

BANK OF FINLAND

60TH YEAR BOOK 1979

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HELSINKI 1980

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ECONOMIC DEVELOPMENTS IN 1979

Owing to a revival in international demand and the maintenance of the economic policy line of promoting growth, Finnish economic developments were favourable in 1979. Total production picked up and unemployment fell considerably. At the same time, Finland's external position remained good and domestic prices rose less rapidly than in competitor countries. However, the continuation of balanced growth and the sustaining of competitiveness were jeopardized by an acceleration in foreign trade prices and a rapid easing of the financial position of the private sector during the first half of the year.

AGGREGATE SUPPLY AND DEMAND

The strengthening in international demand which had started in 1978 continued until the end of 1979 when accelerating inflation generated by rises in the prices of oil and other raw materials, a deterioration in the terms of trade and the pursuit of more intensive counter-inflation policies combined to slow down the growth rate in almost all Western market economies. Nevertheless, the average increase in the total output of the OECD countries accelerated and came to more than 3 per cent for 1979. As aggregate demand increased more rapidly in the countries most important for Finnish exports than in the total OECD region, and as the growth in international demand centred on primary commodities, the external prerequisites for Finnish exports were quite favourable.

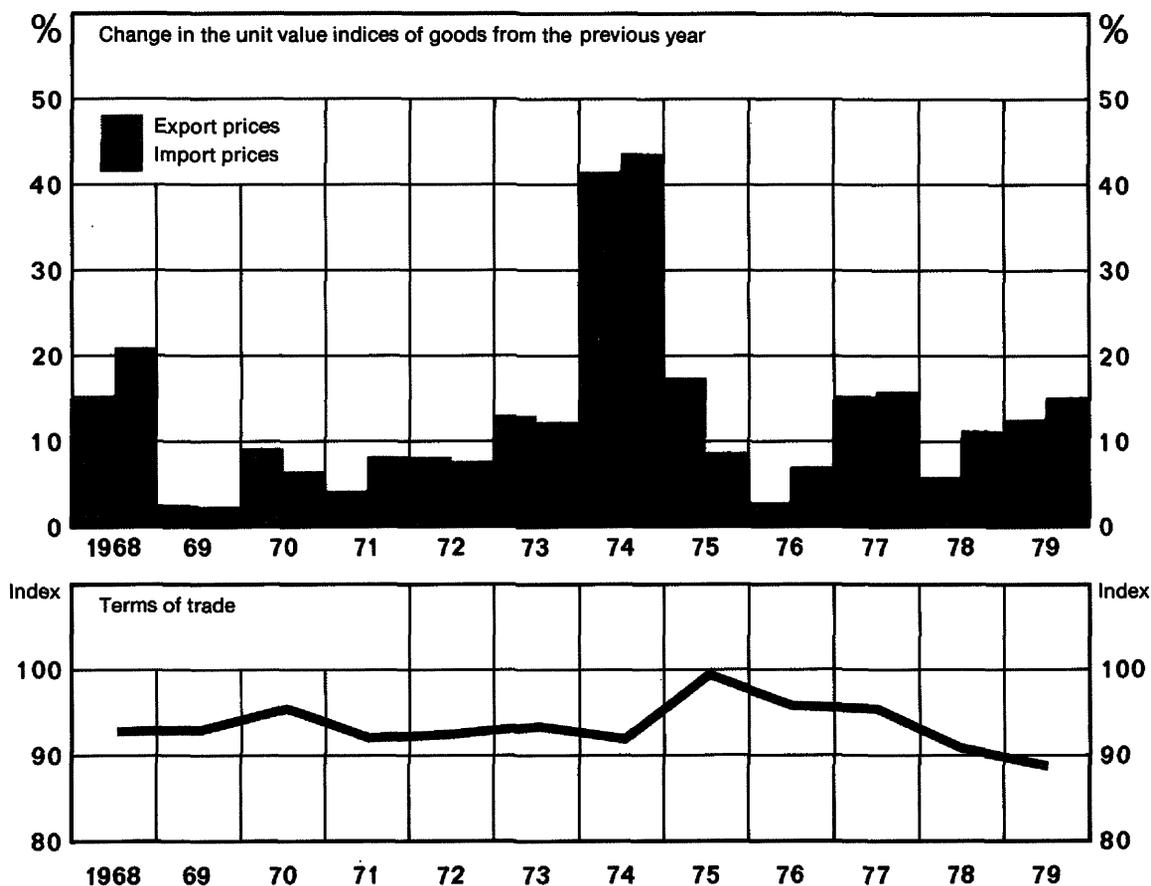
The strengthening in the demand for primary commodities in Western markets induced an expansion particularly in the export of forest industry and basic metal industry products. In addition, the improved price competitiveness of Finnish production also boosted the export of manufactures to Western markets. Total exports to Western countries grew by

15 per cent, but due to a decline in exports to the CMEA countries, the total volume of visible and invisible exports increased by 9 per cent.

