible systemic risks and prevent their realisation. The Bank's objective is also to raise the awareness of other authorities, market participants and the general public to the functioning of the financial system and changes in its structure, the factors affecting the stability and efficiency of the financial system and the activity of the Bank in these matters. Payment systems oversight aims at ensuring reliability and efficiency of payment and settlement systems. In 2004, the focus was, for example, on financial markets integration, the impact of the Finnish corporate and capital tax reform on financial stability, the long-term scenarios for financial markets and payment infrastructure, the payments transfer risks attendant on technological innovation and the future challenges of large-value payment systems.

The brisk pace of growth in the world economy in 2004 contributed to the stable and reliable functioning of the financial system and had a positive effect on the performance and near-term risk prospects of the financial sector. The financial per-

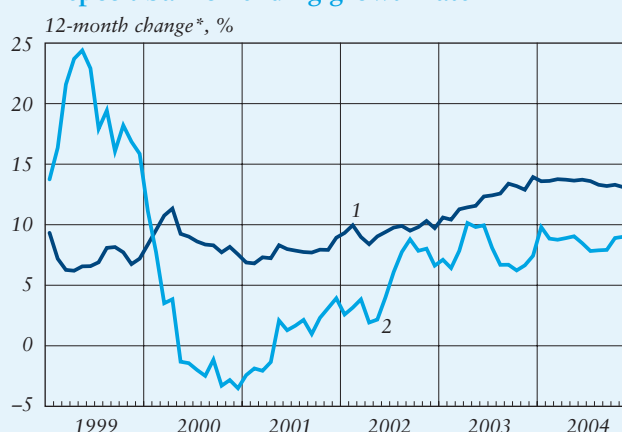
**Chart 11.**  
Deposit banks' interest rate margin and the 12-month Euribor rate



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 12.**  
Deposit banks' lending growth rate



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

Source: Bank of Finland.

formance of Finnish banks was sound. Continued low interest rates boosted the demand for bank loans (Charts 11 and 12).

The Bank of Finland regularly publishes reports on financial stability, thereby seeking to spread awareness of the functioning and outlook of the financial markets.

An article on financial stability published in Issue No. 2/2004 of the Bank of Finland Bulletin reported that the Finnish financial system fundamentally was stable. According to assessments made by the Bank of Finland, the credit institution sector was well placed to cope with an extended recession, despite the fact that a recession lasting a couple of years would seriously undermine bank earnings, especially through a growth of loan losses. Special attention was drawn to the effects of housing loan developments and the corporate tax reform from the viewpoint of financial stability.

In November 2004, the Bank released its annual special issue of the Bank of Finland Bulletin, entitled 'Financial Stability'. According to the report, current economic forecasts suggested continued stability for Finland's financial system as a whole. In the short run, the main risks seemed to be related to possible contagion from international growth problems affecting Finland and in the long run to the ability of the economy – and the corporate sector in particular – to remain vital and capable of investment. According to stress tests undertaken at the Bank of Finland, the banking sector's buffers against losses would withstand clearly worse-than-forecast economic developments. Other special issues analysed in the report included liquidity risk of

banks, portfolio restructuring of the insurance sector, financial infrastructural developments and efficiency, and regulatory matters.

A comprehensive survey of the state of financial integration was also released in 2004. The aim of the survey was to spread fundamental information on financial integration to a wider circle of readers and to stimulate debate on these matters. The Bank of Finland started to publish its Financial Market Report, a review of the current status of the financial markets, quarterly instead of biannually and to release it on the Bank's website.

In line with its responsibilities, the Bank of Finland continued to carry out oversight of 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). In 2004, the Bank of Finland assessed the PMJ system against standards relating to oversight of payment systems for the first time. The preliminary results of the assessment indicated that the Finnish PMJ system met these standards, although some minor elements needed to be developed further. In its oversight activities, the Bank of Finland did not observe any significant problems with the functioning of Finnish payment systems. The future needs for systems development were assessed in cooperation with the banks.

In its oversight of securities clearing and settlement systems (SSSs), the Bank paid regular attention to the operational reliability of the Finnish Central

Securities Depository's (APK) systems and the progress of development projects. Using its payment and settlement system simulator, the Bank of Finland made an efficiency comparison regarding liquidity allocation in the APK's securities clearing and settlement system for Finnish debt instruments. The simulation showed that the current system saved liquidity compared to alternative settlement methods. In this context, it was also found that operative failures of one clearing party did not cause insurmountable liquidity problems for other key parties of the system. As a result of the introduction by APK of the HEXClear system for clearing and settlement of share trades at the end of 2003, the risks attendant on the settlement of equity transactions had decreased and reliability of clearing and settlement increased. Through its opinions and continuous oversight activities, the Bank sought to ensure that the self-regulation of the APK and other measures would secure the operative function of its infrastructure also in the future. From the point of view of oversight, there were no major problems regarding Finland's securities infrastructure in 2004.

In its operations, the Bank creates preparedness for financial crises so that the operability of the financial and payment systems can be guaranteed under all conditions. As part of its crisis management planning, the Bank enhanced its readiness to act in situations where liquidity problems of one or more banks threaten to jeopardise the stability of the entire financial system. For instance, the Bank's crisis management

methods were upgraded by drawing up different crisis scenarios and adjusting its contingency plans accordingly.

### Cooperation between national authorities

The Bank of Finland worked actively together with other Finnish authorities. In 2004, special emphasis was paid to the improvement of the readiness to manage in emergency conditions and potential financial crises. The Bank of Finland took on a significant share of the work of the financial maintenance committee of the Advisory Board for Defence Economy. The committee prepared readiness guidelines for the maintenance of essential operability of the financial system during conditions of emergency. These guidelines were completed in early 2005 and based on these, the Financial Supervision Authority is empowered to issue further guidelines for the entities it supervises. A joint working group of the Bank of Finland, the Financial Supervision Authority, the Insurance Supervision Authority, the Ministry of Finance and the Ministry of Social Affairs and Health prepared the annual assessment of the state of the financial system in Finland and addressed the need for developing the supervisory and regulatory framework arising from financial integration. The Bank of Finland was also involved in several projects relating to financial regulation and supervision either through membership in working groups or issue of opinions (see Appendices).



### Integration of the Nordic financial sector

Integration of the Nordic financial sector and restructuring in the Nordic financial and insurance sectors continued through 2004. The process of simplifying the legal structure of Nordea, which had started in June 2003, progressed during the year. In January, the Swedish parent company Nordea AB (publ) was authorised to carry on banking activities and its name was changed to Nordea Bank AB (publ). In March Nordea Bank Sweden AB (publ) was merged into Nordea Bank AB (publ). The ultimate aim of this process is to transform Nordea into a company engaged in banking pursuant to the European Company Statute Regulation, which became effective in October 2004. As a result of restructuring Nordea into a 'European company', its present subsidiaries will be turned into branches of the Swedish parent bank and hence the monitoring of their capital adequacy would, according to the principle of home country supervision, fall on the financial supervision authorities of Sweden.

In May 2004, the Sampo Group acquired the holdings of the Swedish company Skandia, its subsidiary Skandia Liv and the Norwegian company Storebrand in If Skadeförsäkring Holding. As a result of the deal, Sampo's holding in If was 89.94%, and If became a subsidiary of Sampo. In October, after the acquisition of the remaining 10.06% of the If shares from the employment pension insurance company Varma, Sampo became owner of If's entire share capital. In September, the Financial Supervision Authority (FIN-FSA) and the Insurance Supervision Authority of Finland, Finansinspektionen of Sweden and Kredittilsynet in Norway signed a Memorandum of Understanding (MoU) on supplementary supervision of the Sampo Group. According to the MoU, the FIN-FSA bears the main responsibility for the consolidated supervision of the Sampo Group and coordinates the supervisory tasks between the other supervisory authorities.

In the Nordic securities markets, the cooperation between the exchanges strengthened even further. In September the stock exchanges of Helsinki, Tallinn and Riga started to use the same share trading system as the other Nordic countries. Another significant change was the conclusion of an agreement in September between OMX<sup>1</sup> and the Swedish central securities depository Värdepapperscentralen (VPC) on the sale of the Finnish Central Securities Depository (APK) to VPC, in anticipation of the establishment of a Nordic central securities group. In December OMX and the Copenhagen Stock Exchange signed an agreement on a merger. In its Financial Stability Report of November 2004, the Bank of Finland assessed the changes made in the OMX sphere of influence and the possible effects of these changes. The Bank considered that, although the OMX structural arrangements and systems integration had enhanced the efficiency of the Nordic exchanges, it would take a long time and require further structural and ownership changes before the efficiency benefits could be reaped in full. The Bank also took the view that the benefits of the merger between the central securities depositories should ultimately be channelled to investors and issuers.

The processes involved in financial markets integration and corporate restructuring across countries and industries highlight the importance of cooperation between authorities both at the national and international level. It is essential to enhance and intensify the cooperation between the Nordic and Baltic central banks and supervisors. At the same time, the effects of the technological advances must also be assessed more carefully.

<sup>1</sup> In September 2003, OM HEX AB was formed as a result of the merger between OM, owner of the Stockholm exchange, and HEX, marketplace operator in Finland and the Baltic area, and on 31 August 2004 its name was changed to OMX AB.

## International cooperation between authorities

Within the European System of Central Banks (ESCB), questions concerning financial market stability are analysed and coordinated by the Banking Supervision Committee (BSC) and the working groups operating under it. The working groups include representatives from all of the EU central banks as well as the member states' supervisory authorities. The tasks of the BSC include the preparation of an annual report on EU banking stability and participation in the preparation of the ECB report on financial stability in the euro area. The payment and settlement systems issues of the ESCB are handled by the Payment and Settlement Systems Committee (PSSC) and the working groups operating under it. In 2004, one of the committee's key tasks 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 and issues relating to the improvement of the collateral framework. In the course of 2004, the PSSC assisted the European Commission in the preparation of a new legal framework for payments in the internal market and prepared its third progress report entitled 'Towards a Single Euro Payments Area'.

The Bank of Finland's direct international cooperation included contacts with the Nordic and Baltic authorities in particular. Regular meetings between the authorities were held on financial stability assessment and oversight of payment and settlement

systems. The need for cooperation has grown in line with structural changes in the financial markets and the progress of financial integration. A working group set up by the Governors of the Nordic central banks continued to draw up plans for dealing with problem situations arising from banking groups that carry on operations in several Nordic countries.

The Bank of Finland participated actively in the joint working group set up by the ESCB and the Committee of European Securities Regulators (CESR) to draw up settlement systems policies. Progress was made, for example, as regards the host country authority's role in the oversight and the general principle of openness. The working group also drew up joint standards on post-trading processes and operations, approved by the Governing Council of the ECB and the CESR in October 2004. Work on bringing the standards into force continues in working groups in which central banks and supervisory authorities are represented.

In addition to participation in international working groups, the signing of Memoranda of Understanding (MoUs) is the major mechanism for coordination between different authorities. In June 2004, the central banks and the banking supervisory authorities of the new EU countries agreed to adhere to the existing Memoranda of Understanding, ie the MoU on high-level principles of cooperation in crisis management situations and the MoU on cooperation between payment systems overseers and banking supervisors in Stage Three of Economic and Monetary Union.

# Maintenance of currency supply

Besides issuing new banknotes, the Bank of Finland's role in maintaining currency supply also covers monitoring the quality of euro banknotes, ensuring their authenticity and removing worn and damaged notes from circulation. Changes introduced to the currency supply system at the beginning of 2004 have further enhanced the efficiency of the system by extending the hours during which the central bank's regional offices receive cash returns and introducing regional cash depots in selected areas.

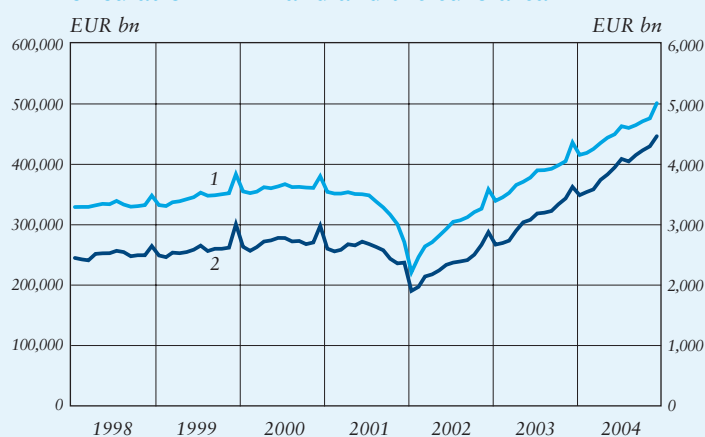
As in the previous two years, 2004 saw rapid growth, of almost a quarter, in the value of banknotes and coins put into circulation in Finland (Chart 13). At the close of the markka era at the end of 2001, the value of banknotes put into circulation in Finland was EUR 2.4 billion; by the end of 2004 this sum had almost doubled

to EUR 4.5 billion. The strongest growth has been in the largest-denomination notes, but there has also been sustained and rapid growth in the EUR 50 and EUR 20 banknotes used in ATMs (Chart 14). Finnish issues of the largest-denomination notes (EUR 500) increased further in 2004 by approximately 40%, but in value terms the greatest growth has been in the EUR 50 and EUR 20 notes. Although it is not possible to know for certain the precise movements of all the euro banknotes issued in Finland, some of the largest-denomination notes have been used in buying cars in Germany for import into Finland, while notes dispensed by ATMs have also been taken by holiday-makers both to other countries in the euro area and to Estonia. This sort of migration of euro banknotes is, however, insufficient in itself to explain the strong growth in demand for euro notes in Finland. One reason for the growth in the value of banknotes in circulation is simply that consumers have increased their holdings of cash.

As with banknotes, demand for euro coins has also continued to grow at a brisk pace. At around 15%, growth in 2004 was only slightly slower than the previous year. The largest-value, EUR 1 and EUR 2 coins have retained their popularity as means of payment, but there has also been a notable increase in demand for smaller-value coins.

Banks, cash-in-transit (CIT) companies and companies providing cash-handling services have all reduced their cash holdings, but the cash holdings of the general public, essentially

**Chart 13.**  
The value of euro banknotes put into circulation in Finland and the euro area



1. Banknotes put into circulation in the euro area (LHS)

2. Banknotes put into circulation in Finland (RHS)

Sources: European Central Bank and Bank of Finland.

consumers, have grown. This suggests that consumers have not yet fully adjusted their cash holdings to the change in the value of cash since the introduction of the euro.

### Regional cash depots taken into use

As part of the new system of currency supply introduced on a trial basis at the beginning of 2004, the Bank of Finland approved the establishment of regional cash depots in order to reduce unnecessary cash haulage. The depots are located in Rovaniemi, Seinäjoki, Vaasa, Lappeenranta, Kouvola and Jyväskylä in the existing cash centres of the CIT companies. Banks and other companies participating in currency supply can return used banknotes to the depots until midnight on banking days, and withdraw notes for circulation from one o'clock in the morning if necessary. The regional cash depots help banks and other customers of the currency supply system to reduce their interest expenses and avoid unnecessary cash haulage. The regional depots have clearly met a need and have already been in fairly intensive use. From the beginning of 2005 the depots will also accept euro coins, and the maximum limits on cash held in the depots have been slightly raised with this in mind.

### Reduction in counterfeits in the euro area and Finland

Following the introduction of the euro as a cash currency, the novelty of the euro banknotes and their incorporation of new authentication features meant the number of counterfeit banknotes discovered in the

euro area was initially much lower than had been the case while the national currencies were still in use. However, the number of counterfeits had already increased and their quality was improving rapidly before the end of 2002, the first year of the euro's use as a cash currency.

In Finland, the number of euro counterfeits has always been among the smallest in the euro area. This is partly due to Finland's peripheral location, but also in part to the traditionally very low incidence of this sort of organised crime in Finland. Most of the counterfeit euro banknotes circulated in Finland have been both of foreign origin and distributed by foreigners.

During 2004 there was a clearly discernible change of direction from the

**Chart 14.**  
**Euro banknotes issued by Finland**



1. Value of markka/euro banknotes issued by Finland, %
  2. Value of euro banknotes issued by Finland (excluding EUR 500-denominated notes), %
  3. Value of EUR 20- and 50-denominated notes dispensed by ATMs, %
- Source: Bank of Finland.

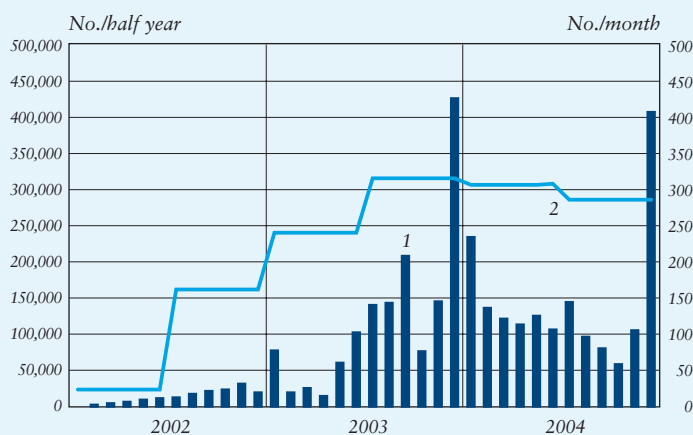
previous fairly sustained increase to a declining trend in the number of euro banknote counterfeits discovered in circulation in Finland. Admittedly, as in 2003, December 2004 saw a big increase in the incidence of confiscated euro counterfeits, bringing the total number for the year as a whole up to 1,725 – an increase on the previous year (Chart 15). There was also a slight increase in the number of counterfeit euro banknotes actually discovered in circulation, to 1,343. The overall trend downward in the number of counterfeits is partly due to the arrest of some distributors of counterfeit series that have been operating generally across the euro area and the destruction of workshops producing counterfeit notes. In Finland, the vigilance of retail stores in particular has helped to speed up the discovery of counterfeits. The Bank of

Finland has also continued to provide training to retailers and others involved in the handling of cash to help them recognise the authentication features of euro banknotes.

### More competitive banknote production in the euro area

In autumn 2004 the ECB Governing Council adopted a guideline establishing a single Eurosystem tender procedure for the procurement of euro banknotes, to be operational by 2012 at the latest. The new procedure is to be based on free competitive tender in accordance with EU competition law. The guideline provides for the possible earlier introduction of competitive banknote procurement following a transitional period beginning in 2008, provided the tender procedure is adopted by at least half the countries in the euro area and to apply to at least half of total banknote procurement. At present, the procurement and production of euro banknotes is carried out either by the national central banks' own security printers or through a system of free competitive tender, as in Finland, the Netherlands and Luxembourg. The Bank of Finland already permanently relinquished its minority stake in its own note security printing works (Setec) at the end of 2003. Under the Governing Council's decision, national central banks with in-house security printing works may, in principle, still decide after the transitional period not to participate in the agreed competitive procedure for banknote procurement.

**Chart 15.**  
Counterfeit euro banknotes discovered in the euro area and Finland



1. Number of counterfeit euro banknotes discovered in Finland (incl. confiscations) (RHS)

2. Total number of counterfeit euro banknotes discovered in the euro area (LHS)

Sources: European Central Bank and Finnish National Bureau of Investigation.

# Other central bank activities

## Statistics

In line with ECB statistical reporting requirements, the Bank of Finland compiles Finnish data for statistics on euro area monetary financial institutions (MFIs), as well as for other financial and balance of payment statistics for the euro area, together with corresponding national data. Community legislation assigns to the Bank of Finland the official task of compiling statistics for ESCB and EU needs. In addition to regular statistical production, this also involves considerable development of statistics under the leadership of the ESCB and Eurostat, the Statistical Office of the European Communities.

The statistical specifications and relevant statistical regulations are designed to ensure that all member states apply the same EMU statistical concepts and classifications, necessary for the compilation of euro area-wide statistics as well as for cross-country comparisons. The steady expansion of the range of ESCB statistics calls for more effective compilation of statistics in member states, including Finland.

The production of harmonised interest rate statistics for euro-area MFIs became established in the course of the year under review. The function of ESCB cooperation was to oversee that national data can be combined in EMU-wide statistics. This means enhanced EU-comparability of national statistics across the EU.

Modifications were made during the year to the software employed by the Bank in the production of statistics, to ensure that the requirements of the constantly expanding ECB statistical programme will

be met over the next few years. Consequently, a new detailed database built on the book-entry system was made available in 2004 for the securities statistics on domestic instruments. An equivalent global database is being designed by the ECB and made available to all ESCB member states. In the year under review, new software for the compilation of balance of payment statistics was introduced, that also provides for country-specific breakdown of the counterparties in foreign transactions as required by the ECB.

The EU's advisory Committee on Monetary, Financial and Balance of Payments Statistics (CMFB), including representatives of both the Bank of Finland and Statistics Finland, issued several opinions to Eurostat on the recognition of public-sector transactions in national accounts. It is necessary to obtain a comparable view of member states' fiscal balances for the excessive deficits procedure within the EU Stability and Growth Pact.

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, thereby also avoiding overlapping work. In June 2004, the Bank of Finland and Statistics Finland signed a Memorandum of Understanding on the principles of cooperation and agreed to hold regular meetings for review of the needs for improvements in the field of joint statistics. The Bank of Finland contributes to some of these development projects with both expertise and financial input in 2004 and 2005.