In line with the developments in international raw material prices, Finland's foreign trade prices rose sharply during 1979 (Chart 1). The rise in import prices was attributable above all to the total rise of about 60 per cent in the price of crude oil during 1979. As export prices of raw-material type goods, such as wood, chemical and basic metal industry products, rose markedly, the terms of trade deteriorated only slightly. Thus, as in 1974, the growth-curbing effects of rises in international prices were notably weaker in Finland than in the other OECD countries.

The growth of export earnings, which had continued for several years, and the pursuit of a reflationary economic policy in previous years contributed to a rapid revival in domestic demand during 1979. This was also enhanced by the economic policy adopted in 1979: the financial policy line of supporting investment and competitiveness followed in previous years was maintained and the money market remained very easy until the end of the year.

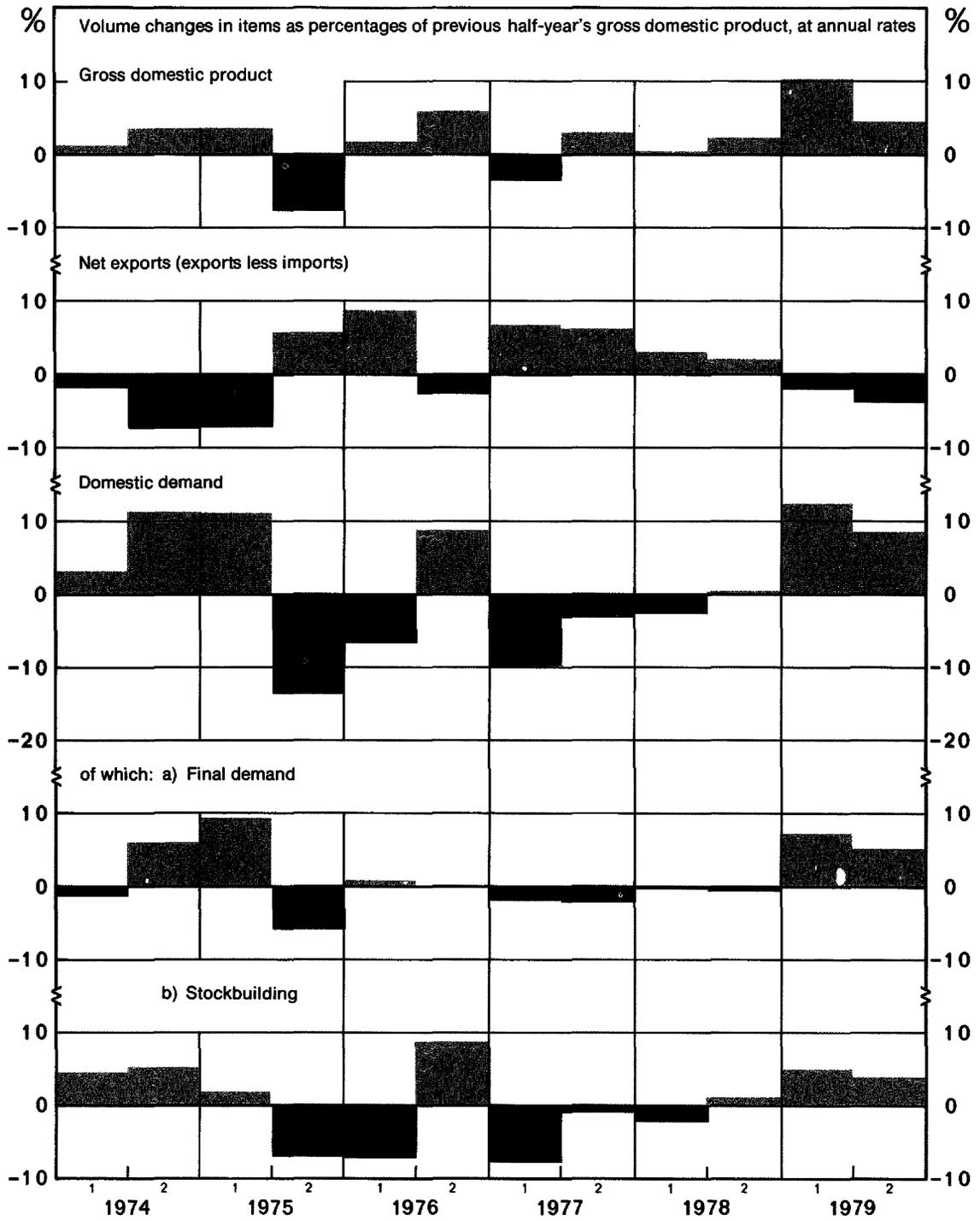
Chart 1.
FOREIGN TRADE PRICES



The volume of investment, which had continued to decline in the preceding three years, began to grow as a result of a rise in the capacity utilization of firms, an improvement in their profitability and financial position and a brightening in their demand prospects. The revival in investment activity was particularly prominent in the forest industries. As in previous years, the emphasis in fixed investment was on investment in machinery and equipment. A significant boost to aggregate demand was also provided by the upturn in stockbuilding, with firms trying to regain their normal inventory level. The increase in stocks was also attributable to price rise expectations.