## Research activities

The Bank of Finland's research activities both serve to develop the Bank's own activities and to improve its external influence. The aim is to meet top international standards in areas of research of key importance to the Bank. This ensures that the Bank of Finland makes a strong contribution to the debate on economic policy and financial market developments both domestically and internationally. Research activities have focused on the modelling of monetary policy, the future of the financial services sector and analysis and research of the transition economies, with emphasis on the economies of Russia and China. Research work is centred in the Bank's Research Department and the Institute for Economies in Transition.

An assessment of the quality of the Bank of Finland's research activities was conducted in autumn 2004. The Board invited the following three independent experts to carry out the evaluation: Professor Philip Lane of Trinity College, University of Dublin, Dr Loretta Mester of the Federal Reserve Bank of Philadelphia and Professor Juuso Välimäki of the Helsinki School of Economics. The experts submitted their report in December.

According to the report, the Bank of Finland has been successful in increasing its research output in recent years, with a view to upgrading economic policy analysis and strengthening its influence within the internal policy debate of the European System of Central Banks (ESCB). The panel of experts held that it was now time to raise the quality of

research further, putting forward several proposals to this effect. The panel, for instance, recommended that the Bank increase the proportion of doctoral level staff permanently conducting research and diversify the contents of research programmes to achieve broader coverage of important central bank issues. In their report, the panel of experts emphasised the importance of contributing to international scientific journals and considered that the independence of the research units within the Bank's organisation would ensure that sufficient resources are devoted to research in the long term. The Board will review the report of the panel in the course of spring 2005.

## Monetary research

The programme on monetary policy modelling focused on the interaction between monetary policy and public finances and on the implications of population ageing. A project was undertaken in cooperation with the Research Institute of the Finnish Economy, ETLA, to analyse the uncertainties surrounding assessments of fiscal sustainability. The role of expectations and uncertainties in the monetary policy strategy was another key area of research. The Bank of Finland also participated in the work of the Eurosystem-wide Inflation Persistence Network.

The programme for the future of the financial sector addressed themes related to both payment systems and financial stability. Several projects focused on the structural factors underlying the efficiency of the payment system and currency



supply. Studies in the area of financial stability included the capital adequacy regulations of financial conglomerates and the consequences of macroeconomic developments on the stability of the banking system. There were also studies examining measurement of the instability of securities markets.

The Bank's history project was launched at the beginning of December. It will prepare a scientific historical study of the activities of the Bank of Finland to be published on the occasion of the Bank's bicentennial anniversary on 12 December 2011.

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

The major change in the activities of the Institute for Economies in Transition (BOFIT) was the termination of the analyses of the Baltic countries following accession of Estonia, Latvia and Lithuania to the European Union. At the same time regular analysis of the Chinese economy was taken up, including the release of the quarterly BOFIT China Review. BOFIT Viikkokatsaus / BOFIT Weekly Review now embraces Russia and China. In this connection, all the BOFIT publications were renamed to emphasise the product name BOFIT.

The Institute's research efforts concentrate on macroeconomic policy, especially monetary and fiscal issues, with the geographical focus on Russia. The Institute strives to get its research work published in external journals and other publication series. In 2004, the Institute also published two books, one in Finnish and one in English and Russian.

In response to the developments in Russia and the country's growing importance in the global economy, there was increasing demand for the Institute's expertise, both within and outside the Eurosystem. Lectures, popularised articles and statements by the Institute's experts were in great demand. Three of the Institute's researchers spent some time abroad as visiting scholars.

#### **Scientific meetings**

As in previous years, the Bank's research units organised a number of international scientific meetings. There were two meetings in May: a conference on 'The Implications of Alternative Fiscal Rules for Monetary Policy', arranged in cooperation with the Centre of European Policy Research in London, and an international workshop on 'Inflation Dynamics in General Equilibrium Macro Models', organised in cooperation with Andre Levin of the Federal Reserve Board. In September, the Bank hosted a scientific meeting on the Structure of Financial Regulation, together with the Cass Business School, City of London.

In December, the Institute for Economies in Transition organised the second workshop of the European central banks addressing research in emerging market economies. The Institute's spring seminar held in April 2004 has attained status as probably the most significant European conference in the field of research on transition economies. The seminars on the Russian economy aimed at the general public were also popular.



## Communications

In line with its open communications policy, the Bank of Finland aimed to communicate extensively and clearly on issues and events pertaining to its operations. Press conferences were held in connection with the release of several of the Bank's publications, with the Governor's press conferences on the publication of the Finnish edition of the Bank's quarterly bulletin being the most

important of these. In September and December, there were live broadcasts of the Governor's press conferences via the Bank's website. The Bank of Finland's macroeconomic forecast put forward in the first and third issue of the Bank of Finland Bulletin appeared as more exhaustive articles, providing a broader informational basis for economic policy debaters and others interested in the national economy.

The Board members appeared in countless interviews and were frequently asked to hold lectures and talks. The Bank's employees were also very active in giving talks to students and other groups on themes related to the Bank's business. The Studia Generalia (later Studia Monetaria) lectures on monetary economy and monetary policy held at the Bank of Finland museum enjoyed great popularity. In 2004, the Bank of Finland Museum had more than 13,000 visitors. There were, all in all, 222 guided group visits.

New house style guidelines were introduced for all the Bank's publications, documents and brochures. The layout of the Bank's publications Euro & talous and Bank of Finland Bulletin was brought in line with the new house style. The layout of the annual report was also revised accordingly. The Bank of Finland's annual report was, as usual, published in Finnish, Swedish and English. A new brochure on the Bank appeared in the following six languages: Finnish, Swedish, English, German, French and Russian. The Bank of Finland's Institute for Economies in

**Table 4.**  
Circulation figures for the Bank of Finland's publications, 2004\*

|   | Nos         |
|---|-------------|
| <i>Annual report</i>  |             |
| – Finnish   | 2,900       |
| – Swedish   | 600         |
| – English   | 1,700       |
| <i>Euro &amp; talous</i>                                      | 6,500       |
| <i>Bank of Finland Bulletin</i>                               | 4,600       |
| <i>A series publications</i>                                  | 2,000–2,500 |
| <i>E series publications</i>                                  | 2,000       |
| <i>Discussion papers</i>                                      |             |
| – Finnish   | 550         |
| – English   | 1,300       |
| <i>Research bulletin</i>                                      | 5,700       |
| <i>Institute for Economies in Transition</i>                  |             |
| – BOFIT Discussion Papers                                     | 950         |
| – BOFIT Viikkokatsaus<br>(BOFIT Weekly in Finnish)            | 700         |
| – BOFIT Weekly  | 850         |
| – BOFIT Russia Review   | 1,100       |
| – BOFIT China Review  | 350         |
| <i>Statistical Review Financial Markets</i>                   | 700         |
| <i>Finland's balance of payments, annually</i>                | 500         |
| <i>Direct investment in Finland's<br/>balance of payments</i> | 400         |
| <i>Finnish Bond issues</i>                                    | 350         |

\* Several of the Bank's publications also have an extensive electronic distribution.

Transition (BOFIT) started to publish a new English quarterly, the BOFIT China Review, on its website.

The annual report of the Parliamentary Supervisory Council was published in Finnish and Swedish in spring. Two publications appeared in publication series A and three in series E. The annual report of the Bank of Finland's pension fund was published in Finnish and Swedish.<sup>1</sup>

In addition to the translation work undertaken for the Bank of Finland and the Financial Supervision Authority, Finnish translations continued to be provided of the most important ECB publications, including *The Single Monetary Policy in Stage Three: General documentation on Eurosystem monetary policy instruments and procedures*, which appeared in February, and the Finnish summary of the *Convergence Report 2004*, which appeared in October. The ECB Annual Report was translated into Finnish in the spring. Since the beginning of 2004, only the quarterly editions of the ECB Monthly Bulletin appear in Finnish translation. Furthermore, the 2004 edition of the Monetary Policy of the ECB was translated and produced at the Bank of Finland.

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<sup>1</sup> A list of Bank of Finland publications in 2004 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](http://www.bof.fi)).

# International activities

## The Bank of Finland in 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. The Governor of the Bank of Finland is one of the members of the Council. The position was held by Matti Vanhala until 11 March 2004, when the membership in the Council was transferred temporarily to Matti Louekoski, Deputy Governor of the Bank of Finland. Once inaugurated as Governor of the Bank of Finland, on 12 July 2004, Erkki Liikanen also became a member of the Governing Council of the European Central Bank. Deputy Governor Matti Louekoski, who was Matti Vanhala's personal alternate member and assistant in the meetings of the Governing Council, continues to hold this position as Governor Erkki Liikanen's term of office begins.

In 2004, the Governing Council of the ECB held 24 meetings, including one teleconference and two meetings outside Frankfurt: one on 6 May 2004 in Helsinki and one on 7 October 2004 in Brussels. The Bank of Finland shared responsibility with the ECB for the arrangements of the meeting in Helsinki. For a small central bank, these arrangements constituted quite an extensive task.

The Governor of the Bank of Finland is also a member of the General Council of the ECB, which includes the governors of all EU member states as well as the President and Vice-President of the ECB. In June 2004, the Governors of the central banks of the new EU

member states participated in a meeting of the General Council for the first time as full members. Following the enlargement of the EU, the General Council comprises 27 members. In 2004 the General Council convened quarterly as usual, in addition to which there was one teleconference. The number of items on the agenda grew in line with the number of new members, thus also increasing the length of the meetings.

Board members and experts from the Bank of Finland also participated in the work of the European System of Central Banks during all preparation stages. All committees (14) and most of the working groups (53) included a representative from the Bank of Finland. A total of over 80 experts from the bank participated in the work of the committees and working groups. The committees and working groups convened according to their respective needs, within their mandate, several times a year. In addition, many other experts of the Bank took part in preparations for the meetings of the Council, committees and working groups.

## Bank of Finland and international economic policy

The Bank of Finland participates in international cooperation through various organisations and cooperation bodies. According to Finnish law, the Bank of Finland is responsible for the contacts of the Finnish Republic with the International Monetary Fund. In addition, the Bank of Finland participates in the activities of the Bank for International Settlements (BIS) and

Box 4.

### Governing Council of the European Central Bank – the Eurosystem's highest decision making body

The Governing Council of the ECB comprises the members of the ECB's Executive Board and the central bank governors of the euro area member states. The six-member Executive Board has a President, Vice-President and four other members. The heads of state or government of the member states appoint the members of the Executive Board to their office for eight years at a time, and the term of office is not renewable. In order to be appointed member of the Executive Board, one needs to have recognised standing and professional experience in monetary or banking matters.

The members of the Executive Board are independent. In performing the tasks and duties of the ESCB they are not allowed to take instructions from European Community institutions or bodies, from any government of an EU Member State or from any other body. In addition, the President of the Council and the Member of the Commission responsible for economic and monetary affairs may participate, without having the right to vote, in meetings of the General Council.

In order for the Governing Council to vote, there must be a quorum of two-thirds of the members. Each member of the Governing Council has one vote, and decisions can usually be taken by simple majority. In the event of a tie, the President has the casting vote. However, for any decisions concerning the capital of the ECB, transfer of foreign reserve assets to the ECB, or allocation of monetary income or net

profit and loss of the ECB, the votes in the Governing Council are weighted according to the national central banks' shares in the subscribed capital of the ECB. The votes of the members of the Executive Board are zero-weighted. A decision requiring a qualified majority is such that the votes cast in favour represent at least two thirds of the subscribed capital of the ECB and at least half of the shareholders.

The Executive Board is responsible for the preparation of meetings of the Governing Council, and decisions by the Governing Councils are based on proposals by the Executive Board. Committees prepare decisions but do not make proposals directly to the Governing Council. The Executive Board of the ECB has a special position in the Council, where its members act as presenters and decision makers at the same time. They may choose the items to be taken on the agenda, prepare background documents within the ECB organisation and make the final proposals. Other members of the Governing Council are also allowed to propose items to be removed from or included into the agenda.

The Governing Council convenes regularly twice a month, usually on the first and third Thursday of the month. In the first meeting of the month, deliberations are focused in particular on current monetary conditions and interest rates, but other issues are also discussed. The key interest rates decided on by Governing Council are the minimum bid rate on

the main refinancing operations, the interest rate for the marginal lending facility, and the interest rate for the deposit facility. The minimum bid rate is referred to as the ECB's policy rate due to its crucial importance.

In the second meeting of the month, the Governing Council focuses on other issues in relation to the entire scope of central banking. These issues are often rather technical in nature.

Meetings of the Governing Council are confidential, but the Council may decide to make the outcome of its deliberations public. It has, among other things, clearly laid its definition of price stability and its monetary policy strategy out in public. Interest rate decisions are explained publicly at a press conference, immediately following the rate-setting meeting and on that occasion the President is available to answer any questions regarding monetary policy. In December 2004, the Governing Council of the ECB also began to publish monthly on its Internet site information on other decisions than those concerning interest rates.

However, the minutes of Governing Council meetings remain secret for 30 years. There are many justifications for this. The objective is to safeguard the members of the Council from short-sighted national pressure. Particularly before the beginning of the monetary union, it was a common concern that national views would be overly emphasised in the deliberations of the Council – however, this has not been the case.

the Organization for Economic Co-operation and Development (OECD). The Bank of Finland is also represented in four committees of the European Union.

### **International Monetary Fund**

The Bank of Finland is responsible for the contacts of the Finnish republic with the International Monetary Fund. Finland's representative in the highest decision-making body of the IMF, the Board, was Matti Vanhala, and from 12 July 2004 onwards Governor Erkki Liikanen. Finland's alternate member in the Board was Matti Louekoski, Deputy Governor of the Bank of Finland. The Board of the IMF convened to its joint annual discussion in October. Governor Liikanen gave a speech on behalf of the Nordic-Baltic constituency, emphasising for example the importance of high-quality bilateral surveillance in the activities of the International Monetary Fund. The Fund's International Monetary and Financial Committee (IMFC), an advisory committee, met twice during the year, chaired by Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

Responsibility for the Fund's operations rests with the 24-member Executive Board and the Managing Director, who acts as the Board's Chairman. In May 2004, the Spanish Rodrigo de Rato was appointed Managing Director of the Fund, and he began in office in June. He took the position after Horst Köhler, who was elected German Federal President.

Within the International Monetary Fund, Finland belongs to the Nordic-Baltic constituency, which has one common representative in the Board of the Fund. In 2004, the representative of the constituency in the Board of the Fund was the Norwegian Jon A. Solheim, and the views of the Nordic and Baltic countries were coordinated by the central bank of Norway. The purpose of this coordination is to form a common position for the constituency about issues discussed in the Fund, which is communicated by the member of the Board in the meetings of the Board of the Fund. The Bank of Finland participates in the coordination within the constituency in cooperation with the Ministry of Finance.<sup>1</sup>

The constituency's policy stance was prepared in the Nordic-Baltic Monetary and Financial Committee (NBMFC). In 2004, the Committee held two actual meetings in addition to one teleconference. The Bank of Finland's representative on the NBMFC was Matti Louekoski, Deputy Governor of the Bank of Finland. The work of the Committee was prepared by an alternate members' committee, where the Bank of Finland was represented by Kjell Peter Söderlund, Head of the Bank's International Secretariat. In addition, a working group charged with the task of investigating changes effected by the EU in the workings of the constituency

<sup>1</sup> More information on the views presented by the Nordic-Baltic constituency in the Board of the IMF is available in the reports named 'The Global Economy and Recent Policy Developments in the International Monetary Fund' at <http://www.bof.fi>.

continued to operate under the auspices of the Nordic-Baltic constituency. This working group was chaired by Kjell Peter Söderlund from the Bank of Finland. On the basis of a proposal by the working group, the Nordic-Baltic Monetary and Financial Committee decided on the representation of the constituency in the Board of the International Monetary Fund until 2010. It also gave the working group the task to consider the representation of the constituency after 2010. According to the decision of the Committee, Finland will represent the constituency in the Board of the IMF in 2006–2007.

In October, the IMF conducted Article IV consultations in Finland to assess the Finnish economic situation and policy. In its statement, the expert group of the Fund found that the favourable external economic climate should sustain growth in the near term, although the risks to the scenario were tilted to the downside. The longer term outlook on the other hand was clouded by the imminent aging of the population, institutional rigidities and attitudes that impede adaptation to change.

## EU committees

### *Economic and Financial Committee*

The European Union's Economic and Financial Committee (EFC) prepared issues related to economic and monetary union for discussion by the EU Council convening in the composition of Economic and Finance Ministers (ECOFIN). The members of the

Economic and Financial Committee comprise representatives of the Ministries of Finance of EU member states and national central banks, as well as of the ECB and the European Commission. The Committee was attended by Sinikka Salo, Member of the Bank of Finland's Board, with Paavo Peisa, Adviser to the Bank's Board, as her alternate. In accordance with the new procedural arrangements adopted in connection with the enlargement of the EU, representatives of national central banks will participate in those meetings of the Committee where issues related to the economic climate, financial markets and International Monetary Fund are discussed. The Committee, in its extended composition used to discuss these issues, met five times in 2004. The alternate members met three times in the extended composition.

An extension of the Lamfalussy committee structure was adopted in 2004 on the initiative of the Economic and Financial Committee. The Economic and Financial Committee organised a meeting in March and September in relation to this new system of regulation and supervision of the financial markets of the EU member states. These so-called Financial Stability Table forum discussions were attended by not only the Committee members but also by representatives of the supervisory committee and the committee on financial services. In the course of the discussions, Finland's representatives called attention for example to supervisory issues concerning financial

institutions operating in many EU member states and particularly those operating as European Companies. The Committee reflected on the post-Financial Services Action Plan (FSAP) integration policies concerning the EU financial markets, as well as on the integration of payment and clearing activities and its supervision. As regards IMF issues, the Committee prepared common directions for the EU for meetings of the International Monetary and Financial Committee. In the autumn, the Committee, in extended composition, also discussed questions related to the potential reform of the Growth and Stability Pact.

#### *Economic Policy Committee*

The EU's Economic Policy Committee (EPC) prepared issues for the Council of Ministers in relation to the broad economic policy guidelines and structural political issues under other economic policy coordination processes. 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. Acting Head of Division Tapio Peura of the Bank of Finland continued as alternate member of the Finnish delegation in 2004. The EPC held a total of 11 meetings in the review year.

#### *Committee of European Banking Supervisors*

The Committee of European Banking Supervisors (CEBS) discussed issues

concerning regulation and supervision of the banking sector. Members of this Committee included Kaarlo Jännäri, Director General of the Financial Supervision Authority, and Heikki Koskenkylä, Head of the Financial Markets Department at the Bank of Finland.

#### *Committee on Monetary, Financial and Balance of Payments Statistics*

Eurostat's advisory Committee on Monetary, Financial and Balance of Payments Statistics (CMFB) adopted, among other things, many opinions for the purposes of excessive-deficit surveillance on the recording of public sector financial transactions. In 2004, the Bank of Finland's representative in this group was Jorma Hilpinen.

#### **Bank for International Settlements**

The Governor of the Bank of Finland regularly attended the meetings of the Bank for International Settlements (BIS), which were held six times in 2004. The topics dealt with included international aspects of the financial markets, such as the reform of the capital adequacy regime (Basel II).

#### **OECD**

Representatives of the Bank of Finland participated, as usual, in the activities of the Organisation for Economic Cooperation and Development (OECD) through three committees. The OECD's Economic Policy Committee included Antti Suvanto, Head of the Economics Department, and Jarmo Kontulainen,

Head of Division. Heikki Koskenkylä and Jarmo Pesola attended the Committee on Financial Markets, while Vesa Korhonen attended the Economic and Development Review Committee.

### **Other International Cooperation**

The Bank of Finland organised a central bank seminar jointly with the ECB and the Bank of Russia on 25–26 May 2004. The participants of the seminar, which was held in Helsinki, included governors and representatives of the ECB, the Bank of Russia, the 12 national central banks of the euro area as well as the European Commission and the EU Presidency, and other high-level participants. The purpose of the seminar was to strengthen dialogue and enhance relations between the Bank of Russia and the Eurosystem.

The Bank of Finland engages in training cooperation with the Bank of Russia to develop the latter's personnel. Three seminar-type training visits to Finland were organised in 2004 under this programme. In addition to bilateral cooperation, the Bank of Finland also partakes in the ESCB's joint EU-TACIS project 'Central Bank Training III', a project to develop the experts of the Bank of Russia in 2004–2005.



# The Bank's governance and resource allocation

## Strategy and organisation

In December, the Board of the Bank of Finland decided on an organisational restructuring of the Bank, with the new structure taking effect on 1 March 2005. In the reorganisation, the 18 Bank departments and units were combined into six operational sectors. The new organisation consists of five departments: Monetary Policy and Research, Financial Markets and Statistics, Banking Operations, Payment Instruments and Administration. The Board will be assisted by a General Secretariat. There will also be a separate Internal Audit unit, reporting directly to the Governor.

The new organisational structure is better aligned with the Bank's strategy and the allocation of resources in accordance with the strategy. An integrated organisational structure will bring about the benefits of synergy and produce more efficient operations. The reorganisation also brings clarity to the Bank's management system and enhances the transparency of functions.

One of the key objectives of the Bank of Finland's strategy and action planning process was to assess achievement of the objectives set in the 2003 strategy. The strategy seminar held in spring 2004 focused on the assessment of the quality and effectiveness of forecasting and stability analyses as well as competence and communications and addressed the necessary needs for improvement.

On 16 September 2004, the ECB Governing Council adopted the guidelines for the mission statement,

general organisational principles and strategic intentions of the Eurosystem. The Bank of Finland has made an active contribution to the launch of the strategy process within the Eurosystem.

## Personnel

The human resource priorities at the Bank have centred around a cost-efficient and customer-oriented organisation, professional supervisory skills, reductions in staff size and the renewal of the staff structure, as well as making provisions for a large number of retirements.

### Staff size declined

At the end of 2004, the Bank had 560 employees. The adjustment measures introduced within the payment instruments sector were completed in the course of 2004 and the operating strength of the currency supply function fell from 111 to 65 persons over the year. Total staff size at the head office amounted to 495 persons.

In response to the Bank's tight permission-based recruitment policy, the number of staff in attendance declined by 11% over 2004.

Staff were encouraged to enter a job rotation process, both internally and externally, to broaden and strengthen their skills. The internal mobility rate was 7% in 2004.

The Financial Supervision Authority (FIN-FSA) employed 139 staff at the end of 2004. The FIN-FSA uses the Bank of Finland's support services for its operations.

### Higher proportion of experts

Of the total staff, 45.3% held expert positions. The proportion of experts in the Bank's staff has been steadily increasing over the past few years, while, at the same time, the basic level of education of the employees has risen. In

the year under review, 49% of staff had academic degrees.

It is characteristic of the Bank's age structure that the proportion of employees over 50 has increased over the past five years by 10%, while the total staff size has declined. In 2004, the average age of employees was 45.6 years. External recruitments were limited and focused on persons with labour market experience; hence the proportion of younger age groups did not increase. The average age of externally recruited employees was 34 years.

### Network-based tools to support human resource management

The electronic human resources project, eHR, was launched at the Bank in April. The new electronic human resource tools improve workflows by providing real-time access to all personnel data. The system is designed to promote supervisory work and improve administrative routines. Full implementation of the project will take two years. In the first phase, in December 2004, a basic personnel register and a supervisor portal were introduced. In the course of 2005, an employee portal and a time-management module is to be integrated with the system.

### Changes in labour market, personnel and pension provision services

The Bank of Finland and the Bank of Finland's Staff Association negotiated a two-year collective civil service agreement for the Bank covering the period 1 March 2004 – 15 February 2006. At the end of 2004, negotiations

**Table 5.**  
**Highlights of human resource management**

|  | 2003  | 2004  |
|--|---|---|
| <b>Staff size</b>  | 626.5   | 559.5   |
| <i>Turnover rate for those leaving the Bank's service</i>  | 12%   | 18%   |
| <i>Turnover rate for those entering the Bank's service</i> | 3%  | 5%  |
| <i>Internal mobility rate</i>                              | 6.5%  | 7%  |
| <i>Number of newly retired employees</i>                   | 51  | 36  |
| <i>Average age of newly retired employees</i>              | 57 years  | 57 years  |
| <i>Expected retirement rate</i>                            | 69.8%   | 48.3%   |
| <i>Number of pensions currently paid</i>                   | 838   | 875   |
| <b>Staff costs</b>   | EUR 42.6 million/<br>674.3 man-years                    | EUR 41.1 million/<br>601.2 man-years                      |
| <i>Purchased staff resources</i>                           | EUR 63,239/man-year<br>EUR 2.3 million/<br>45 man-years | EUR 68,406/man-year<br>EUR 1.8 million/<br>42.9 man-years |
| <b>Staff structure</b>                                     | EUR 51,100/man-year                                     | EUR 42,000/man-year                                       |
| <i>Average staff age</i>                                   | 46 years  | 45.6 years  |
| <i>Proportion of experts</i>                               | 40%   | 45%   |
| <i>Proportion of women</i>                                 | 53%   | 51%   |
| <i>Proportion of employees with an academic degree</i>     | 44%   | 49%   |
| <i>Proportion of employees with scholarly training</i>     | 7%  | 8%  |
| <b>Salaries and bonuses</b>                                |   |   |
| <i>Salaries in relation to market salaries</i>             | 104.8%  | 101.8%  |
| <i>Increase in salaries</i>                                | 3.7%  | 5.7%  |
| <i>Bonuses as a proportion of payroll</i>                  | 0.25%   | 0.64%   |
| <i>Average pay for women/average pay for men*</i>          | 99.6%   | 99.6%   |
| <b>Competence</b>  |   |   |
| <i>Training costs/payroll</i>                              | 4.2%  | 3.7%  |
| <i>Training days/man-year</i>                              | 5.6   | 5.2%  |
| <b>Wellness at work</b>                                    |   |   |
| <i>Health rate</i>   | 30.7  | 26.4  |
| <i>Absence from work due to sick leave</i>                 | 2.9%  | 2.8%  |
| <i>Occupational health care costs, gross</i>               | EUR 731/man-year  | EUR 681/man-year  |
| <i>Grant for hobby activities/man-year</i>                 | EUR 219/man-year  | EUR 233/man year  |

\* Average per skills category.

were launched on measures to slim down the shop stewards organisation, and agreement was reached on the Bank's remote working policy.

The Bank of Finland's pension fund is responsible for pension financing and pension provisions. The pension fund pays pensions to approximately 900 retired Bank employees. In 2004, the pension fund focused on making preparations for the transfer of pension provision services to the State Treasury Office, to take effect on 1 January 2005.

The Bank of Finland reformed its pension rules in line with the amendments to the State Employees' Pensions Act following the public-sector pension reform of 1 January 2005. An agreement on the gradual transfer of pension provision to the State Treasury Office was concluded on 26 October 2004.

Within wage administration, preparations for the outsourcing of remuneration calculation services started in the course of 2004. The Bank's wage and salary calculation services will, in their entirety, be taken over by an external service provider in September 2005.

#### **Investment in future skills provision**

EUR 1.08 million was used for training in 2004.

In anticipation of retirements among supervisory staff, training through the Pro Joko management leadership programme especially designed for experts was entered into. Thirty (30)

experts from the Bank enrolled for the programme. The supervisory management courses were extended to include an introductory course in HRM practices intended for new supervisors. In 2004 a decision in principle was taken on the introduction of a Young Professionals programme in autumn 2005, with the aim of educating a new generation of central bank experts with broadly-based competence.

Training for economists focused on international financial crises and the basics of monetary economy, as well as financial markets law. Sixteen (16) courses on economic and legal subjects were arranged in house, with 269 participants from the Bank and 12 external attendants. Twenty-eight (28) economists attended economic courses held abroad, where participation was centrally coordinated by the Bank.

To strengthen experts' language and communication skills, both Finnish- and English-language courses were held and attended by 135 Bank employees. In addition, 39 Bank employees participated in the ESCB-wide leadership, introductory and interactive skills courses.

## Information technology

By the end of 2004 the Bank's information technology targets set for 2000–2004 had all been achieved: the core banking services applications had been updated, the old hardware and mainframe computers removed and the skills of the Bank's IT staff brought up to date. One aspect of the efficiency goal thus implemented is a single, open and integrated IT infrastructure in place of the former closed and expensive mainframe environments.

The new architecture will make it possible in the future to introduce changes in smaller steps than the process that has recently been completed. The server environment has now been distributed across two locations. The usability of the work environment as a whole is sound. There has been reasonable progress towards achieving flexible, full-scale use of Internet services, remote use of their own work environment by staff members from outside the workplace and the development of a paperless office, even if progress has admittedly been slower than in some comparable organisations.

The operative systems have provided a good level of service. Despite some disturbances in the TARGET/RTGS system, the Bank of Finland has performed satisfactorily in the central banks' accessibility statistics. During the year under review there was one interruption in office systems that lasted a whole morning and affected all users. The new system of logging on using a personalised smartcard has been trouble

free. Updating of Microsoft software and workstation standardisation are still being finalised on the basis of user feedback. A major updating of the ESCB network was completed in 2004 and has not caused any problems with accessibility.

The year under review saw the completion of both phases of the overhaul of the foreign reserves management system, with Finance KIT software replacing the old Atlas/Tandem solution. The TARGET2 project was prepared and launched. The existing systems in the payments instruments sector were updated and a preliminary study was launched into an overall system update.

The new system for balance of payments statistics was completed and taken into use. The feasibility of also applying it to financial institutions' balance sheet and interest rate statistics was examined and a project prepared to begin early in 2005. The system update of the PATU software for analysis and reporting was completed towards the end of the year, and a more compact browser version of the PATU system (the BoFIN system) was introduced. The securities database was completed and now serves as an intermediate storage facility between the Finnish Central Securities Depository and the European Central Bank.

As a result of the eHR project launched in April, new electronic human resources management tools have been available to the Bank's supervisory staff since the end of the year. The project will

continue in 2005. A new mobile workstation solution was made available to almost one hundred members of the Bank's staff. Telephone switchboard services were outsourced. Development of service processes progressed in line with the project framework. The Bank's virus protection systems worked well. IT functions were evaluated, and measures to further improve efficiency were planned on the basis of the evaluation. The IT department's services were itemised and published in the form of a service directory. The IT architectural descriptions were brought together. Finally, the IT continuity plans were brought up to date.

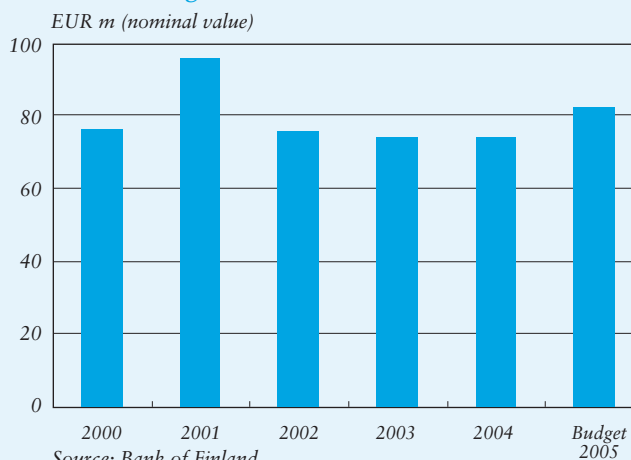
### Budget and operating costs

The Bank of Finland's operating expenses for 2004 totalled EUR 86.4 million, representing an increase of around EUR 0.1 million (0.1%) on the previous year. Operating income totalled approximately EUR 12.5 million, which is also around EUR 0.1 million more than in 2003. Net operating expense items were thus of the same order as in 2003, with the final sum totalling EUR 74.0 million.

Operating expenses for 2005 are estimated at approximately EUR 7.8 million more than in 2004. The expected increase is due primarily to growth in pension expenses, outlay on purchased services, banknote acquisitions and depreciation expenses.

Overall operating expenses have remained fairly stable since the introduction of the euro as a cash currency.

**Chart 16.**  
The Bank of Finland's net operating expenses  
2000 – budget 2005



**Table 6.**  
**The Bank of Finland's operating expenses and income,**  
**EUR million**

| <i>1 Operating expenses and income</i>                      | <i>Budget 2005</i> | <i>Outturn 2004</i> | <i>Outturn 2003</i> | <i>Outturn 2002</i> |
|---|--------------------|---------------------|---------------------|---------------------|
| <b>EXPENSES</b>   |                    |                     |                     |                     |
| <i>Salaries and fees</i>                                    | 29.4               | 29.4                | 30.1                | 30.7                |
| <i>Social security</i>                                      | 3.9                | 3.6                 | 3.8                 | 3.8                 |
| <i>Pensions</i>   | 18.0               | 15.7                | 14.4                | 13.5                |
| <i>Other</i>  | 25.5               | 23.0                | 24.0                | 25.3                |
| <b>Total</b>  | <b>76.8</b>        | <b>71.8</b>         | <b>72.3</b>         | <b>73.4</b>         |
| <b>DEPRECIATION</b>   |                    |                     |                     |                     |
| <i>IT equipment</i>   | 1.6                | 1.2                 | 0.7                 | 0.4                 |
| <i>Money handling machines</i>                              | 0.8                | 0.9                 | 0.8                 | 0.8                 |
| <i>Buildings</i>  | 10.6               | 10.4                | 10.1                | 9.9                 |
| <i>Other fixed assets</i>                                   | 1.6                | 1.1                 | 1.1                 | 1.3                 |
| <b>Total</b>  | <b>14.5</b>        | <b>13.7</b>         | <b>12.8</b>         | <b>12.5</b>         |
| <b>Total</b>  | <b>91.3</b>        | <b>85.4</b>         | <b>85.1</b>         | <b>85.8</b>         |
| <i>Banknote printing</i>                                    | 2.9                | 1.0                 | 1.2                 | 2.0                 |
| <b>Total operating expenses</b>                             | <b>94.3</b>        | <b>86.4</b>         | <b>86.3</b>         | <b>87.8</b>         |
| <b>Income</b>   |                    |                     |                     |                     |
| <i>Maintenance of currency supply</i>                       | 0.0                | 0.0                 | 0.0                 | -0.5                |
| <i>Services sold to the Financial Supervision Authority</i> | -2.5               | -2.1                | -2.2                | -1.9                |
| <i>Real estate</i>  | -7.7               | -8.2                | -7.9                | -7.8                |
| <i>Other</i>  | -2.1               | -2.2                | -2.3                | -2.2                |
| <b>Total income</b>   | <b>-12.3</b>       | <b>-12.5</b>        | <b>-12.4</b>        | <b>-12.5</b>        |
| <b>Net</b>  | <b>82.0</b>        | <b>74.0</b>         | <b>74.0</b>         | <b>75.3</b>         |
| <b>2 Purchases</b>  |                    |                     |                     |                     |
| <i>IT equipment and software</i>                            | 5.3                | 4.2                 | 5.1                 | 4.3                 |
| <i>Money handling machines</i>                              | 0.0                | 0.0                 | 0.0                 | 0.1                 |
| <i>Other equipment and machinery</i>                        | 2.8                | 1.4                 | 1.8                 | 1.6                 |
| <b>Total purchases</b>                                      | <b>8.1</b>         | <b>5.6</b>          | <b>7.0</b>          | <b>6.0</b>          |
| <b>3 Real estate projects</b>                               |                    |                     |                     |                     |
| <i>Head office premises</i>                                 | 9.0                | 4.3                 | 1.7                 | 4.6                 |
| <i>Vantaa premises</i>                                      | 3.5                | 1.9                 | 2.3                 | 2.0                 |
| <i>Other premises</i>                                       | 1.5                | 0.8                 | 0.1                 | 0.4                 |
| <b>Total real estate projects</b>                           | <b>14.0</b>        | <b>6.9</b>          | <b>4.1</b>          | <b>7.0</b>          |

Source: Bank of Finland.

However, factors such as changes in depreciation practices distort the comparability of items in the operating expenses budget with those of previous years. At the end of 2004, expenditure from the Bank's pension fund had risen to EUR 15.7 million, or approximately 18% of overall gross expenses.

Investment expenditure totalled EUR 12.0 million. Of the total, 58% was devoted to real estate projects (some due for completion in 2006) designed to achieve a more cost-effective use of premises, while the remaining 42% went on other long-term purchases. In addition to the costs of long-term investments, the budget for purchases also included EUR 0.5 million entered as depreciation items.

The total budget for purchases in 2005 is estimated at approximately EUR 8.1 million, including an increase of around EUR 2.6 million on the outturn for 2004. It should be noted, however, that some of this outlay is also entered as extraordinary depreciation in the Bank's operating expenses, investment per se being estimated at EUR 7.4 million. In 2005, expenses relating to real estate investments are estimated at approximately EUR 14 million.

## Real estate

The Bank of Finland operates mainly in premises owned by the Bank itself, in which the strict security and contingency requirements expected of central banks have been taken into account. The premises at the disposal of the Bank and the Financial Supervision Authority together cover 47,500m<sup>2</sup> in total floor area, 1,500m<sup>2</sup> of which is rented from outside. In addition, the Bank has a further 40,600m<sup>2</sup> which it rents to outside users. The tenants are primarily companies involved in currency supply that act in close cooperation with the Bank and whose operations require a stringent level of security. The Tampere office building, which houses ordinary business and office tenants, forms an exception to this general pattern.

The overriding goals in the maintenance of the Bank of Finland's real estate in 2004 were cost efficiency, improved availability and the carrying out of essential renovations. A plan was drawn up for enhancing the use of space with a view to enabling the various departments and units at the head office to operate primarily on the Bank's own premises. Real estate investment during the year totalled EUR 4.5 million.



# Financial statements

## Balance sheet, EUR million

|   | 31 Dec 2004   | 31 Dec 2003   |
|---|---------------|---------------|
| <b>Assets</b>   |               |               |
| <i>Gold and gold receivables (1)</i>  | 507           | 521           |
| <i>Claims on non-euro area residents denominated in foreign currency (2)</i>                                  | 8,790         | 8,131         |
| <i>Receivables from the IMF</i>   | 591           | 776           |
| <i>Balances with banks and security investments, external loans and other external assets</i>                 | 8,199         | 7,355         |
| <i>Claims on euro area residents denominated in foreign currency (3)</i>                                      | 775           | 790           |
| <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> | 2,450         | 2,850         |
| <i>Main refinancing operations</i>  | 1,800         | 2,850         |
| <i>Longer-term refinancing operations</i>   | 650           | –             |
| <i>Other claims on euro area credit institutions denominated in euro (6)</i>                                  | 2             | 1             |
| <i>Intra-Eurosystem claims (7)</i>  | 4,639         | 4,071         |
| <i>Share in ECB capital</i>   | 74            | 70            |
| <i>Claims equivalent to the transfer of foreign reserve assets</i>  | 717           | 699           |
| <i>Net claim related to the allocation of euro banknotes within the Eurosystem</i>                            | 3,848         | 3,303         |
| <i>Other assets (8)</i>   | 786           | 767           |
| <i>Euro area coins</i>  | 17            | 30            |
| <i>Tangible and intangible fixed assets</i>   | 210           | 211           |
| <i>Other current assets</i>   | 425           | 386           |
| <i>Other</i>  | 134           | 141           |
| <b>Total assets</b>   | <b>17,948</b> | <b>17,132</b> |

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

|   | 31 Dec 2004 | 31 Dec 2003 |
|---|-------------|-------------|
| <i>Liabilities</i>  |             |             |
| <i>Banknotes in circulation (1)</i>   | 8,313       | 6,923       |
| <i>Liabilities to euro area credit institutions related to monetary policy operations denominated in euro (2)</i> | 3,156       | 2,146       |
| <i>Current accounts (covering the minimum reserve system)</i>   | 3,156       | 2,146       |
| <i>Deposit facility</i>   | 0           | 0           |
| <i>Liabilities to other euro area residents denominated in euro (3)</i>   | 0           | 1           |
| <i>Liabilities to non-euro area residents denominated in euro (4)</i>   | 1           | 0           |
| <i>Liabilities to euro area residents denominated in foreign currency (5)</i>                                     | 0           | –           |
| <i>Liabilities to non-euro area residents denominated in foreign currency (6)</i>                                 | 930         | 248         |
| <i>Deposits, balances and other liabilities</i>   | 930         | 248         |
| <i>Counterpart of special drawing rights allocated by the IMF (7)</i>   | 163         | 168         |
| <i>Intra-Eurosystem liabilities (8)</i>   | 526         | 2,777       |
| <i>Other liabilities (9)</i>  | 179         | 166         |
| <i>Revaluation account (10)</i>   | 514         | 530         |
| <i>Provisions (11)</i>  | 2,580       | 2,610       |
| <i>Capital and reserves (12)</i>  | 1,474       | 1,386       |
| <i>Primary capital</i>  | 841         | 841         |
| <i>Reserve fund</i>   | 633         | 545         |
| <i>Profit for the financial year (13)</i>   | 112         | 177         |
| <i>Total liabilities</i>  | 17,948      | 17,132      |

## Profit and loss account, EUR million

|   | 1 Jan – 31 Dec 2004 | 1 Jan – 31 Dec 2003 |
|---|---------------------|---------------------|
| <i>INTEREST INCOME (1)</i>  | 397                 | 366                 |
| <i>INTEREST EXPENSE (2)</i>   | -115                | -119                |
| <i>NET INTEREST INCOME (3)</i>  | 282                 | 247                 |
| <i>REALISED GAINS/LOSSES RELATED TO FOREIGN EXCHANGE RATE MOVEMENTS (4)</i> | -196                | -662                |
| <i>REALISED SECURITIES PRICE DIFFERENCES (5)</i>                            | 29                  | 72                  |
| <i>CHANGE IN FOREIGN EXCHANGE RATE AND PRICE DIFFERENCE PROVISION (6)</i>   | 167                 | 590                 |
| <i>NET RESULTS OF FINANCIAL OPERATIONS, WRITE DOWNS AND RISK PROVISIONS</i> | 282                 | 247                 |
| <i>NET SHARE OF MONETARY INCOME (7)</i>                                     | -22                 | 6                   |
| <i>SHARE IN ECB PROFIT (8)</i>  | -                   | 11                  |
| <i>OTHER CENTRAL BANKING INCOME (9)</i>                                     | 3                   | 6                   |
| <i>CENTRAL BANKING PROFIT BEFORE MONETARY INCOME AND OTHER INCOME</i>       | 263                 | 269                 |
| <i>OTHER INCOME (10)</i>  | 24                  | 54                  |
| <i>OPERATING EXPENSES</i>   |                     |                     |
| <i>Staff costs (11)</i>   | -69                 | -49                 |
| <i>Administrative expenses (12)</i>   | -18                 | -19                 |
| <i>Depreciation of fixed assets (13)</i>                                    | -4                  | -3                  |
| <i>Banknote acquisition costs (14)</i>                                      | -1                  | -1                  |
| <i>Other expenses (15)</i>  | -9                  | -9                  |
| <i>OPERATING PROFIT</i>   | 186                 | 242                 |
| <i>PENSION FUND</i>   |                     |                     |
| <i>Income of the pension fund (16)</i>                                      | 58                  | 33                  |
| <i>Expenses of the pension fund (17)</i>                                    | -18                 | -17                 |
| <i>CHANGES IN PROVISIONS (18)</i>   | -114                | -81                 |
| <i>PROFIT FOR THE FINANCIAL YEAR (19)</i>                                   | 112                 | 177                 |

## Appendices to the financial statements

|   | 1 Jan – 31 Dec 2004 |         | 1 Jan – 31 Dec 2003 |         |
|---|---------------------|---------|---------------------|---------|
| <b>Foreign currency futures contracts, EUR m</b>  |                     |         |                     |         |
| Purchase contracts <sup>1</sup>   | –                   |         | 642.0               |         |
| <b>Shares and other interests, nominal value, EUR m</b><br>(Bank of Finland's holding in parentheses) |                     |         |                     |         |
| Bank for International Settlements  | 11.5                | (1.67%) | 11.5                | (1.67%) |
| Shares in housing companies   | 6.2                 |         | 6.2                 |         |
| Other shares and interests  | 0.1                 |         | 0.1                 |         |
| Total   | 17.7                |         | 17.7                |         |
| <b>Bank of Finland's liability share<br/>in the APK fund, EUR m</b>                                   | 0.3                 |         | 0.3                 |         |
| <b>Liability arising from pension commitments, EUR m</b>  |                     |         |                     |         |
| The Bank of Finland's pension liability   | 457.8               |         | 425.5               |         |
| – of which covered by reserves  | 406.5               |         | 367.2               |         |
| <b>Staff banking office, EUR m</b>  |                     |         |                     |         |
| – Deposits  | 20.3                |         | 19.6                |         |
| – Loans   | 4.8                 |         | 6.0                 |         |

<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>Rauhankatu 16</i>                  | <i>1883/1961</i>          | <i>49,500</i>                         |
|                 | <i>Unioninkatu 33 / Rauhankatu 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>Puutarhakatu 4</i>                 | <i>1993</i>               | <i>11,900</i>                         |
| <i>Oulu</i>     | <i>Kajaaninkatu 8</i>                 | <i>1973</i>               | <i>17,700</i>                         |
| <i>Tampere</i>  | <i>Hämeenkatu 13<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 55,937,576.85 of the profit of EUR 111,875,153.70 be transferred to the reserve fund according to section 21 of the Act on the Bank of Finland and that the remaining EUR 55,937,576.85 be made available for the needs of the state.