The household sector's real disposable income increased by almost 7 per cent, or twice as much as in 1978. The favourable income developments were sustained by the increase in earned income resulting from an improvement in employment and an acceleration in wage and salary earnings, a significant growth in forest and capital income, and by the public sector's current transfers. However, as households did not fully adjust their consumption to match the developments in income, the rate of saving rose. Although investment in housing picked up towards the end of the year, the increase in savings was channelled mainly into bank deposits and securities.

Chart 2.
SUPPLY AND DEMAND



The volume of public consumption expenditure and administrative investment grew more slowly than in the previous year, owing mainly to a deceleration in the growth of expenditure on the comprehensive school system and public health. The central government attempted to increase aggregate demand by supporting the private sector's income developments rather than by expanding its own demand.

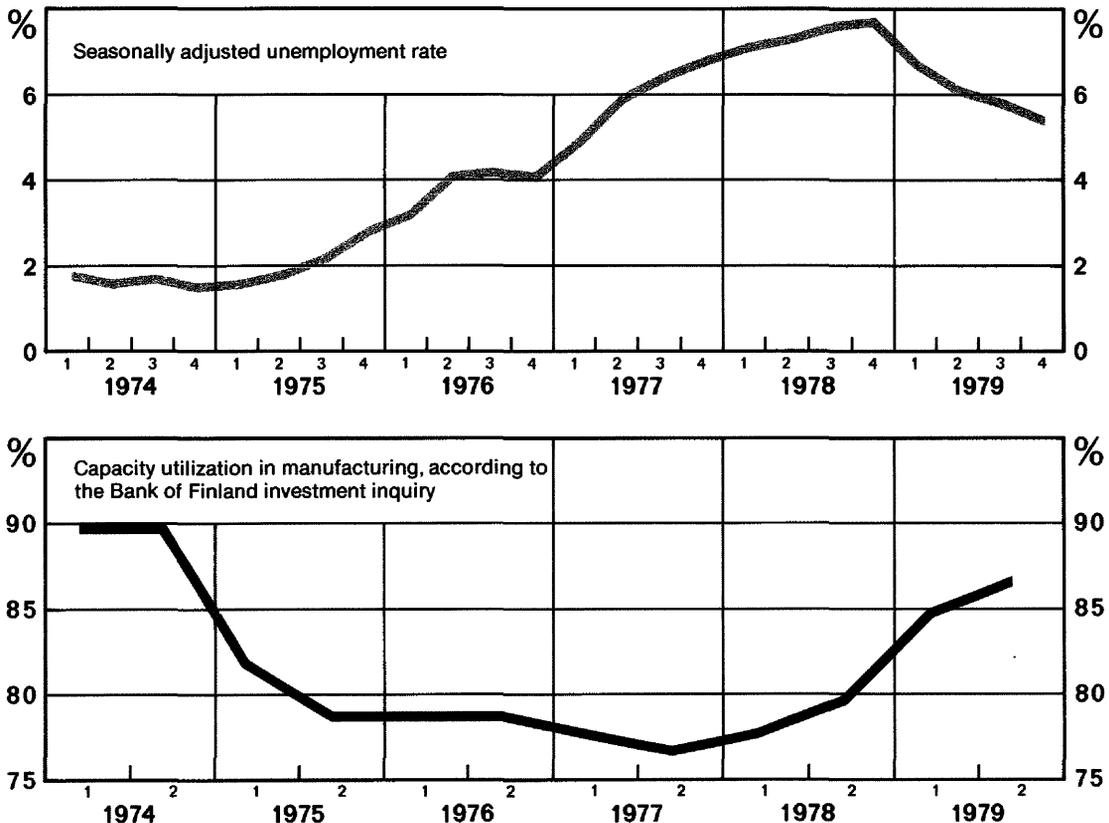
As a result of the growth in exports and the revival in domestic demand, gross domestic product grew by almost 7 per cent in 1979, which was clearly more than the average for the other OECD countries (Chart 2). The greatest increase in output was recorded for forestry and the forest industries; these two categories

of economic activity accounted for about a third of the increase in total output. A substantial output increase was also recorded for the chemical, wearing apparel and metal industries. The total volume of industrial output was up by 8 per cent from the previous year.