Helsinki, 28 February 2005

THE BOARD OF THE BANK OF FINLAND

Erkki Liikanen, 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 2004 by separating the Bank of Finland pension fund as an own item including the income and expenses of the pension fund. In previous years they were included in items 'Other income', 'Staff costs', 'Depreciation of fixed assets' and 'Other expenses'.

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

### 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 monetary income**

The ECB and the 12 participating 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 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 asset side.

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

The Governing Council of the ECB has decided that the monetary income of the ECB stemming from the share of 8% of the total value of euro banknotes in

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

<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).

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 and 2004, the Governing Council decided not to distribute the monetary 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 monetary income.

If the ECB incurs an annual loss, the loss can be offset against the ECB's general reserve fund, and if necessary, by a decision of the Governing Council, against the monetary income of the relevant financial year in proportion and up to the amount allocated to the NCBs. At its meeting on 13 January 2005 the Governing Council decided in principle to also offset the ECB's loss against monetary income. The final decision on the matter was taken at the Governing Council meeting on 17 March 2003.

<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).

|   | Key for subscription of the ECB's capital |                                      |                       |
|---|---|--------------------------------------|-----------------------|
|   | from 1 Jan 1999 to<br>31 Dec 2003, %      | from 1 Jan 2004 to<br>30 Apr 2004, % | from 1 May<br>2004, % |
| <i>Nationale Bank van België –<br/>Banque Nationale de Belgique</i> | 2.8658                                    | 2.8297                               | 2.5502                |
| <i>Deutsche Bundesbank</i>  | 24.4935                                   | 23.4040                              | 21.1364               |
| <i>Bank of Greece</i>   | 2.0564                                    | 2.1614                               | 1.8974                |
| <i>Banco de España</i>  | 8.8935                                    | 8.7801                               | 7.7758                |
| <i>Banque de France</i>   | 16.8337                                   | 16.5175                              | 14.8712               |
| <i>Central Bank and Financial Services<br/>Authority of Ireland</i> | 0.8496                                    | 1.0254                               | 0.9219                |
| <i>Banca d'Italia</i>   | 14.8950                                   | 14.5726                              | 13.0516               |
| <i>Banque centrale du Luxembourg</i>                                | 0.1492                                    | 0.1708                               | 0.1568                |
| <i>De Nederlandsche Bank</i>  | 4.2780                                    | 4.4323                               | 3.9955                |
| <i>Oesterreichische Nationalbank</i>                                | 2.3594                                    | 2.3019                               | 2.0800                |
| <i>Banco de Portugal</i>  | 1.9232                                    | 2.0129                               | 1.7653                |
| <i>Suomen Pankki – Finlands Bank</i>                                | 1.3970                                    | 1.4298                               | 1.2887                |
| <b>Subtotal Eurosystem</b>  | <b>80.9943</b>                            | <b>79.6384</b>                       | <b>71.4908</b>        |
| <i>Česká národní banka</i>  | 0.0000                                    | 0.0000                               | 1.4584                |
| <i>Danmarks Nationalbank</i>  | 1.6709                                    | 1.7216                               | 1.5663                |
| <i>Eesti Pank</i>   | 0.0000                                    | 0.0000                               | 0.1784                |
| <i>Central Bank of Cyprus</i>                                       | 0.0000                                    | 0.0000                               | 0.1300                |
| <i>Latvijas Banka</i>   | 0.0000                                    | 0.0000                               | 0.2978                |
| <i>Lietuvos bankas</i>  | 0.0000                                    | 0.0000                               | 0.4425                |
| <i>Magyar Nemzeti Bank</i>  | 0.0000                                    | 0.0000                               | 1.3884                |
| <i>Central Bank of Malta / Bank<br/>Ċentrali ta' Malta</i>          | 0.0000                                    | 0.0000                               | 0.0647                |
| <i>Narodowy Bank Polski</i>   | 0.0000                                    | 0.0000                               | 5.1380                |
| <i>Banka Slovenije</i>  | 0.0000                                    | 0.0000                               | 0.3345                |
| <i>Národná banka Slovenska</i>                                      | 0.0000                                    | 0.0000                               | 0.7147                |
| <i>Sveriges Riksbank</i>  | 2.6537                                    | 2.6636                               | 2.4133                |
| <i>Bank of England</i>  | 14.6811                                   | 15.9764                              | 14.3822               |
| <b>Subtotal non-euro area NBCs</b>                                  | <b>19.0057</b>                            | <b>20.3616</b>                       | <b>28.5092</b>        |
| <b>Total</b>  | <b>100.0000</b>                           | <b>100.0000</b>                      | <b>100.0000</b>       |



### Changes to the capital key of the ECB

Pursuant to Article 28 of the ESCB statute, the NCBs are the sole subscribers to the capital of the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the ESCB Statute and which must be adjusted every five years. The first such adjustment following the establishment of the ECB took effect on 1 January 2004. On 1 May 2004 a second change of the ECB's capital key followed as a result of the accession of 10 Member States. Based on the 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, the capital keys of NCBs were adjusted as follows on 1 January 2004 and 1 May 2004, by means of transfers among the NCBs (see Table on the previous page).

Consequently, on 1 January 2004, the share that the Bank of Finland held in the capital of the ECB – EUR 5 billion in total – increased from 1.3970% to 1.4298%.

In accordance with Article 49.3 of the Statute of the ESCB, which was added to the Statute by the Treaty of Accession, the ECB's subscribed capital is automatically increased when a new member joins the EU and its NCB joins the ESCB. The increase is determined by multiplying the prevailing amount of the subscribed capital (ie EUR 5,000 million) by the ratio, within the expanded capital key, between the weighting of the entering NCB(s) and the weighting of those NCBs that are already members of

the ESCB. Therefore, on 1 May 2004 the subscribed capital of the ECB was increased to EUR 5.565 billion as a result of the accession of 10 new member states. Therefore, on 1 May 2004, the share that the Bank of Finland held in the capital of the ECB – EUR 5.565 billion in total – decreased from 1.4298% to 1.2887%.

As a result of the above-mentioned capital key changes, the relative share of the Bank of Finland in the accumulated profit of the ECB changed as follows: from 1 January 1999 to 31 December 2003 subscribed and paid-up capital was EUR 69.9 million, from 1 January 2004 to 30 April 2004 EUR 71.5 million and as at 1 May 2004 EUR 71.7 million.

The adjustments to the capital key weightings of the ECB on 1 January 2004 and 1 May 2004 also resulted in the adjustment of the claim of the Bank of Finland with respect to the foreign reserve assets transferred to the ECB. In order to reflect its increased capital key share, the euro-denominated claim of the Bank of Finland increased from EUR 698.5 million to EUR 714.9 million on 1 January 2004 and from EUR 714.9 million to EUR 717.1 million on 1 May 2004.

Due to the adjustments to the key for subscription of the ECB's capital, the Bank of Finland's share in ECB profit changes in accordance with the capital key adjustments.

## 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 (FIN-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 ensure that the funds related to the coverage of the pension liability are invested in a lucrative manner. A separate annual report will be prepared on the pension fund of the Bank of Finland.

### 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 1,576,831 troy ounces. In the annual accounts, gold has been valued at market price. At the beginning of 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 2004 | 31 Dec 2003 |
|-----------------------------------|-------------|-------------|
| <i>Gold</i>                       |             |             |
| <i>Holdings of gold</i>           |             |             |
| <i>(troy ounces)</i>              | 1,576,831   | 1,577,345   |
| <i>Price: euro per troy ounce</i> | 321.56      | 330.36      |
| <i>Market price value,</i>        |             |             |
| <i>EUR</i>                        | 507,182,825 | 521,098,433 |
| <i>Change in the</i>              |             |             |
| <i>market value, EUR</i>          | -13,915,608 | 5,665,044   |

*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 2004 |       | 31 Dec 2003 |       |
|--------------------------|-------------|-------|-------------|-------|
|                          | EUR         | SDR   | EUR         | SDR   |
| <i>Reserve tranche</i>   |             |       |             |       |
| <i>in the IMF</i>        | 462.7       | 406.0 | 615.0       | 522.1 |
| <i>SDRs</i>              | 121.6       | 106.7 | 154.3       | 131.0 |
| <i>Other receivables</i> |             |       |             |       |
| <i>from the IMF</i>      | 6.6         | 5.8   | 6.8         | 5.8   |
|                          | 590.8       | 518.5 | 776.1       | 658.9 |

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 121.6 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 590.8 million. On 31 December 2004, the exchange rate between SDR and EUR was 1.14.

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

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-proving operations which are executed weekly on the basis of standard tenders. On March 2004 the maturity of main refinancing operations was shortened from two weeks to one week. 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 1,800 million.

Longer-term refinancing operations are liquidity-providing transactions that are executed once a month on the basis of standard tenders. Claims on the longer-term refinancing operations totalled EUR 650.1 million. Fine-tuning operations were also conducted during 2004 but there were no outstanding balances on them at the end of the year.

Fine-tuning reverse operations 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 NCB participating in the Eurosystem is determined on the basis of so-called capital key. The capital key is calculated relative to the population and gross domestic product of each country. It is adjusted every five years and when new members join the EU. The capital key was adjusted at the beginning of 2004. As a result, The Bank of Finland's share in the capital of the ECB increased from EUR 69.9 million to EUR 71.5 million. On 1 May 2004, as 10 new members joined the EU, the capital key was adjusted again. Consequently, the Bank of Finland's share in the capital of the ECB increased from EUR 71.5 million to EUR 71.7 million. In 2004, a compensatory payment related to undistributed ECB profit arising from a change in the capital key was entered in this item. The next statutory adjustment will be made on 1 January 2009. The Bank's claims on the ECB equivalent to the transfer of foreign reserve assets and gold to the ECB increased from EUR 698.5 million to EUR 714.9 million on

1 January 2004 and from EUR 714.9 million to EUR 717.1 million on 1 May 2004. The claims are remunerated at the latest available marginal rate for the Eurosystem's main refinancing operations, adjusted to reflect a zero return on the gold component. They are denominated in euro at a value fixed at the time of their transfer. This item also 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 pension fund asset and investment items, valuation results of off-balance-sheet items, accruals and other assets.

### **Liabilities**

#### **1. Banknotes in circulation**

This item consists of the Bank of Finland's share, valued at EUR 8,313 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 euro area residents denominated in foreign currency**

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

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

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

#### **7. Counterpart of special drawing rights allocated by the IMF**

This item is the counteritem of SDRs (cf. item on the asset side). Originally the amount of SDRs and their counteritem were equal. As a result of transactions, the Bank of Finland's claims related to

SDRs are currently bigger than their counteritem. The counteritem has remained at SDR 143 million (EUR 163 million) for several years.

#### **8. Intra-Eurosystem liabilities**

This item consists of the Bank of Finland's liabilities resulting from TARGET payments. The counterpart to the liability is the 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.

#### **9. Other liabilities**

This item consists of accruals and other liabilities.

#### **10. Revaluation account**

This item includes revaluations of land and buildings and other valuation differences arising from changes in accounting practice. In addition, the item includes unrealised valuation gains arising from the market valuation of foreign currency-denominated items and securities.

#### **11. Provisions**

Under section 20 of the Act on the Bank of Finland, provisions can be made in the annual accounts, if they are necessary for safeguarding the real value of the Bank's funds or for smoothing out variations in profit and loss arising from changes in exchange rates or market values of securities. These provisions totalled EUR 2,174 million.

A provision of EUR 24.5 million was established for 2004. This is the Bank of Finland's share to be used to offset the ECB's loss against monetary income.

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 458 million: 89% of this amount is covered by the pension provision, ie EUR 407 million. The pension liabilities increased markedly, ie EUR 32 million from the previous year. EUR 13.5 million of this increase was due to an upward revision of life expectancy in the pension liability calculation formula. The Bank of Finland paid a separate contribution amounting to EUR 20 million.

#### **12. Capital and reserves**

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

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

The profit for the financial year 2004 totalled EUR 112 million.

## Notes to the profit and loss account

### 1. Interest income

Interest income amounted to EUR 397 million. The largest proportion, EUR 308 million, consisted of interest income on foreign reserve assets. The remaining EUR 74 million consisted of interest income on intra-Eurosystem claims, of which EUR 61 million was interest income on monetary policy operations and EUR 12 million interest income on foreign reserve assets transferred to the ECB. Interest income due to the claims and liabilities pertaining to the ECB's share of euro banknotes, the application of the ECB's capital key and the adjustments, EUR 15 million, is entered on a net basis.

### 2. Interest expense

Interest expense amounted to EUR 115 million. Interest totalling EUR 44 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 54 million.

### 3. Net interest income

Net interest income, calculated as the difference between interest income and expense, amounted to EUR 282 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 2004, realised losses related to foreign exchange rate movements amounted to EUR 196 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 2004, the realised gains related to securities price movements amounted to EUR 29 million.

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

In 2004, the provision was reduced by EUR 167 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. The amount of each NCB's monetary income is determined by using the actual income that derives from the ' earmarkable assets ' that are held against the liability base. The liability base consists of the following items: banknotes in circulation; liabilities to credit institutions related to monetary policy operations denominated in euro; net intra-Eurosystem liabilities resulting from TARGET transactions, and net intra-Eurosystem liabilities related to the allocation of euro banknotes within the Eurosystem. Any interest paid on liabilities included within the liability base is to be deducted from the monetary income to be pooled. 'Earmarkable assets'

consist of the following items: lending to credit institutions related to monetary policy operations denominated in euro; euro-denominated claims equivalent to the transfer of foreign 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. In 2004 the Bank of Finland's capital key changed so that it was 1.4298% from 1 January to 30 April 2004 and 1.2887% as at 1 May 2004. In 2004 net share of monetary income includes the Bank of Finland's share, EUR 24.5 million, for offsetting the ECB's financial loss for 2004 against monetary income. The actual net share of monetary income totalled EUR 2.7 million.

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

The ECB did not distribute any profit for the financial year 2003.

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

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

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

This item consists of the FIN-FSA's supervision fees, EUR 15 million, rental income and miscellaneous other income.

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

Salaries amounted to EUR 37 million. Social security costs and employer's pension insurance contributions amounted to EUR 12 million. In 2004 the staff costs also include a contribution paid to the pension fund, EUR 20 million.

#### **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 acquisition costs**

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. Income of the pension fund**

This item includes income of the Bank of Finland pension fund's investment activities, EUR 29 million. In addition, the item includes the Bank of Finland's and the FIN-FSA's employer contributions as



well as employee's share of premium income, EUR 9 million. This item also includes a contribution of EUR 20 million paid by the Bank of Finland.

#### **17. Expenses of the pension fund**

The item includes expenses of the Bank of Finland pension fund's investment activities, pensions paid, EUR 16 million, and management costs.

#### **18. Changes in provisions**

Other provisions in accordance with section 20 of the Act on the Bank of Finland were increased by EUR 74 million. The addition to the pension provision in the profit and loss account amounted to EUR 40 million.

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

The profit for the financial year 2004 totalled EUR 112 million. The Board proposes to the Parliamentary Supervisory Council that EUR 55.9 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 2004 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 28 February 2005.

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, 18 March 2005

Matti Saarinen

Esko Kiviranta

Reino Majala

Authorised Public Accountant

Timo Seppälä

Veli Vanhanen

Authorised Public Accountant

./ Kalervo Virtanen

Authorised Public Accountant

## Statement

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

In our capacity as independent auditors as defined in Article 27 of the European System of Central Banks Statute, recommended by the Governing Council of the European Central Bank and appointed by the Council of the European Union, we have audited the accounting records and the financial statements of the Bank of Finland for the period 1 January–31 December 2004. The financial statements, which comprise the profit and loss account, balance sheet and notes to the financial statements, have been prepared by the Board.

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

In our opinion, the financial statements have been prepared in accordance with the Accounting Principles and Methods approved by the Governing Council of the European Central Bank on 5 December 2002. The financial statements present a true and fair view of the profitability and financial position of the Bank of Finland.

Helsinki, 28 February 2005

Ernst & Young Oy  
Authorised Public Accounting Firm

Eija Niemi-Nikkola  
Authorised Public Accountant

# Appendices

## Monetary policy measures of the Eurosystem in 2004

### January

On 12 January 2004 the Governing Council of the ECB decided to increase the allotment amounts for the longer-term refinancing operations to be conducted in 2004 from EUR 15 billion to EUR 25 billion.

### March

On 23 January 2003 the Governing Council of the ECB decided on measures to improve the efficiency of the operational framework for monetary policy. The changes took effect as from the reserve maintenance period commencing on 10 March 2004.

The maturity of the main refinancing operations (MROs) was shortened from two weeks to one week. Longer-term refinancing operations are executed on the last Wednesday of the calendar month.

The timing of the reserve maintenance period was changed so that it will always start on the settlement day of the MRO following the Governing Council meeting at which the monthly assessment of the monetary stance is pre-scheduled. Furthermore, as a rule, implementation of changes to the standing facility deposit and lending rates is aligned with the start of the new reserve maintenance period.

## Key measures affecting the financial markets in 2004

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

#### January

The ECB published a summary of market participants' views on the measures proposed by the Eurosystem to improve the collateral framework of the Eurosystem. In general, market participants expressed overall support to the proposal of gradually implementing a single list of eligible collateral throughout the euro area.

The ECB released an assessment of accession countries' securities settlement systems (SSSs). The purpose of the assessment was to help central banks in the accession countries to identify those parts of their securities settlement arrangements that will still need to be addressed in order to facilitate the smooth running of Eurosystem credit operations.

On 20 January the ECB issued an opinion at the request of the Economic Committee of the Finnish Parliament on the government proposal to amend the Act on the Bank of Finland (Suomen Pankki Act) and certain related acts. According to the ECB opinion, the legislative proposal was 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 infringed on the principle of independence for central banks. The ECB also took the view that the proposal would have an

adverse effect on the credibility and financial standing of the Eurosystem as a whole. In addition, the ECB considered that it would be appropriate to grant the Bank of Finland wider powers to issue norms regarding oversight than was proposed by the Government.

#### April

The ECB published an updated list of securities settlement systems that comply with relevant user standards and are eligible for the settlement of collateral for the Eurosystem credit operations.

#### May

The ECB and Interpol signed an agreement on cooperation concerning the protection of the euro and the fight against counterfeiting. The agreement is complementary to other arrangements between Interpol and Europol and between the ECB and Europol.

The Governing Council of the ECB approved in principle the introduction of a single list in the collateral framework of the Eurosystem. The single list will be introduced gradually and will replace the current two-tier system of eligible collateral. The first step will be implemented by May 2005. This involves the introduction of a new category of eligible collateral, ie euro-denominated debt instruments issued by entities established in those G10 countries that are not part of the EEA.

The ECB published the Eurosystem's assessment of euro large-

value payment systems against the 'Core Principles for Systemically Important Payment Systems'.

In addition, the ECB released a report on the credit risk transfer (CRT) activities of EU banks and the risks they face in CRT markets.

#### June

The central banks and the banking supervisory authorities of the new EU countries agreed to observe the existing Memoranda of Understanding (MoU): the MoU on high-level principles of cooperation in crisis management situations and the MoU on cooperation between payment systems overseers and banking supervisors in Stage Three of Economic and Monetary Union. The agreements entered into force on 17 June 2004.

#### July

The ECB published the Eurosystem's response to the European Commission's Communication on measures to improve clearing and settlement arrangements within the European Union.

#### August

The Governing Council of the ECB approved in principle the inclusion in the single list of bank loans from all euro area countries in the second step towards a new collateral framework. The exact modalities and timing for the eligibility of bank loans will be communicated in due course once the outstanding implementation issues have been settled.

## September

The ECB President sent a letter to the Chairman of the International Accounting Standards Board (IASB) on proposed amendments to IAS 39 – The fair value option. According to the letter, the Governing Council was in favour of the proposed amendments with certain reservations.

## October and November

The Governing Council of the ECB and the Committee of European Securities Regulators (CESR) jointly approved standards for securities clearing and settlement in the European Union. The standards aim at increasing the safety, soundness and efficiency of securities clearing systems in the EU.

In October the ECB released an issues paper on e-payments and a related public consultation. In November the ECB held an internal conference on e-payments, focusing on issues related to e-payment initiatives, security and regulation.

In November the ECB published two reports on the EU banking sector: ‘EU banking sector stability’ and ‘Report on EU banking structure’.

## December

The ECB released its third progress report entitled ‘Towards a Single Euro Payments Area’ which assesses recent developments in the efforts to create a Single Euro Payments Area (SEPA).

The ECB published a comprehensive Financial Stability Review of the euro area as a whole.

The ECB and the Centre for Financial Studies (CFS) released a report entitled ‘Capital Markets and Financial Integration in Europe’, which summarises the findings of the joint ECB-CFS research network.

## EU regulatory projects and their implementation in Finland

### January

The Committee of European Banking Supervisors (CEBS) commenced operations. The committee has representatives from all the EU countries, the European Commission and the ECB. The Financial Supervision Authority and the Bank of Finland are represented by one member each.

### March

The Ministry of Finance in Finland set up a working group to prepare legislation which will bring into force the European Parliament and Council Directives on takeover bids and related statutes adopted by the Commission. The term of the working group expires on 31 March 2005.

### April

The Directive of the European Parliament and the Council on markets in financial instruments (Investment Services Directive II) was adopted on 21 April 2004, repealing the Directive on investment services in the securities field.

The Directive of the European Parliament and the Council on markets in financial instruments was adopted on 21 April 2004.

The European Commission submitted to the Council and the European Parliament a Communication entitled ‘Clearing and Settlement in the European Union – The Way Forward’.

In Finland, an amendment of the Mutual Funds Act took effect on 8 April 2004, implementing the amendment of the UCITS Directive.

### May

The European Commission published reports by four expert groups on the implementation of the Financial Services Action Plan (FSAP) for open consultation. The reports dealt with the banking, insurance, securities and asset management sectors. The Commission also released a comprehensive assessment of the state of financial integration.

The European Commission reached political consensus on a proposal for a directive on a new committee architecture for the financial services sector.

The legislation on the activities of foreign credit and financial institutions and foreign investment firms in Finland was amended on 1 May 2004. The legal amendments were necessitated by the enlargement of the European Union.

### June

The European Commission issued its final proposal for a Directive on

the prevention of the use of the financial system for the purpose of money laundering, including terrorist financing.

The European Commission published its tenth progress report on the Financial Services Action Plan, FSAP.

In Finland, amendments to the Insurance Company Act and certain related acts (Solvency I) took effect on 1 June 2004. The Finnish legal provisions on required solvency margins for insurance companies were amended in so far as they did not meet the requirements laid down in the Directives of the European Parliament and the Council. The amended provisions included a new definition of solvency requirement and a legal minimum solvency requirement.

The Financial Supervision Authority (FIN-FSA) published, for open consultation, its preliminary view on what it will require of credit institutions and investment firms when the new capital requirements framework becomes effective on 31 December 2006. The interpretations of the FIN-FSA were based on the European Commission's draft proposal for a directive on a new capital adequacy framework.

### **July**

The European Commission issued a proposal for a directive on a new capital requirements framework for credit institutions and investment firms. The aim of the proposal, which was largely based on the Basel Committee's recommendation

of June 2004, was to implement the New Basel Accord in the national legislations of the Member States.

### **August**

In Finland, the new Act on the Supervision of Financial and Insurance Conglomerates entered into force on 5 August 2004. The Act implemented the requirements ensuing from the Directive of the European Parliament and the Council on the supplementary supervision of financial conglomerates. Financial and insurance conglomerates were defined more widely in the revised act than before and became subject to obligatory capital requirements and legally defined limits in respect of large exposures. In addition, provisions on the division of supervisory duties pertaining to multinational conglomerates were included in the act.

### **September**

In Finland, the Government proposed amendments to the Investment Firms Act and the Act on the Financial Supervision Authority. The purpose of the amendments was to implement the Directive of the European Parliament and the Council on insider trading and market manipulation (market abuse) and related directives adopted by the Commission. The Parliamentary Economic Committee dealt with the proposal in late 2004.

### **October**

The EU Regulation on European Companies took effect on

8 October 2004. The Regulation was transposed into Finnish law by means of the European Companies Act which, supplemented by certain national provisions, took effect on the same day.

In Finland, the Government sent a letter to Parliament on the proposal by the European Parliament and the Council for a directive on a new capital requirements framework for credit institutions and investment firms. The requirements of the Directive must be legally effective in the EU member states on 31 December 2006 at the latest. Implementation of the Directive requires amendment of national legislation.

The Ministry of Finance set up a working group to prepare legislation which will implement the European Parliament and Council Directives on markets in financial instruments and related statutes adopted by the Commission. The term of the working group expires on 31 October 2005. The Directive is due to be implemented into national law by 30 April 2006.

### **November**

The European Commission adopted Standard IAS 39 on the recognition and measurement of financial assets. The fair value option and certain provisions on protection against interest risk were left outside the scope of the standard. The standard took effect on 1 January 2005.

## December

The directive of the European Parliament and the Council on the harmonisation of transparency requirements for information about issuers whose securities are admitted to trading on a regulated market (the Transparency Directive) was adopted on 15 December 2004.

In Finland, a working group preparing legislation necessary to implement the so-called Prospectus Directive and any related statutes adopted by the Commission asked for comments to its first report. The term of the working group, set up by the Ministry of Finance, will expire on 31 August 2005. The Directive of the European Parliament and the Council on the prospectuses to be published when securities are offered to the public or admitted to trading must be implemented into national law by 1 July 2005.

Amendments to the Accounting Act and certain related acts entered into force on 31 December 2004. Accounting legislation was amended so as to correspond to developments in international accounting law. The amendments were called for by the obligation to implement the Regulation by the European Parliament and the Council on the application of international accounting standards (IFRS) and the so-called Fair Value Directive. At the same time, it became mandatory to apply international accounting standards, instead of national accounting law, in the

consolidated financial statements of companies whose securities are publicly traded.

The amendments to the Insurance Companies Act and the accounting and financial reporting provisions of certain related acts called for by European Parliament and Council directives entered into force on 31 December 2004. In addition, a further amendment was made to the Insurance Companies Act, whereby it became mandatory for companies whose securities are publicly traded in the EU to draw up consolidated financial statements according to the IFRS/IAS standards.

The amendments to the Act on the Financial Supervision Authority called for by the introduction of the international accounting standards were adopted. The FIN-FSA became responsible for monitoring that financial statements prepared according with these standards are drawn up correctly. The amendments took effect on 1 January 2005.

## Other key regulatory projects and measures

### February

The Government withdrew its proposal to Parliament for the amendment of the Act on the Bank of Finland and certain related acts. The proposal was withdrawn as, during the parliamentary proceeding, it became evident that the proposed amendments to the provisions on the Bank's reserves and use of

profits would not have been passed by Parliament in a form where the Government's intentions with the proposal would have been realised in a satisfactory manner.

### March

In Finland, the Ministry of Finance published a summary of the opinions it had received on the SIVA (investment/insurance) working group's report on competition between different savings products. A large part of the commentators welcomed the working group's proposal for developing long-term saving. The proposed range of service providers was considered appropriate and the investment outlets well defined. The task force was headed by Matti Louekoski, Deputy Governor of the Bank of Finland.

### June

The Basel Committee on Banking Supervision issued its final recommendation on a new capital adequacy framework for banks. The Basel II Accord establishes a closer link than before between equity capital requirement for banks and risks taken by them. The reform introduces various risk measurement methods, eg methods for the evaluation of credit risk, operational risk and the risks associated with securitised items. The aim is that the new rules for calculating capital requirements will be gradually introduced throughout 2006–2007.



### **August**

In Finland, new legislation on company and capital taxation entered into force on 5 August 2004. The Act on Repealing the imputation system of corporation tax (avoir fiscal) entered into force on 1 January 2005.

New legislation on taxation in connection with voluntary pension insurance schemes was adopted. The key element of the reform was a shift to treating voluntary pension insurance as capital income instead of earned income, but certain deduction rules were revised as well. The new legislation came into force on 1 January 2005.

### **September**

The Financial Supervision Authority (FIN-FSA) and the Insurance Supervision Authority in Finland, Finansinspektionen in Sweden and Kredittilsynet in Norway signed a Memorandum of Understanding on supplementary supervision of the Sampo Group. The FIN-FSA is the coordinating supervisory authority and it also bears the main responsibility for the consolidated supervision of the Sampo Group.

A working group consisting of national authorities (the Ministry of Finance, the Bank of Finland and the Financial Supervision Authority) and business representatives (the Finnish Bankers' Association and the Finnish Association of Securities Dealers) presented its assessment of

the economic effects of the new capital adequacy framework on credit institutions and investment firms. The working group also prepared joint positions to the Basel Committee and the European Commission from January 2003 to June 2004. The preparation related to the technical legislative procedure is in progress.

### **December**

The new Act on the Supervision Fees of the Financial Supervision Authority was adopted. The purpose of the new act was to ensure that the requirements set in the Finnish Constitution were met and the funding of the FIN-FSA's activities secured. The act became effective on 1 January 2005.

## Main opinions issued by the Bank of Finland 2004

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

- To the Ministry of Justice concerning a report submitted by a working group that had prepared the European Companies Act, 13 January
- To HEX Integrated Markets concerning amendment of decisions issued by the managing director of the Finnish Central Securities Depository (APK): revision of the dividend payment procedure and suspension of the KATI system, 21 January
- To the Financial Supervision Authority (FIN-FSA) concerning a draft interpretation on determination of credit conversion factors for off-balance sheet items in the capital adequacy calculation, 30 January
- To the Ministry of Finance concerning a memorandum submitted by the SIVA (investment/ insurance) working group, 13 February
- To the Financial Supervision Authority (FIN-FSA) concerning the draft standard on management of operational risk, 17 March
- To the Ministry of Finance concerning amendment of the legislation on the activities of foreign credit and financial institutions and foreign investment firms in Finland, 26 March
- To the Ministry of Finance concerning amendment of tax treatment of pension insurance, 7 April
- To HEX Integrated Markets concerning amendment of decisions issued by the managing director of the Finnish Central Securities Depository (APK): revision of the HEXClear bond clearing procedure and suspension of the clearing fund, 11 May
- To Parliament concerning amendment of provisions on taxation in connection with voluntary pension insurance, 13 May
- To the Ministry of Finance concerning proposals to amend the rules of the Investor Compensation Fund, 31 May
- To the Ministry of Finance concerning amendment of the Investment Firms Act and certain related acts, 3 June
- To the joint working group of the G10's Committee on Payment and Settlement Systems (CPSS) and the International Organisation of Securities Commissions (IOSCO) on the recommendations on central counterparties, 8 June
- To the Ministry of Finance on a draft Government proposal for a new Act on the Supervision Fees of the Financial Supervision Authority and an amendment of the Act on the Financial Supervision Authority, 30 June
- To the Financial Supervision Authority on draft standards on information disclosure, 30 June
- To the European Commission concerning a communication on securities clearing and settlement systems, 12 July
- To HEX Integrated Markets concerning amendment of the rules of the Finnish Central Securities Depository (APK): suspension of the KATI system and introduction of the SAXESS trading system, 22 July
- To the Ministry of the Interior concerning the Directive of the European Parliament and the Council on the prevention of the use of the financial system for the purpose of money laundering, including terrorist financing, 4 August
- To the Ministry of Finance concerning amendment of the Act on the Financial Supervision Authority, the Accounting Act and the Insurance Companies Act, 6 August
- To the Ministry of Finance concerning the total amount of contributions to be accrued in the Investor Compensation Fund in 2004, 6 September
- To the European Commission on progress reports submitted by three groups of experts on the Financial Services Action Plan (FSAP), 10 September
- To the Ministry of Finance concerning confirmation of amendments to the rules of the Finnish Central Securities Depository (APK), 15 September

- To the Financial Supervision Authority concerning interpretations on the new capital adequacy framework, 4 October
- To the Ministry of Justice on a new debt management programme prepared by the debt management working group, 15 October
- To the European Commission on the London Economics' final report on securities trading and securities clearing and settlement systems in the EU25 countries, 10 December
- To the Ministry of Finance concerning amendment of the rules of the Finnish Central Securities Depository (APK) Fund, 17 December

#### Other opinions

- To the Ministry of Justice on the principle of openness of Government activities and the fees charged for copies of official documents, 9 September
- To the Ministry of Education concerning confirmation of the interest subsidies applicable to study loans, 29 October

# 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>521</b>    | <b>521</b>    | <b>521</b>    |
| <b>2 Claims on non-euro area residents denominated in foreign currency</b>                                  | <b>8,395</b>  | <b>8,718</b>  | <b>8,827</b>  |
| 2.1 Receivables from the IMF  | 775           | 749           | 761           |
| 2.2 Balances with banks and security investments, external loans and other external assets                  | 7,620         | 7,969         | 8,067         |
| <b>3 Claims on euro area residents denominated in foreign currency</b>                                      | <b>730</b>    | <b>702</b>    | <b>705</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>3,065</b>  | <b>3,357</b>  | <b>2,717</b>  |
| 5.1 Main refinancing operations   | 3,065         | 3,240         | 2,600         |
| 5.2 Longer-term refinancing operations  | –             | 117           | 117           |
| 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>1</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>4,161</b>  | <b>4,162</b>  | <b>4,164</b>  |
| 9.1 Share in ECB capital  | 71            | 71            | 73            |
| 9.2 Claims equivalent to the transfer of foreign reserve assets   | 715           | 715           | 715           |
| 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                                  | 3,375         | 3,375         | 3,375         |
| <b>10 Other assets</b>  | <b>806</b>    | <b>813</b>    | <b>812</b>    |
| <b>Total assets</b>   | <b>17,679</b> | <b>18,275</b> | <b>17,748</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> |
|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| 546        | 546        | 546        | 511        | 511        | 511        | 524        | 524        | 507        |
| 8,771      | 9,187      | 9,493      | 8,904      | 8,706      | 8,665      | 8,496      | 8,643      | 8,790      |
| 780        | 827        | 819        | 748        | 749        | 749        | 687        | 666        | 591        |
| 7,991      | 8,360      | 8,674      | 8,156      | 7,957      | 7,916      | 7,809      | 7,976      | 8,199      |
| 706        | 715        | 832        | 793        | 820        | 927        | 971        | 885        | 775        |
| 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          | 0          |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| 3,059      | 3,000      | 3,232      | 3,318      | 2,983      | 3,323      | 1,650      | 2,194      | 2,450      |
| 242        | 300        | 532        | 868        | 519        | 860        | 1,156      | 1,713      | 1,800      |
| 2,817      | 2,700      | 2,700      | 2,450      | 2,463      | 2,463      | 494        | 481        | 650        |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| 1          | 1          | 1          | 2          | 2          | 2          | 2          | 2          | 2          |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| 4,239      | 4,272      | 4,325      | 4,383      | 4,383      | 4,376      | 4,374      | 4,374      | 4,639      |
| 73         | 74         | 74         | 74         | 74         | 74         | 74         | 74         | 74         |
| 715        | 717        | 717        | 717        | 717        | 717        | 717        | 717        | 717        |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| 3,451      | 3,481      | 3,534      | 3,592      | 3,592      | 3,585      | 3,583      | 3,583      | 3,848      |
| 773        | 770        | 770        | 810        | 806        | 816        | 815        | 766        | 786        |
| 18,096     | 18,491     | 19,199     | 18,721     | 18,210     | 18,620     | 16,832     | 17,387     | 17,948     |

**Table 1.**  
(cont.)

| <i>Liabilities</i>  | <i>Jan</i>    | <i>Feb</i>    | <i>Mar</i>    |
|---|---------------|---------------|---------------|
| <b>1 Banknotes in circulation</b>   | <b>6,864</b>  | <b>6,919</b>  | <b>6,962</b>  |
| <b>2 Liabilities to euro area credit institutions related to monetary policy operations denominated in euro</b> | <b>2,107</b>  | <b>2,807</b>  | <b>2,365</b>  |
| 2.1 Current accounts (covering the minimum reserve system)  | 2,106         | 2,806         | 2,364         |
| 2.2 Deposit facility  | 1             | 1             | 1             |
| 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>11</b>     | <b>6</b>      | <b>6</b>      |
| 4.1 General government  | –             | –             | –             |
| 4.2 Other liabilities   | 11            | 6             | 6             |
| <b>5 Liabilities to non-euro area residents denominated in euro</b>   | <b>1</b>      | <b>0</b>      | <b>1</b>      |
| <b>6 Liabilities to euro area residents denominated in foreign currency</b>                                     | <b>0</b>      | <b>0</b>      | <b>3</b>      |
| <b>7 Liabilities to non-euro residents denominated in foreign currency</b>                                      | <b>432</b>    | <b>733</b>    | <b>769</b>    |
| 7.1 Deposits, balances and other liabilities  | 432           | 733           | 769           |
| 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>168</b>    | <b>168</b>    | <b>168</b>    |
| <b>9 Intra-Eurosystem liabilities</b>   | <b>3,180</b>  | <b>2,703</b>  | <b>2,499</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)  | 3,180         | 2,703         | 2,499         |
| 9.3 Liabilities related to other operational requirements within the Eurosystem                                 | –             | –             | –             |
| <b>10 Other liabilities</b>   | <b>166</b>    | <b>188</b>    | <b>225</b>    |
| <b>11 Revaluation account</b>   | <b>577</b>    | <b>577</b>    | <b>577</b>    |
| <b>12 Capital and reserves</b>  | <b>4,172</b>  | <b>4,172</b>  | <b>4,172</b>  |
| 12.1 Primary capital  | 841           | 841           | 841           |
| 12.2 Reserve fund   | 545           | 545           | 545           |
| 12.3 Pension provisions   | 367           | 367           | 367           |
| 12.4 Other provisions   | 2,243         | 2,243         | 2,243         |
| 12.5 Undistributed profit   | 177           | 177           | 177           |
| <b>Total liabilities</b>  | <b>17,679</b> | <b>18,275</b> | <b>17,748</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> |
|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| 7,191      | 7,335      | 7,542      | 7,681      | 7,669      | 7,712      | 7,816      | 7,882      | 8,313      |
| 2,283      | 1,948      | 1,741      | 3,312      | 2,871      | 1,472      | 1,940      | 2,381      | 3,156      |
| 2,280      | 1,946      | 1,739      | 3,311      | 2,871      | 1,472      | 1,940      | 2,381      | 3,156      |
| 4          | 2          | 2          | 0          | -          | 0          | 0          | 0          | 0          |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| 1          | 1          | 17         | 1          | 1          | 1          | 1          | 7          | 0          |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| 1          | 1          | 17         | 1          | 1          | 1          | 1          | 7          | 0          |
| 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          |
| -          | 0          | 0          | 0          | -2         | -2         | 0          | 0          | 0          |
| 448        | 834        | 1,242      | 789        | 568        | 625        | 590        | 606        | 930        |
| 448        | 834        | 1,242      | 789        | 568        | 625        | 590        | 606        | 930        |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| 173        | 173        | 173        | 172        | 172        | 172        | 169        | 169        | 163        |
| 2,773      | 2,969      | 3,247      | 1,617      | 1,746      | 3,540      | 1,236      | 1,246      | 526        |
| -          | -          | -          | -          | -          | -          | -          | -          | -          |
| 2,773      | 2,969      | 3,247      | 1,617      | 1,746      | 3,540      | 1,236      | 1,246      | 517        |
| -          | -          | -          | -          | -          | -          | -          | -          | 10         |
| 254        | 259        | 263        | 308        | 344        | 257        | 399        | 415        | 179        |
| 800        | 800        | 800        | 668        | 668        | 668        | 596        | 596        | 514        |
| 4,172      | 4,172      | 4,172      | 4,172      | 4,172      | 4,172      | 4,084      | 4,084      | 4,166      |
| 841        | 841        | 841        | 841        | 841        | 841        | 841        | 841        | 841        |
| 545        | 545        | 545        | 545        | 545        | 545        | 633        | 633        | 633        |
| 367        | 367        | 367        | 367        | 367        | 367        | 367        | 367        | 407        |
| 2,243      | 2,243      | 2,243      | 2,243      | 2,243      | 2,243      | 2,243      | 2,243      | 2,174      |
| 177        | 177        | 177        | 177        | 177        | 177        | -          | -          | 112        |
| 18,096     | 18,491     | 19,199     | 18,721     | 18,210     | 18,620     | 16,832     | 17,387     | 17,948     |



**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>2004</b>        |             |                  |   |   |                       |                  |                          |                        |
| 6 Jan              | 118,344     | 80,000           | 1,261   | 229                                       | 2.00                  | 2.02             | 2.04                     | 15                     |
| 14                 | 166,033     | 144,000          | 1,230   | 314                                       | 2.00                  | 2.00             | 2.02                     | 14                     |
| 21                 | 101,083     | 85,000           | 1,715   | 291                                       | 2.00                  | 2.00             | 2.01                     | 14                     |
| 28                 | 165,044     | 139,000          | 1,350   | 315                                       | 2.00                  | 2.01             | 2.02                     | 14                     |
| 4 Feb              | 112,763     | 76,000           | 1,900   | 276                                       | 2.00                  | 2.01             | 2.02                     | 14                     |
| 11                 | 147,492     | 137,000          | 1,286   | 313                                       | 2.00                  | 2.00             | 2.01                     | 12                     |
| 18                 | 104,015     | 83,000           | 1,490   | 285                                       | 2.00                  | 2.00             | 2.01                     | 14                     |
| 23                 | 135,659     | 135,659          | 1,750   | 268                                       | 2.00                  | 2.00             | 2.00                     | 16                     |
| 3 Mar              | 100,586     | 85,000           | 1,071   | 253                                       | 2.00                  | 2.00             | 2.01                     | 14                     |
| 10                 | 147,204     | 127,500          | 1,262   | 267                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 17                 | 224,149     | 216,500          | 1,262   | 267                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 24                 | 224,531     | 224,531          | 2,600   | 333                                       | 2.00                  | 2.00             | 2.00                     | 7                      |
| 31                 | 257,167     | 218,000          | 2,528   | 335                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 7 Apr              | 255,399     | 218,500          | 1,799   | 317                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 14                 | 265,103     | 205,500          | 2,434   | 341                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 21                 | 267,511     | 211,000          | 2,216   | 371                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 28                 | 270,499     | 220,000          | 242   | 366                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 5 May              | 267,916     | 211,000          | 225   | 349                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 12                 | 273,449     | 207,000          | 237   | 344                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 19                 | 275,403     | 223,500          | 200   | 371                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 26                 | 280,155     | 232,500          | 300   | 371                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 2 Jun              | 269,747     | 236,000          | 300   | 337                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 9                  | 278,440     | 233,500          | 500   | 344                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 16                 | 305,245     | 232,000          | 510   | 376                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 23                 | 331,013     | 260,000          | 532   | 406                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 30                 | 315,078     | 256,000          | 595   | 385                                       | 2.00                  | 2.01             | 2.02                     | 7                      |

Sources: European Central Bank and Bank of Finland.

| Date of settlement | Bids, EUR m | Allotment, EUR m | Allotment to Finnish credit institutions, EUR m | Participating credit institutions, number | Variable rate tenders |                  |                          | Running for (...) days |
|--------------------|-------------|------------------|---|---|-----------------------|------------------|--------------------------|------------------------|
|                    |             |                  |   |   | Minimum bid rate, %   | Marginal rate, % | Weighted average rate, % |                        |
|                    | 1           | 2                | 3   | 4   | 5                     | 6                | 7                        | 8                      |
| 7 Jul              | 315,955     | 253,000          | 807   | 383                                       | 2.00                  | 2.00             | 2.01                     | 7                      |
| 14                 | 328,840     | 242,500          | 1,043   | 390                                       | 2.00                  | 2.01             | 2.01                     | 7                      |
| 21                 | 322,944     | 259,500          | 1,187   | 416                                       | 2.00                  | 2.01             | 2.01                     | 7                      |
| 28                 | 321,937     | 258,000          | 868   | 403                                       | 2.00                  | 2.01             | 2.02                     | 7                      |
| 4 Aug              | 342,842     | 255,000          | 563   | 359                                       | 2.00                  | 2.01             | 2.02                     | 7                      |
| 11                 | 336,449     | 247,500          | 614   | 348                                       | 2.00                  | 2.01             | 2.02                     | 7                      |
| 18                 | 332,633     | 246,000          | 637   | 368                                       | 2.00                  | 2.01             | 2.02                     | 7                      |
| 25                 | 339,538     | 259,000          | 519   | 366                                       | 2.00                  | 2.02             | 2.02                     | 7                      |
| 1 Sep              | 343,768     | 254,000          | 527   | 333                                       | 2.00                  | 2.02             | 2.02                     | 7                      |
| 8                  | 326,708     | 252,500          | 870   | 339                                       | 2.00                  | 2.02             | 2.02                     | 7                      |
| 15                 | 332,636     | 253,000          | 585   | 357                                       | 2.00                  | 2.02             | 2.02                     | 7                      |
| 22                 | 331,112     | 262,500          | 860   | 380                                       | 2.00                  | 2.02             | 2.02                     | 7                      |
| 29                 | 327,330     | 259,000          | 813   | 353                                       | 2.00                  | 2.02             | 2.03                     | 6                      |
| 5 Oct              | 325,419     | 255,500          | 807   | 298                                       | 2.00                  | 2.02             | 2.03                     | 7                      |
| 12                 | 338,406     | 244,500          | 586   | 345                                       | 2.00                  | 2.02             | 2.03                     | 8                      |
| 20                 | 380,224     | 253,000          | 715   | 382                                       | 2.00                  | 2.03             | 2.03                     | 5                      |
| 25                 | 355,097     | 268,000          | 1,156   | 356                                       | 2.00                  | 2.03             | 2.04                     | 9                      |
| 3 Nov              | 381,182     | 264,500          | 1,500   | 331                                       | 2.00                  | 2.04             | 2.04                     | 6                      |
| 9                  | 358,101     | 258,000          | 1,153   | 316                                       | 2.00                  | 2.04             | 2.04                     | 8                      |
| 17                 | 384,039     | 262,500          | 1,733   | 341                                       | 2.00                  | 2.05             | 2.05                     | 7                      |
| 24                 | 368,689     | 270,000          | 1,713   | 346                                       | 2.00                  | 2.05             | 2.06                     | 7                      |
| 1 Dec              | 370,856     | 273,500          | 2,110   | 323                                       | 2.00                  | 2.05             | 2.06                     | 7                      |
| 8                  | 329,144     | 282,000          | 2,079   | 298                                       | 2.00                  | 2.05             | 2.06                     | 7                      |
| 15                 | 354,121     | 276,000          | 1,920   | 339                                       | 2.00                  | 2.07             | 2.08                     | 7                      |
| 22                 | 350,812     | 283,500          | 2,069   | 340                                       | 2.00                  | 2.07             | 2.08                     | 8                      |
| 30                 | 284,026     | 270,000          | 1,800   | 355                                       | 2.00                  | 2.09             | 2.17                     | 6                      |

**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>2004</b>               |                    |                         |  |                               |                         |                                 |                               |
| 29 Jan                    | 47,117             | 25,000                  | 0  | 145                           | 2.03                    | 2.04                            | 91                            |
| 26 Feb                    | 34,597             | 25,000                  | 117  | 139                           | 2.01                    | 2.03                            | 91                            |
| 1 Apr                     | 44,153             | 25,000                  | 600  | 141                           | 1.85                    | 1.90                            | 91                            |
| 29 Apr                    | 54,243             | 25,000                  | 2,100  | 180                           | 2.01                    | 2.03                            | 91                            |
| 27 May                    | 45,594             | 25,000                  | 0  | 178                           | 2.04                    | 2.05                            | 91                            |
| 1 Jul                     | 37,697             | 25,000                  | 100  | 147                           | 2.06                    | 2.08                            | 91                            |
| 29 Jul                    | 40,353             | 25,000                  | 2,350  | 167                           | 2.07                    | 2.08                            | 91                            |
| 26 Aug                    | 37,956             | 25,000                  | 13   | 152                           | 2.06                    | 2.08                            | 91                            |
| 30 Sep                    | 37,413             | 25,000                  | 400  | 138                           | 2.06                    | 2.08                            | 84                            |
| 28 Oct                    | 46,646             | 25,000                  | 81   | 187                           | 2.10                    | 2.11                            | 91                            |
| 25 Nov                    | 51,095             | 25,000                  | 0  | 174                           | 2.13                    | 2.14                            | 91                            |
| 23 Dec                    | 34,466             | 25,000                  | 569  | 155                           | 2.12                    | 2.14                            | 98                            |

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</i> | <i>Variable rate tenders</i> |                         |                                 |
|---------------------------|---|--------------------|-------------------------|---------------------------|------------------------------|-------------------------|---------------------------------|
|                           |   |                    |                         |                           | <i>Fixed rate, %</i>         | <i>Marginal rate, %</i> | <i>Weighted average rate, %</i> |
|                           | 1   | 2                  | 3                       | 4                         | 5                            | 6                       | 7                               |
| <b>2004</b>               |   |                    |                         |                           |                              |                         |                                 |
| 11 May                    | Fixed rate liquidity-absorbing fine-tuning operation    | 16,200             | 13,000                  | 2.0                       | –                            | –                       | 1                               |
| 8 Nov                     | Variable rate liquidity-absorbing fine-tuning operation | 33,175             | 6,500                   | –                         | 2.06                         | 2.07                    | 1                               |
| 7 Dec                     | Fixed rate liquidity-absorbing fine-tuning operation    | 18,185             | 15,000                  | 2.0                       | –                            | –                       | 1                               |

Source: European Central Bank.

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

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

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>2003</b>                               |   |  |                                     |                           |                                      |                             |                                      |                          |  |                    |                                       |            |
| Dec                                       | 320.1   | 235.5  | 45.0                                | 0.6                       | 0.0                                  | 0.1                         | 0.0                                  | 416.1                    | 57.0   | -4.5               | 132.6                                 | 548.7      |
| <b>2004</b>                               |   |  |                                     |                           |                                      |                             |                                      |                          |  |                    |                                       |            |
| Jan <sup>1</sup>                          | 309.2   | 232.6  | 45.0                                | 0.3                       | 0.0                                  | 0.1                         | 0.0                                  | 427.6                    | 37.0   | -11.2              | 133.6                                 | 561.4      |
| Feb <sup>2</sup>                          |   |  |                                     |                           |                                      |                             |                                      |                          |  |                    |                                       |            |
| Mar <sup>2</sup>                          | 303.3   | 219.4  | 56.7                                | 0.4                       | 0.0                                  | 0.2                         | 0.0                                  | 418.0                    | 48.6   | -21.1              | 134.1                                 | 552.3      |
| Apr                                       | 301.4   | 217.9  | 67.1                                | 0.4                       | 0.0                                  | 0.4                         | 0.0                                  | 425.3                    | 51.5   | -25.7              | 135.3                                 | 561.0      |
| May                                       | 310.7   | 213.2  | 75.0                                | 0.1                       | 0.0                                  | 0.1                         | 0.4                                  | 436.4                    | 46.0   | -18.9              | 135.0                                 | 571.5      |
| Jun                                       | 311.3   | 224.7  | 75.0                                | 0.1                       | 0.0                                  | 0.5                         | 0.0                                  | 442.5                    | 52.2   | -21.1              | 137.1                                 | 580.1      |
| Jul                                       | 308.2   | 245.4  | 75.0                                | 0.3                       | 0.0                                  | 0.1                         | 0.0                                  | 449.1                    | 65.0   | -24.1              | 138.8                                 | 588.1      |
| Aug                                       | 300.8   | 253.6  | 75.0                                | 0.0                       | 0.0                                  | 0.2                         | 0.0                                  | 460.9                    | 61.1   | -31.8              | 139.1                                 | 600.1      |
| Sep                                       | 299.4   | 251.6  | 75.0                                | 0.1                       | 0.0                                  | 0.2                         | 0.0                                  | 462.8                    | 56.3   | -32.4              | 139.3                                 | 602.3      |
| Oct                                       | 298.8   | 256.4  | 75.0                                | 0.3                       | 0.0                                  | 0.0                         | 0.0                                  | 465.1                    | 58.2   | -32.1              | 139.3                                 | 604.4      |
| Nov                                       | 298.3   | 257.9  | 75.0                                | 0.1                       | 0.2                                  | 0.3                         | 0.0                                  | 469.7                    | 55.1   | -32.1              | 138.4                                 | 608.4      |
| Dec                                       | 298.0   | 265.7  | 75.0                                | 0.1                       | 0.0                                  | 0.1                         | 0.5                                  | 475.4                    | 60.2   | -36.0              | 138.5                                 | 614.1      |
| <b>2005</b>                               |   |  |                                     |                           |                                      |                             |                                      |                          |  |                    |                                       |            |
| Jan                                       | 290.3   | 272.9  | 75.0                                | 0.2                       | 0.2                                  | 0.1                         | 0.0                                  | 496.0                    | 45.3   | -41.9              | 139.1                                 | 635.2      |

<sup>1</sup> Each month refers to the reserve maintenance period ending in the month in question. For example, January 2004 refers to the maintenance period starting on 24 December 2003 and ending on 23 January 2004.

<sup>2</sup> The timing of reserve maintenance periods was changed as from March 2004. It now always starts on the settlement day of the main refinancing operation following the Governing Council's monthly monetary policy meeting. Therefore, due to the transition, the first maintenance period of 2004 was longer, ie it started on 21 January and ended on 4 March 2004. Thus there was no maintenance period ending in February.

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<br>1 + 2 + 3<br>+ 4 + 5<br>- 6 - 7<br>- 8 - 9<br>- 10 | Base money<br>6 + 8<br>+ 11 |
|---|---|--|-------------------------------------|---------------------------|--------------------------------------|------------------|-----------------------------|--|--------------------|--------------------------------------|---|-----------------------------|
|   | Bank of Finland's net assets in gold and foreign currency | Monetary policy operations of the Eurosystem |                                     |                           |                                      |                  | Banknotes in circulation    | Central government deposits with the Bank of Finland | Other factors, net |                                      |   |                             |
|   |   | Main re-financing operations                 | Longer-term re-financing operations | Marginal lending facility | Other liquidity-providing operations | Deposit facility |                             |  |                    | Other liquidity-absorbing operations |   |                             |
|   | 1   | 2  | 3                                   | 4                         | 5                                    | 6                | 7                           | 8  | 9                  | 10                                   | 11  | 12                          |
| <b>2003</b>                               |   |  |                                     |                           |                                      |                  |                             |  |                    |                                      |   |                             |
| Dec                                       | 9,285.2   | 1825.0                                       | 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 <sup>1</sup>                          | 9,101.1   | 2617.9                                       | 0.0                                 | 0.0                       | 0.0                                  | 3.6              | 0.0                         | 6,999.1  | 0.0                | 2,675.4                              | 2,040.9   | 8,969.3                     |
| Feb <sup>2</sup>                          |   |  |                                     |                           |                                      |                  |                             |  |                    |                                      |   |                             |
| Mar <sup>2</sup>                          | 9,039.1   | 3066.8                                       | 33.1                                | 0.0                       | 0.0                                  | 4.8              | 0.0                         | 6,902.3  | 0.0                | 3,232.3                              | 1,999.7   | 8,906.8                     |
| Apr                                       | 9,157.9   | 2493.1                                       | 245.9                               | 0.6                       | 0.0                                  | 2.6              | 0.0                         | 6,971.4  | 0.0                | 2,912.0                              | 2,011.4   | 8,985.5                     |
| May                                       | 9,399.0   | 1383.2                                       | 1497.3                              | 0.0                       | 0.0                                  | 4.2              | 20.2                        | 7,161.3  | 0.0                | 3,117.7                              | 1,976.0   | 9,141.5                     |
| Jun                                       | 9,436.2   | 259.3  | 2762.8                              | 0.0                       | 0.0                                  | 8.4              | 0.0                         | 7,321.1  | 0.0                | 3,058.6                              | 2,070.2   | 9,399.8                     |
| Jul                                       | 9,418.4   | 534.3  | 2592.9                              | 5.3                       | 0.0                                  | 4.1              | 0.0                         | 7,474.8  | 0.0                | 2,922.3                              | 2,149.6   | 9,628.6                     |
| Aug                                       | 9,272.5   | 893.6  | 2292.9                              | 0.0                       | 0.0                                  | 2.0              | 0.0                         | 7,590.6  | 0.0                | 2,738.0                              | 2,128.3   | 9,721.0                     |
| Sep                                       | 9,291.8   | 574.7  | 2456.2                              | 0.0                       | 0.0                                  | 5.8              | 0.0                         | 7,659.8  | 0.0                | 2,447.6                              | 2,209.4   | 9,875.0                     |
| Oct                                       | 9,289.1   | 786.2  | 2569.2                              | 5.1                       | 0.0                                  | 1.8              | 0.0                         | 7,698.2  | 0.0                | 2,766.3                              | 2,183.4   | 9,883.4                     |
| Nov                                       | 9,233.5   | 1251.7                                       | 1790.9                              | 0.0                       | 0.0                                  | 5.3              | 0.0                         | 7,771.0  | 0.0                | 2,210.5                              | 2,289.3   | 10,065.6                    |
| Dec                                       | 9,265.7   | 1945.5                                       | 488.4                               | 0.0                       | 0.0                                  | 5.5              | 0.0                         | 7,884.6  | 0.0                | 1,505.7                              | 2,303.8   | 10,193.9                    |
| <b>2005</b>                               |   |  |                                     |                           |                                      |                  |                             |  |                    |                                      |   |                             |
| Jan                                       | 9,159.0   | 2098.7                                       | 589.7                               | 0.0                       | 0.0                                  | 5.0              | 0.0                         | 8,195.0  | 0.0                | 1,418.7                              | 2,228.8   | 10,428.7                    |

<sup>1</sup> Each month refers to the reserve maintenance period ending in the month in question. For example, January 2004 refers to the maintenance period starting on 24 December 2003 and ending on 23 January 2004.

<sup>2</sup> The timing of reserve maintenance periods was changed as from March 2004. It now always starts on the settlement day of the main refinancing operation following the Governing Council's monthly monetary policy meeting. Therefore, due to the transition, the first maintenance period of 2004 was longer, ie it started on 21 January and ended on 4 March 2004. Thus there was no maintenance period ending in February.

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>2003</b>         |          |   |  |  |       |   |
| Dec                 | 11,538.7 | 6,283.8   | 412.9  | 1,459.1  | 759.5 | 2,623.5                                       |
| <b>2004</b>         |          |   |  |  |       |   |
| Jan                 | 11,691.2 | 6,328.2   | 428.0  | 1,461.4  | 825.3 | 2,648.3                                       |
| Feb                 | 11,775.2 | 6,315.9   | 431.3  | 1,470.0  | 882.0 | 2,676.0                                       |
| Mar                 | 11,926.7 | 6,404.7   | 442.5  | 1,483.2  | 867.7 | 2,728.6                                       |
| Apr                 | 12,088.2 | 6,474.0   | 451.3  | 1,492.1  | 911.8 | 2,759.0                                       |
| May                 | 12,141.3 | 6,506.8   | 442.3  | 1,499.1  | 898.2 | 2,794.9                                       |
| Jun                 | 12,148.5 | 6,524.1   | 439.1  | 1,515.1  | 859.0 | 2,811.2                                       |
| Jul                 | 12,182.0 | 6,517.4   | 442.6  | 1,527.7  | 857.0 | 2,837.3                                       |
| Aug                 | 12,167.5 | 6,470.2   | 446.4  | 1,531.1  | 884.2 | 2,835.5                                       |
| Sep                 | 12,209.6 | 6,488.0   | 435.3  | 1,535.3  | 880.8 | 2,870.3                                       |
| Oct                 | 12,262.1 | 6,496.9   | 448.2  | 1,546.5  | 888.8 | 2,881.7                                       |
| Nov                 | 12,371.7 | 6,535.7   | 452.7  | 1,551.1  | 946.6 | 2,885.6                                       |
| Dec                 | 12,415.9 | 6,593.7   | 458.1  | 1,565.2  | 913.7 | 2,885.6                                       |

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>2003</b>                               |                   |                 |                 |              |                                      |
| 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                                 |
| Feb                                       | 132.8             | 133.6           | 0.9             | 0.0          | 2.02                                 |
| Mar                                       | 133.4             | 134.1           | 0.7             | 0/0          | 2.00                                 |
| Apr                                       | 134.6             | 135.3           | 0.7             | 0.0          | 2.00                                 |
| May                                       | 134.4             | 135.0           | 0.6             | 0.0          | 2.00                                 |
| Jun                                       | 136.4             | 137.1           | 0.7             | 0.0          | 2.00                                 |
| Jul                                       | 138.0             | 138.8           | 0.8             | 0.0          | 2.00                                 |
| Aug                                       | 138.5             | 139.1           | 0.6             | 0.0          | 2.01                                 |
| Sep                                       | 138.7             | 139.3           | 0.6             | 0.0          | 2.02                                 |
| Oct                                       | 138.7             | 139.3           | 0.6             | 0.0          | 2.02                                 |
| Nov                                       | 137.8             | 138.4           | 0.7             | 0.0          | 2.03                                 |
| Dec                                       | 137.9             | 138.5           | 0.6             | 0.0          | 2.05                                 |
| <b>2005</b>                               |                   |                 |                 |              |                                      |
| Jan                                       | 138.4             | 139.1           | 0.7             | 0.0          | 2.07                                 |

<sup>1</sup> The timing of reserve maintenance periods was changed as from March 2004. It now always starts on the settlement day of the main refinancing operation following the Governing Council's monthly monetary policy meeting. Therefore, due to the transition, the first maintenance period of 2004 was longer, ie it started on 21 January and ended on 4 March 2004. Thus there was no maintenance period ending in February.

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>2003</b>         |         |   |  |  |       |   |
| Dec                 | 117,958 | 86,992  | 14,667   | 5,712  | 0     | 10,587  |
| <b>2004</b>         |         |   |  |  |       |   |
| Jan                 | 118,719 | 86,588  | 15,609   | 5,666  | 36    | 10,821  |
| Feb                 | 117,277 | 85,265  | 15,148   | 5,938  | 77    | 10,849  |
| Mar                 | 122,872 | 88,608  | 16,577   | 5,744  | 22    | 11,921  |
| Apr                 | 126,989 | 92,205  | 16,818   | 6,065  | 14    | 11,887  |
| May                 | 126,368 | 91,341  | 16,753   | 6,003  | 37    | 12,234  |
| Jun                 | 130,651 | 93,944  | 18,203   | 5,786  | 21    | 12,697  |
| Jul                 | 129,299 | 92,184  | 18,644   | 5,780  | 0     | 12,691  |
| Aug                 | 134,532 | 98,060  | 18,087   | 5,683  | 0     | 12,702  |
| Sep                 | 136,061 | 100,985   | 15,910   | 6,031  | 0     | 13,135  |
| Oct                 | 133,350 | 97,271  | 16,720   | 6,023  | 57    | 13,279  |
| Nov                 | 130,671 | 93,773  | 16,802   | 5,942  | 17    | 14,137  |
| Dec                 | 132,604 | 95,589  | 16,967   | 5,927  | 0     | 14,120  |

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>2003</b>                               |                   |                 |                 |              |                                      |
| 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                                 |
| Feb                                       | 1,998             | 2,000           | 1.3             | 0.0          | 2.00                                 |
| Mar                                       | 2,009             | 2,011           | 1.7             | 0.0          | 2.00                                 |
| Apr                                       | 1,973             | 1,975           | 1.5             | 0.0          | 2.00                                 |
| May                                       | 2,069             | 2,070           | 1.3             | 0.0          | 2.00                                 |
| Jun                                       | 2,146             | 2,149           | 3.4             | 0.0          | 2.00                                 |
| Jul                                       | 2,127             | 2,128           | 1.2             | 0.0          | 2.01                                 |
| Aug                                       | 2,208             | 2,209           | 1.0             | 0.0          | 2.02                                 |
| Sep                                       | 2,182             | 2,183           | 1.7             | 0.0          | 2.02                                 |
| Oct                                       | 2,288             | 2,289           | 1.2             | 0.0          | 2.03                                 |
| Nov                                       | 2,303             | 2,304           | 0.6             | 0.0          | 2.05                                 |
| Dec                                       | 2,245             | 2,246           | 0.7             | 0.0          | 2.07                                 |
| <b>2005</b>                               |                   |                 |                 |              |                                      |
| Jan                                       | 2,177             | 2,178           | 1.0             | 0.0          | 2.06                                 |

<sup>1</sup> The timing of reserve maintenance periods was changed as from March 2004. It now always starts on the settlement day of the main refinancing operation following the Governing Council's monthly monetary policy meeting. Therefore, due to the transition, the first maintenance period of 2004 was longer, ie it started on 21 January and ended on 4 March 2004. Thus there was no maintenance period ending in February.

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   |
| 2000        | 4,910.3                         | 4.1                                | 3.9   | 65.6  | -3.8                             | -3.4  |
| 2001        | 5,446.8                         | 8.0                                | 7.9   | 67.1  | 6.7                              | 7.7   |
| 2002        | 5,807.3                         | 7.0                                | 7.1   | 73.4  | 6.6                              | 6.2   |
| 2003        | 6,180.8                         | 7.1                                | 7.0   | 83.1  | 11.0                             | 10.2  |
| 2004        | 6,559.9                         | 6.4                                | 6.3   | 88.2  | 6.4                              | 6.7   |
| <b>2004</b> |                                 |                                    |   |   |                                  |   |
| Jan         | 6,173.5                         | 6.5                                | 6.6   | 84.1  | 8.9                              | 9.3   |
| Feb         | 6,198.4                         | 6.1                                | 6.3   | 82.9  | 8.0                              | 9.1   |
| Mar         | 6,226.7                         | 6.2                                | 5.9   | 83.0  | 10.5                             | 10.0  |
| Apr         | 6,280.5                         | 5.4                                | 5.5   | 84.8  | 11.4                             | 10.4  |
| May         | 6,304.5                         | 4.9                                | 5.2   | 83.2  | 9.4                              | 10.5  |
| Jun         | 6,334.9                         | 5.3                                | 5.2   | 84.9  | 10.7                             | 10.4  |
| Jul         | 6,362.0                         | 5.5                                | 5.4   | 85.5  | 11.0                             | 10.7  |
| Aug         | 6,347.6                         | 5.6                                | 5.7   | 85.6  | 10.3                             | 10.4  |
| Sep         | 6,379.7                         | 6.0                                | 5.8   | 85.9  | 9.8                              | 9.4   |
| Oct         | 6,438.1                         | 5.8                                | 6.0   | 87.0  | 8.2                              | 8.1   |
| Nov         | 6,470.3                         | 6.0                                | 6.1   | 86.2  | 6.2                              | 6.9   |
| Dec         | 6,559.9                         | 6.4                                | 6.3   | 88.2  | 6.4                              | 6.7   |

<sup>1</sup> Excl. negotiable instruments held by central governments and non-euro area residents.

<sup>2</sup> Excl. notes and coins held by the public.

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

<sup>4</sup> 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       |
| 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    |
| 2004        | 2.05       | 2.081                      | 2.094   | 2.107   | 2.149   | 2.203   | 2.274    | 3.25                               | 4.11    |
| <b>2004</b> |            |                            |         |         |         |         |          |                                    |         |
| Jan         | 2.02       | 2.076                      | 2.084   | 2.089   | 2.115   | 2.154   | 2.216    | 3.32                               | 4.16    |
| Feb         | 2.03       | 2.061                      | 2.065   | 2.071   | 2.086   | 2.115   | 2.163    | 3.21                               | 4.11    |
| Mar         | 2.01       | 2.043                      | 2.036   | 2.029   | 2.019   | 2.025   | 2.055    | 2.96                               | 3.92    |
| Apr         | 2.08       | 2.052                      | 2.049   | 2.049   | 2.061   | 2.106   | 2.163    | 3.16                               | 4.10    |
| May         | 2.02       | 2.061                      | 2.072   | 2.086   | 2.136   | 2.210   | 2.297    | 3.53                               | 4.25    |
| Jun         | 2.03       | 2.076                      | 2.092   | 2.112   | 2.189   | 2.290   | 2.405    | 3.65                               | 4.48    |
| Jul         | 2.07       | 2.076                      | 2.096   | 2.116   | 2.188   | 2.257   | 2.361    | 3.52                               | 4.36    |
| Aug         | 2.04       | 2.077                      | 2.096   | 2.114   | 2.169   | 2.222   | 2.302    | 3.34                               | 4.21    |
| Sep         | 2.05       | 2.078                      | 2.095   | 2.119   | 2.200   | 2.285   | 2.377    | 3.30                               | 4.14    |
| Oct         | 2.15       | 2.086                      | 2.105   | 2.147   | 2.191   | 2.248   | 2.316    | 3.14                               | 4.01    |
| Nov         | 2.09       | 2.110                      | 2.161   | 2.170   | 2.217   | 2.270   | 2.328    | 3.02                               | 3.89    |
| Dec         | 2.05       | 2.167                      | 2.168   | 2.173   | 2.206   | 2.250   | 2.301    | 2.88                               | 3.68    |

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   |
| 2000        | 87.0                          | 92.8   | 92.8                         | 84.7  |
| 2001        | 89.4                          | 94.4   | 94.1                         | 86.0  |
| 2002        | 91.5                          | 95.5   | 95.9                         | 89.0  |
| 2003        | 100.1                         | 100.1  | 101.0                        | 100.0   |
| 2004        | 103.0                         | 101.6  | 102.7                        | 104.2   |
| <b>2004</b> |                               |  |                              |   |
| Jan         | 104.2                         | 102.2  | 103.3                        | 105.6   |
| Feb         | 104.1                         | 102.1  | 103.3                        | 105.3   |
| Mar         | 102.7                         | 101.4  | 102.5                        | 103.5   |
| Apr         | 101.0                         | 100.5  | 101.5                        | 101.5   |
| May         | 101.9                         | 101.0  | 102.0                        | 102.6   |
| Jun         | 101.8                         | 101.0  | 102.1                        | 102.5   |
| Jul         | 102.4                         | 101.3  | 102.4                        | 103.2   |
| Aug         | 102.3                         | 101.2  | 102.3                        | 103.1   |
| Sep         | 102.5                         | 101.3  | 102.4                        | 103.5   |
| Oct         | 103.5                         | 101.8  | 102.9                        | 104.8   |
| Nov         | 104.4                         | 102.2  | 103.4                        | 106.4   |
| Dec         | 105.6                         | 102.9  | 104.0                        | 108.2   |

<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       |
| 2000        | 2.1       | 3.0     |
| 2001        | 2.3       | 2.7     |
| 2002        | 2.3       | 2.0     |
| 2003        | 2.1       | 1.3     |
| 2004        | 2.1       | 0.1     |
| <b>2004</b> |           |         |
| Jan         | 1.9       | 0.8     |
| Feb         | 1.6       | 0.4     |
| Mar         | 1.7       | -0.4    |
| Apr         | 2.0       | -0.4    |
| May         | 2.5       | -0.1    |
| Jun         | 2.4       | -0.1    |
| Jul         | 2.3       | 0.2     |
| Aug         | 2.3       | 0.3     |
| Sep         | 2.1       | 0.2     |
| Oct         | 2.4       | 0.6     |
| Nov         | 2.2       | 0.2     |
| Dec         | 2.4       | 0.1     |

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 |       |
|-------------|-----------------------------------|------|------------------------|-------|
|             | 2003                              | 2004 | 2003                   | 2004  |
|             | 1                                 | 2    | 3                      | 4     |
| Belgium     | 0.4                               | -0.1 | 100.0                  | 95.8  |
| Germany     | -3.8                              | -3.9 | 64.2                   | 65.9  |
| Greece      | -4.6                              | -5.5 | 109.9                  | 112.2 |
| Spain       | 0.4                               | -0.6 | 50.7                   | 48.2  |
| France      | -4.1                              | -3.7 | 63.7                   | 64.9  |
| Ireland     | 0.1                               | -0.2 | 32.1                   | 30.7  |
| Italy       | -2.4                              | -3.0 | 106.2                  | 106.0 |
| Luxembourg  | 0.8                               | -0.8 | 5.3                    | 4.9   |
| Netherlands | -3.2                              | -2.9 | 54.1                   | 55.7  |
| Austria     | -1.1                              | -1.3 | 64.5                   | 64.0  |
| Portugal    | -2.8                              | -2.9 | 60.3                   | 60.8  |
| Finland     | 2.5                               | 2.1  | 45.3                   | 45.1  |
| Euro area   | -2.7                              | -2.9 | 70.7                   | 71.1  |

Sources: Data on Finland – Statistics Finland. All other data – European Commission forecast, autumn 2004.

**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.**  
Exchange rate mechanism ERM II

| As of 1 January 1999 |       |            | As of 27 June 2004 |   |            |
|----------------------|-------|------------|--------------------|---|------------|
|                      |       | 1 euro =   |                    |   | 1 euro =   |
| Danish krone         | +     | 7.62824*   | Estonian kroon     | + | 17.9936*   |
|                      | 2.25% |            |                    | = | 15%        |
|                      | =     | 7.46038**  |                    | = | 15%        |
|                      | 2.25% |            |                    | - | 13.2996*** |
|                      | -     | 7.29252*** |                    |   |            |
|                      |       |            |                    |   | 1 euro =   |
|                      |       |            | Lithuanian litas   | + | 3.97072*   |
|                      |       |            |                    | = | 15%        |
|                      |       |            |                    | = | 15%        |
|                      |       |            |                    | - | 2.93488*** |
|                      |       |            |                    |   | 1 euro =   |
|                      |       |            | Slovenian tolar    | + | 275.586*   |
|                      |       |            |                    | = | 15%        |
|                      |       |            |                    | = | 15%        |
|                      |       |            |                    | - | 203.694*** |

\* Upper intervention point.  
\*\* Central rate.  
\*\*\* Lower intervention point.  
Source: European Central Bank.

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

|             | <i>US dollar</i>      |                |             | <i>Japanese yen</i>  |                |             |
|-------------|-----------------------|----------------|-------------|----------------------|----------------|-------------|
|             | <i>Low</i>            | <i>Average</i> | <i>High</i> | <i>Low</i>           | <i>Average</i> | <i>High</i> |
|             | <i>1</i>              | <i>2</i>       | <i>3</i>    | <i>4</i>             | <i>5</i>       | <i>6</i>    |
| 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      |
| 2004        | 1.1802                | 1.2439         | 1.3633      | 126.34               | 134.44         | 141.03      |
| <b>2004</b> |                       |                |             |                      |                |             |
| <i>Jan</i>  | 1.2373                | 1.2613         | 1.2828      | 131.06               | 134.13         | 136.57      |
| <i>Feb</i>  | 1.2418                | 1.2646         | 1.2858      | 131.57               | 134.78         | 137.24      |
| <i>Mar</i>  | 1.2118                | 1.2262         | 1.2484      | 126.97               | 133.13         | 138.60      |
| <i>Apr</i>  | 1.1826                | 1.1985         | 1.2320      | 126.34               | 129.08         | 131.87      |
| <i>May</i>  | 1.1802                | 1.2007         | 1.2246      | 131.51               | 134.48         | 136.68      |
| <i>Jun</i>  | 1.2001                | 1.2138         | 1.2319      | 130.32               | 132.86         | 136.19      |
| <i>Jul</i>  | 1.2026                | 1.2266         | 1.2412      | 131.64               | 134.08         | 135.37      |
| <i>Aug</i>  | 1.1983                | 1.2176         | 1.2359      | 132.36               | 134.54         | 136.66      |
| <i>Sep</i>  | 1.2039                | 1.2218         | 1.2409      | 132.01               | 134.51         | 137.40      |
| <i>Oct</i>  | 1.2267                | 1.2490         | 1.2792      | 134.91               | 135.97         | 136.85      |
| <i>Nov</i>  | 1.2705                | 1.2991         | 1.3295      | 134.47               | 136.09         | 137.65      |
| <i>Dec</i>  | 1.3191                | 1.3408         | 1.3633      | 136.78               | 139.14         | 141.03      |
|             | <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>    |
| 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      |
| 2004        | 0.65560               | 0.67866        | 0.70880     | 8.8992               | 9.1243         | 9.2810      |
| <b>2004</b> |                       |                |             |                      |                |             |
| <i>Jan</i>  | 0.68460               | 0.69215        | 0.70545     | 9.0500               | 9.1368         | 9.1940      |
| <i>Feb</i>  | 0.66820               | 0.67690        | 0.68540     | 9.1062               | 9.1763         | 9.2337      |
| <i>Mar</i>  | 0.66330               | 0.67124        | 0.68180     | 9.1652               | 9.2346         | 9.2810      |
| <i>Apr</i>  | 0.65560               | 0.66533        | 0.67370     | 9.1083               | 9.1653         | 9.2340      |
| <i>May</i>  | 0.66475               | 0.67157        | 0.67960     | 9.0735               | 9.1277         | 9.1920      |
| <i>Jun</i>  | 0.65595               | 0.66428        | 0.67075     | 9.0925               | 9.1430         | 9.1794      |
| <i>Jul</i>  | 0.66100               | 0.66576        | 0.67050     | 9.1615               | 9.1962         | 9.2357      |
| <i>Aug</i>  | 0.65960               | 0.66942        | 0.67655     | 9.1222               | 9.1861         | 9.2389      |
| <i>Sep</i>  | 0.67775               | 0.68130        | 0.68680     | 9.0390               | 9.0920         | 9.1370      |
| <i>Oct</i>  | 0.68625               | 0.69144        | 0.69630     | 9.0238               | 9.0620         | 9.1078      |
| <i>Nov</i>  | 0.69160               | 0.69862        | 0.70255     | 8.9210               | 8.9981         | 9.1160      |
| <i>Dec</i>  | 0.68585               | 0.69500        | 0.70880     | 8.8992               | 8.9819         | 9.0350      |

Source: European Central Bank.

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

|             | <i>Greek<br/>drachma</i> | <i>Danish<br/>krone</i> | <i>Swiss<br/>franc</i>     | <i>Icelandic<br/>krona</i>  | <i>Norwegian<br/>krone</i> | <i>Bulgarian<br/>lev</i>     | <i>Cyprus<br/>pound</i>    |
|-------------|--------------------------|-------------------------|----------------------------|-----------------------------|----------------------------|------------------------------|----------------------------|
|             | 1                        | 2                       | 3                          | 4                           | 5                          | 6                            | 7                          |
| 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                    |
| 2004        | ..                       | 7.4399                  | 1.5438                     | 87.14                       | 8.3697                     | 1.9533                       | 0.58185                    |
| <b>2004</b> |                          |                         |                            |                             |                            |                              |                            |
| <i>Jan</i>  | ..                       | 7.4481                  | 1.5657                     | 87.69                       | 8.5925                     | 1.9557                       | 0.58647                    |
| <i>Feb</i>  | ..                       | 7.4511                  | 1.5734                     | 86.72                       | 8.7752                     | 1.9535                       | 0.58601                    |
| <i>Mar</i>  | ..                       | 7.4493                  | 1.5670                     | 87.23                       | 8.5407                     | 1.9465                       | 0.58598                    |
| <i>Apr</i>  | ..                       | 7.4436                  | 1.5547                     | 87.59                       | 8.2976                     | 1.9465                       | 0.58630                    |
| <i>May</i>  | ..                       | 7.4405                  | 1.5400                     | 87.97                       | 8.2074                     | 1.9464                       | 0.58589                    |
| <i>Jun</i>  | ..                       | 7.4342                  | 1.5192                     | 87.55                       | 8.2856                     | 1.9547                       | 0.58239                    |
| <i>Jul</i>  | ..                       | 7.4355                  | 1.5270                     | 87.71                       | 8.4751                     | 1.9558                       | 0.58171                    |
| <i>Aug</i>  | ..                       | 7.4365                  | 1.5387                     | 87.08                       | 8.3315                     | 1.9559                       | 0.57838                    |
| <i>Sep</i>  | ..                       | 7.4381                  | 1.5431                     | 87.65                       | 8.3604                     | 1.9559                       | 0.57696                    |
| <i>Oct</i>  | ..                       | 7.4379                  | 1.5426                     | 87.58                       | 8.2349                     | 1.9559                       | 0.57595                    |
| <i>Nov</i>  | ..                       | 7.4313                  | 1.5216                     | 87.15                       | 8.1412                     | 1.9559                       | 0.5779                     |
| <i>Dec</i>  | ..                       | 7.4338                  | 1.5364                     | 83.99                       | 8.2207                     | 1.9559                       | 0.57909                    |
|             | <i>Polish<br/>zloty</i>  | <i>Romanian<br/>leu</i> | <i>Slovenian<br/>tolar</i> | <i>Slovakian<br/>koruna</i> | <i>Turkish<br/>lira</i>    | <i>Australian<br/>dollar</i> | <i>Canadian<br/>dollar</i> |
|             | 14                       | 15                      | 16                         | 17                          | 18                         | 19                           | 20                         |
| 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                     |
| 2004        | 4.5268                   | 40510                   | 239.0874                   | 40.022                      | 1777052                    | 1.6905                       | 1.6167                     |
| <b>2004</b> |                          |                         |                            |                             |                            |                              |                            |
| <i>Jan</i>  | 4.7128                   | 41107                   | 237.3167                   | 40.731                      | 1698262                    | 1.6374                       | 1.6346                     |
| <i>Feb</i>  | 4.8579                   | 40563                   | 237.5123                   | 40.551                      | 1682658                    | 1.6260                       | 1.6817                     |
| <i>Mar</i>  | 4.7642                   | 40029                   | 238.0683                   | 40.400                      | 1620374                    | 1.6370                       | 1.6314                     |
| <i>Apr</i>  | 4.7597                   | 40683                   | 238.4520                   | 40.151                      | 1637423                    | 1.6142                       | 1.6068                     |
| <i>May</i>  | 4.7209                   | 40554                   | 238.7400                   | 40.164                      | 1818487                    | 1.7033                       | 1.6541                     |
| <i>Jun</i>  | 4.5906                   | 40753                   | 239.3591                   | 39.923                      | 1814266                    | 1.7483                       | 1.6492                     |
| <i>Jul</i>  | 4.4651                   | 40962                   | 239.9023                   | 39.899                      | 1784116                    | 1.7135                       | 1.6220                     |
| <i>Aug</i>  | 4.4310                   | 40946                   | 239.9900                   | 40.111                      | 1799918                    | 1.7147                       | 1.6007                     |
| <i>Sep</i>  | 4.3748                   | 41075                   | 239.9677                   | 40.049                      | 1838497                    | 1.7396                       | 1.5767                     |
| <i>Oct</i>  | 4.3182                   | 41082                   | 239.9067                   | 39.997                      | 1860247                    | 1.7049                       | 1.5600                     |
| <i>Nov</i>  | 4.2573                   | 39848                   | 239.7891                   | 39.546                      | 1883365                    | 1.6867                       | 1.5540                     |
| <i>Dec</i>  | 4.1354                   | 38696                   | 239.7987                   | 38.872                      | 1870690                    | 1.7462                       | 1.6333                     |

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                |
| 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            |
| 2004        | 31.891                  | 15.6466                   | 251.66                  | 3.4529                  | 0.6652                    | 0.4280            |
| <b>2004</b> |                         |                           |                         |                         |                           |                   |
| <i>Jan</i>  | 32.724                  | 15.6466                   | 264.32                  | 3.4531                  | 0.6707                    | 0.4301            |
| <i>Feb</i>  | 32.857                  | 15.6466                   | 263.15                  | 3.4532                  | 0.6698                    | 0.4284            |
| <i>Mar</i>  | 32.985                  | 15.6466                   | 253.33                  | 3.4528                  | 0.6596                    | 0.4266            |
| <i>Apr</i>  | 32.519                  | 15.6466                   | 250.41                  | 3.4529                  | 0.6502                    | 0.4251            |
| <i>May</i>  | 31.976                  | 15.6466                   | 252.91                  | 3.4528                  | 0.6557                    | 0.4259            |
| <i>Jun</i>  | 31.614                  | 15.6466                   | 253.02                  | 3.4528                  | 0.6565                    | 0.4254            |
| <i>Jul</i>  | 31.545                  | 15.6466                   | 249.89                  | 3.4528                  | 0.6596                    | 0.4259            |
| <i>Aug</i>  | 31.634                  | 15.6466                   | 248.85                  | 3.4528                  | 0.6586                    | 0.4261            |
| <i>Sep</i>  | 31.601                  | 15.6466                   | 247.66                  | 3.4528                  | 0.6610                    | 0.4277            |
| <i>Oct</i>  | 31.491                  | 15.6466                   | 246.69                  | 3.4528                  | 0.6690                    | 0.4297            |
| <i>Nov</i>  | 31.286                  | 15.6466                   | 245.36                  | 3.4528                  | 0.6803                    | 0.4319            |
| <i>Dec</i>  | 30.636                  | 15.6466                   | 245.80                  | 3.4528                  | 0.6900                    | 0.4325            |
|             | <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                |
| 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          |
| 2004        | 9.6881                  | 1.8731                    | 2.1016                  | 1422.62                 | 8.0092                    | 0.839260          |
| <b>2004</b> |                         |                           |                         |                         |                           |                   |
| <i>Jan</i>  | 9.7951                  | 1.8751                    | 2.1415                  | 1492.23                 | 8.7788                    | 0.845887          |
| <i>Feb</i>  | 9.8314                  | 1.8262                    | 2.1323                  | 1474.74                 | 8.5555                    | 0.845059          |
| <i>Mar</i>  | 9.5547                  | 1.8566                    | 2.0838                  | 1429.40                 | 8.1326                    | 0.832415          |
| <i>Apr</i>  | 9.3451                  | 1.8727                    | 2.0193                  | 1381.58                 | 7.8890                    | 0.820859          |
| <i>May</i>  | 9.3618                  | 1.9484                    | 2.0541                  | 1412.29                 | 8.1432                    | 0.826716          |
| <i>Jun</i>  | 9.4648                  | 1.9301                    | 2.0791                  | 1406.18                 | 7.8110                    | 0.828174          |
| <i>Jul</i>  | 9.5672                  | 1.8961                    | 2.0995                  | 1420.66                 | 7.5137                    | 0.832833          |
| <i>Aug</i>  | 9.4968                  | 1.8604                    | 2.0886                  | 1409.37                 | 7.8527                    | 0.831124          |
| <i>Sep</i>  | 9.5290                  | 1.8538                    | 2.0719                  | 1403.06                 | 7.9943                    | 0.834256          |
| <i>Oct</i>  | 9.7284                  | 1.8280                    | 2.0947                  | 1426.19                 | 7.9861                    | 0.844093          |
| <i>Nov</i>  | 10.1028                 | 1.8540                    | 2.1446                  | 1411.15                 | 7.8566                    | 0.858157          |
| <i>Dec</i>  | 10.4264                 | 1.8737                    | 2.2002                  | 1408.77                 | 7.6847                    | 0.870092          |

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

|  | 2004         |              |              |              | 2004         |
|--|--------------|--------------|--------------|--------------|--------------|
|  | I            | II           | III          | IV           |              |
| <b>Banknotes put into circulation by the Bank of Finland</b> |              |              |              |              |              |
| 500 euro   | 269.5        | 295.5        | 287.5        | 326.5        | 1,179.0      |
| 200 "  | 81.8         | 86.6         | 80.4         | 97.6         | 346.4        |
| 100 "  | 146.9        | 159.3        | 150.6        | 192.7        | 649.5        |
| 50 "   | 978.4        | 1,126.0      | 1,140.8      | 1,233.4      | 4,478.6      |
| 20 "   | 1,271.9      | 1,520.3      | 1,489.0      | 1,521.9      | 5,803.1      |
| 10 "   | 117.6        | 133.6        | 129.6        | 134.0        | 514.8        |
| 5 "  | 65.8         | 79.7         | 77.7         | 77.8         | 301.0        |
| <b>Total number, millions</b>                                | <b>110.5</b> | <b>130.5</b> | <b>128.3</b> | <b>132.8</b> | <b>502.1</b> |
| <b>Withdrawn banknotes, number in millions</b>               | <b>13.18</b> | <b>15.25</b> | <b>19.24</b> | <b>16.20</b> | <b>63.9</b>  |
| <b>Coins put into circulation by the Bank of Finland</b>     |              |              |              |              |              |
| <b>Ordinary coins</b>  |              |              |              |              |              |
| 2 euro   | 6.5          | 9.6          | 12.6         | 15.9         | 44.5         |
| 1 "  | 2.7          | 4.4          | 4.9          | 6.3          | 18.3         |
| 0.50 "   | 1.5          | 2.5          | 2.8          | 3.4          | 10.1         |
| 0.20 "   | 1.3          | 1.9          | 1.9          | 2.4          | 7.6          |
| 0.10 "   | 0.5          | 0.8          | 0.8          | 1.0          | 3.2          |
| 0.05 "   | 0.2          | 0.5          | 0.5          | 0.5          | 1.7          |
| 0.02 "   | 0.0          | 0.0          | 0.0          | 0.0          | 0.1          |
| 0.01 "   | 0.0          | 0.0          | 0.0          | 0.0          | 0.1          |
| <b>Commemorative coins</b>                                   |              |              |              |              |              |
| 100 euro   |              |              |              | 0.8          | 0.8          |
| 50 "   |              |              |              |              | 0.0          |
| 10 "   | 0.3          | 0.0          | 0.6          |              | 0.8          |
| 5 "  |              |              |              |              | 0.0          |
| <b>Total</b>   | <b>12.9</b>  | <b>19.7</b>  | <b>24.1</b>  | <b>30.4</b>  | <b>87.1</b>  |
| <b>Withdrawn coins, number in millions</b>                   |              |              |              |              |              |
| Ordinary coins   | -            | -            | -            | -            | -            |
| Commemorative coins  | -            | -            | -            | -            | -            |

Source: Bank of Finland.

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

| Euro banknotes | 2002         | 2003         | 2004         | Markka banknotes | 2000         | 2001         |
|----------------|--------------|--------------|--------------|------------------|--------------|--------------|
|                | 500 euro     | 1.2          | 1.8          |                  | 2.1          | 1,000 markka |
| 200 "          | 1.7          | 1.8          | 1.7          | 500 "            | 10.5         | 14.9         |
| 100 "          | 5.2          | 6.7          | 5.7          | 100 "            | 531.6        | 548.4        |
| 50 "           | 73.3         | 84.4         | 74.6         | 50 "             | 52.7         | 51.3         |
| 20 "           | 311.0        | 290.5        | 222.4        | 20 "             | 59.1         | 80.7         |
| 10 "           | 30.8         | 30.3         | 37.4         | 10 "             | -            | -            |
| 5 "            | 32.6         | 31.0         | 45.2         |                  |              |              |
| <b>Total</b>   | <b>455.8</b> | <b>446.5</b> | <b>389.2</b> | <b>Total</b>     | <b>659.0</b> | <b>702.6</b> |

Source: Bank of Finland.

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

|             | Account holders, number | Domestic payments, number in thousands | Value, EUR bn | Outgoing TARGET-payments, number in thousands | Value, EUR bn | Transactions                                  |               |  |                                      |   |                                   |
|-------------|-------------------------|--|---------------|---|---------------|---|---------------|--|--------------------------------------|---|-----------------------------------|
|             |                         |  |               |   |               | Incoming TARGET-payments, number in thousands | Value, EUR bn | TARGET-payments, total number in thousands | TARGET-payments, total value, EUR bn | Transactions, total number in thousands | Transactions, total value, EUR bn |
|             | 1                       | 2                                      | 3             | 4   | 5             | 6   | 7             | 8  | 9                                    | 10                                      | 11                                |
| 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                           |
| 2004        | 19                      | 147.5                                  | 1,541.1       | 141.0   | 1,601.7       | 167.4   | 1,604.0       | 308.4                                      | 3,205.7                              | 455.8                                   | 4,746.9                           |
| <b>2004</b> |                         |  |               |   |               |   |               |  |                                      |   |                                   |
| Jan         | 18                      | 12.5                                   | 145.0         | 13.2  | 145.5         | 12.6  | 145.1         | 25.8                                       | 290.7                                | 38.2                                    | 435.7                             |
| Feb         | 18                      | 11.4                                   | 116.1         | 12.2  | 123.0         | 12.5  | 123.5         | 24.7                                       | 246.6                                | 36.1                                    | 362.6                             |
| Mar         | 19                      | 13.3                                   | 156.6         | 14.4  | 157.4         | 14.7  | 159.4         | 29.1                                       | 316.8                                | 42.4                                    | 473.4                             |
| Apr         | 19                      | 12.0                                   | 129.5         | 10.9  | 153.6         | 14.1  | 151.5         | 25.0                                       | 305.1                                | 36.9                                    | 434.6                             |
| May         | 19                      | 11.6                                   | 145.0         | 10.1  | 120.4         | 13.3  | 121.2         | 23.4                                       | 241.6                                | 35.0                                    | 386.6                             |
| Jun         | 19                      | 12.3                                   | 124.9         | 11.7  | 128.0         | 14.4  | 128.6         | 26.1                                       | 256.6                                | 38.4                                    | 381.4                             |
| Jul         | 19                      | 12.1                                   | 121.4         | 10.4  | 121.7         | 13.2  | 121.4         | 23.7                                       | 243.1                                | 35.8                                    | 364.5                             |
| Aug         | 19                      | 12.0                                   | 105.6         | 10.1  | 113.9         | 12.8  | 114.6         | 22.9                                       | 228.6                                | 34.9                                    | 334.2                             |
| Sep         | 19                      | 12.6                                   | 116.1         | 12.0  | 123.3         | 14.2  | 121.7         | 26.2                                       | 245.1                                | 38.8                                    | 361.1                             |
| Oct         | 19                      | 12.4                                   | 108.3         | 11.4  | 123.8         | 14.9  | 125.1         | 26.3                                       | 248.9                                | 38.6                                    | 357.2                             |
| Nov         | 19                      | 12.7                                   | 124.4         | 11.9  | 140.9         | 15.1  | 141.3         | 26.9                                       | 282.3                                | 39.6                                    | 406.7                             |
| Dec         | 19                      | 12.6                                   | 148.4         | 12.8  | 150.1         | 15.6  | 150.4         | 28.3                                       | 300.5                                | 40.9                                    | 448.9                             |

Source: Bank of Finland.



**Table 21.**  
Banks' intraday credit limits

| Period average | Total limits <sup>1</sup> ,<br>EUR m | Maximum usage rate<br>of limits <sup>1,2</sup> , % | End-of-day balances,<br>EUR m |
|----------------|--------------------------------------|--|-------------------------------|
|                | 1                                    | 2  | 3                             |
| 2000           | 4,522                                | 50   | 1,614                         |
| 2001           | 4,169                                | 50   | 1,811                         |
| 2002           | 3,669                                | 50   | 2,011                         |
| 2003           | 4,476                                | 63   | 1,951                         |
| 2004           | 4,624                                | 63   | 2,179                         |
| <b>2004</b>    |                                      |  |                               |
| Jan            | 4,721                                | 65   | 2,837                         |
| Feb            | 4,789                                | 64   | 2,097                         |
| Mar            | 4,838                                | 70   | 2,000                         |
| Apr            | 4,554                                | 68   | 1,821                         |
| May            | 4,526                                | 62   | 2,021                         |
| Jun            | 4,703                                | 53   | 2,298                         |
| Jul            | 4,713                                | 65   | 2,121                         |
| Aug            | 4,643                                | 56   | 2,155                         |
| Sep            | 4,528                                | 51   | 2,169                         |
| Oct            | 4,476                                | 62   | 2,234                         |
| Nov            | 4,534                                | 63   | 2,214                         |
| Dec            | 4,458                                | 76   | 2,181                         |

<sup>1</sup> Due to a change in the calculation method the totals are not necessarily comparable with data in previous Annual Reports.

<sup>2</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.

Source: Bank of Finland.

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

|             | Debit entries       |                  | Credit entries      |                  | Total entries       |                  |
|-------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|
|             | Number,<br>millions | Value,<br>EUR bn | Number,<br>millions | Value,<br>EUR bn | Number,<br>millions | Value,<br>EUR bn |
|             | 1                   | 2                | 3                   | 4                | 5                   | 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            |
| 2004        | 309.6               | 12.4             | 214.8               | 175.2            | 524.4               | 187.6            |
| <b>2004</b> |                     |                  |                     |                  |                     |                  |
| Jan         | 21.8                | 0.9              | 16.4                | 13.3             | 38.2                | 14.2             |
| Feb         | 21.9                | 0.9              | 17.5                | 13.2             | 39.3                | 14.1             |
| Mar         | 26.2                | 1.0              | 18.9                | 14.9             | 45.1                | 15.9             |
| Apr         | 25.0                | 1.0              | 17.9                | 14.5             | 42.8                | 15.6             |
| May         | 26.1                | 1.0              | 17.4                | 14.1             | 43.5                | 15.2             |
| Jun         | 26.0                | 1.1              | 18.6                | 15.5             | 44.6                | 16.6             |
| Jul         | 27.3                | 1.1              | 17.2                | 14.6             | 44.5                | 15.7             |
| Aug         | 27.4                | 1.1              | 16.8                | 13.3             | 44.2                | 14.4             |
| Sep         | 24.9                | 1.0              | 18.0                | 14.9             | 42.9                | 15.9             |
| Oct         | 24.8                | 1.0              | 17.7                | 14.5             | 42.4                | 15.5             |
| Nov         | 27.9                | 1.1              | 18.7                | 15.2             | 46.7                | 16.3             |
| Dec         | 30.4                | 1.3              | 19.7                | 17.0             | 50.1                | 18.4             |

Source: Bank of Finland.

## Bank of Finland publications in 2004

|   |   |
|---|---|
| <b>Euro &amp; talous<br/>Bank of Finland Bulletin<br/>Bank of Finland<br/>Annual Report</b> | Finnish-language quarterly<br>English-language quarterly.<br>Published separately in Finnish, Swedish and English.  |
| <b>Studies</b>  |   |
| <b>Series A,<br/>studies intended for<br/>the general public</b>                            | A:107 Heikki Koskenkylä (toim./ed.), Rahoitusmarkkinoiden integraatio (Financial integration) Compilation (English version A:108).<br>A:108 Heikki Koskenkylä (ed.), Financial integration (Finnish version A:107).   |
| <b>Series E,<br/>doctoral theses and<br/>analytical studies</b>                             | E:28 Heiko Schmiedel, Performance of international securities markets. Doctoral thesis.<br>E:29 Tuomas Komulainen, Essays on financial crises in emerging markets. Doctoral thesis.<br>E:30 Jukka Vauhkonen, Essays on financial contracting. Doctoral thesis.  |
| <b>Discussion Papers</b>  | 31 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).<br>Finland's balance of payments – Statistical bulletin; published monthly (trilingual edition in Finnish, Swedish and English).<br>Finland's balance of payments – Annual statistics (trilingual edition in Finnish, Swedish and English).<br>Direct investment in Finland's balance of payments; published annually (trilingual edition in Finnish, Swedish and English).<br>Finnish Bond Issues; published annually (trilingual edition in Finnish, Swedish and English). |
| <b>Publications of<br/>the Institute for<br/>Economies<br/>in Transition</b>                | 22 studies (in English) appeared in the series BOFIT Discussion Papers.<br>11 issues (in English or Finnish) appeared in the online series BOFIT Online.<br>BOFIT Viikkokatsaus, online publication, weekly (in Finnish).<br>BOFIT Weekly, online publication, weekly (in English).<br>BOFIT Russia Review, monthly survey (in English).<br>BOFIT China Review, online quarterly publication (in English).  |
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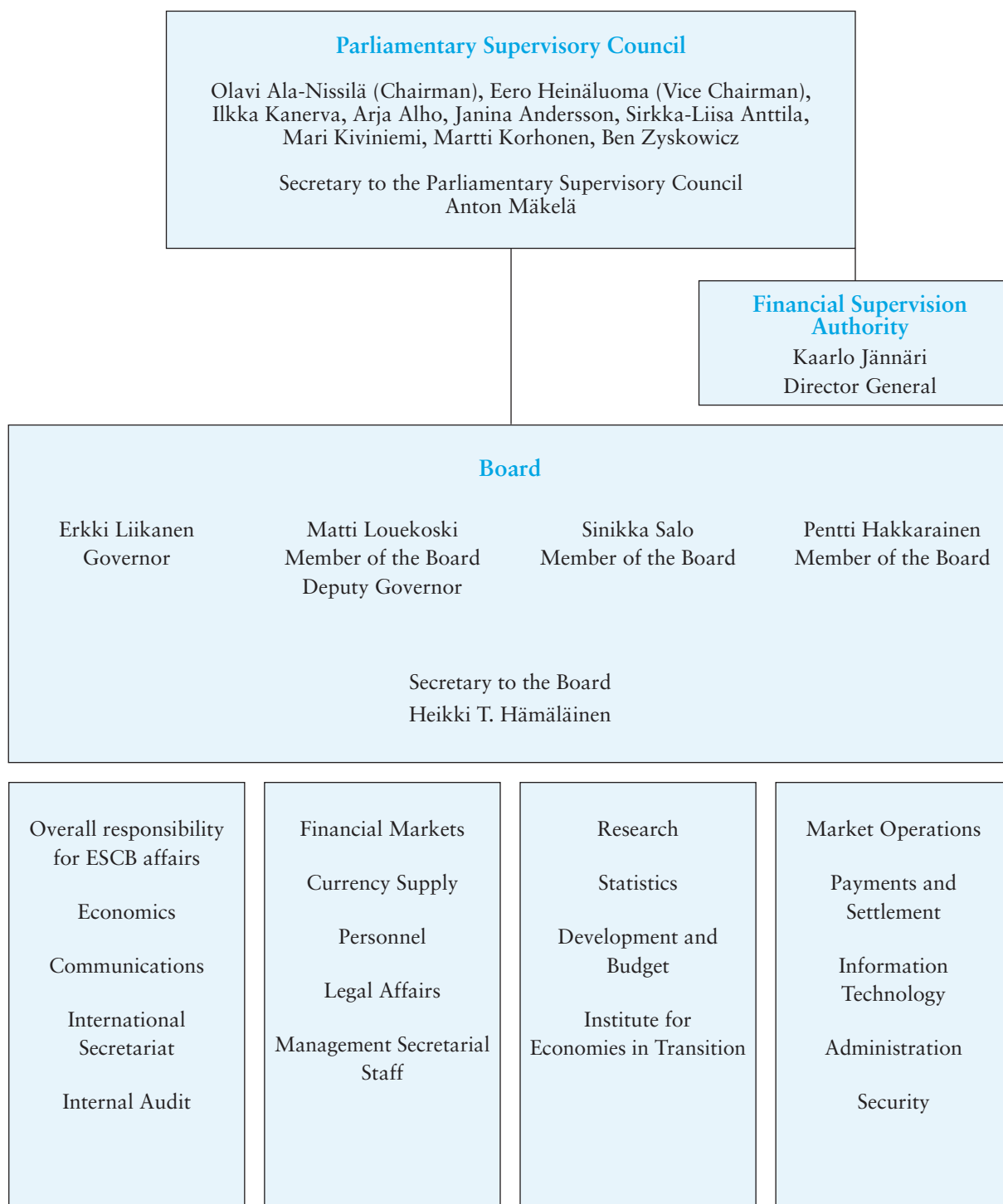
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# The Bank of Finland's organisation

at end-2004\*



\* A new organisational structure came into use from 1 March 2005 (see page 48)

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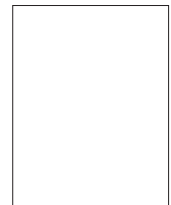
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