ECONOMIC EQUILIBRIUM

The acceleration of economic growth contributed to a rise in capacity utilization of factors of production during 1979; however, the level of utilization was still markedly lower than in the record years of 1973—1974 (Chart 3). The rise in capacity utilization of fixed capital was the fastest in export industries, so that, for example, certain forest industry branches

Chart 3.
UNEMPLOYMENT AND CAPACITY UTILIZATION



operated at near-full capacity. Although part of Finnish industry's fixed capital had obviously lost its competitiveness due to changes in relative prices, the growth prospects for production were not generally curbed by the shortage of capacity.

Owing to the revival in production and the implementation of employment policy measures, there was a marked improvement in employment as well. The number of employed persons grew by 50 000 in 1979. The textile and wearing apparel industries and the metal industry even experienced local shortages of skilled labour. However, the largest increase in employment was recorded for the service industries; this was attributable to the strengthening of demand and the fact that the employment measures taken were mainly focussed on

this sector. The unemployment rate fell by more than 2 percentage points in the course of the year and the seasonally-adjusted rate amounted to 5.5 per cent at the end of the year. About one percentage point of the fall in the unemployment rate was due to the employment measures implemented. However, the majority of the persons employed through special measures were part-time employees.

The international price competitiveness of firms continued to improve in 1979. Owing to a rapid increase in productivity, the rise in unit labour costs was no more than 6 per cent and that in consumer prices 7.5 per cent (Chart 4). Wage and salary earners' earnings rose on average by 11.6 per cent in 1979; rises in negotiated wages and salaries accounted for about 10 percentage points of this increase.

Chart 4.
COSTS AND PRICES

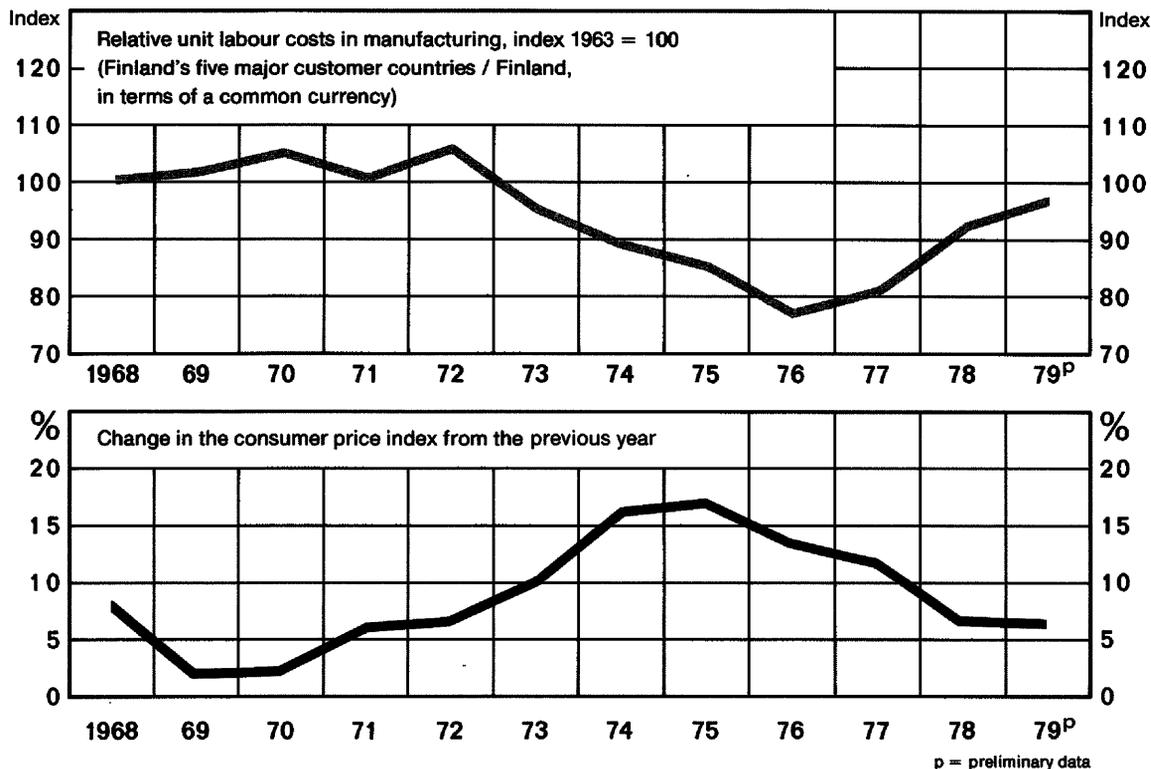


Chart 5.
BALANCE OF PAYMENTS

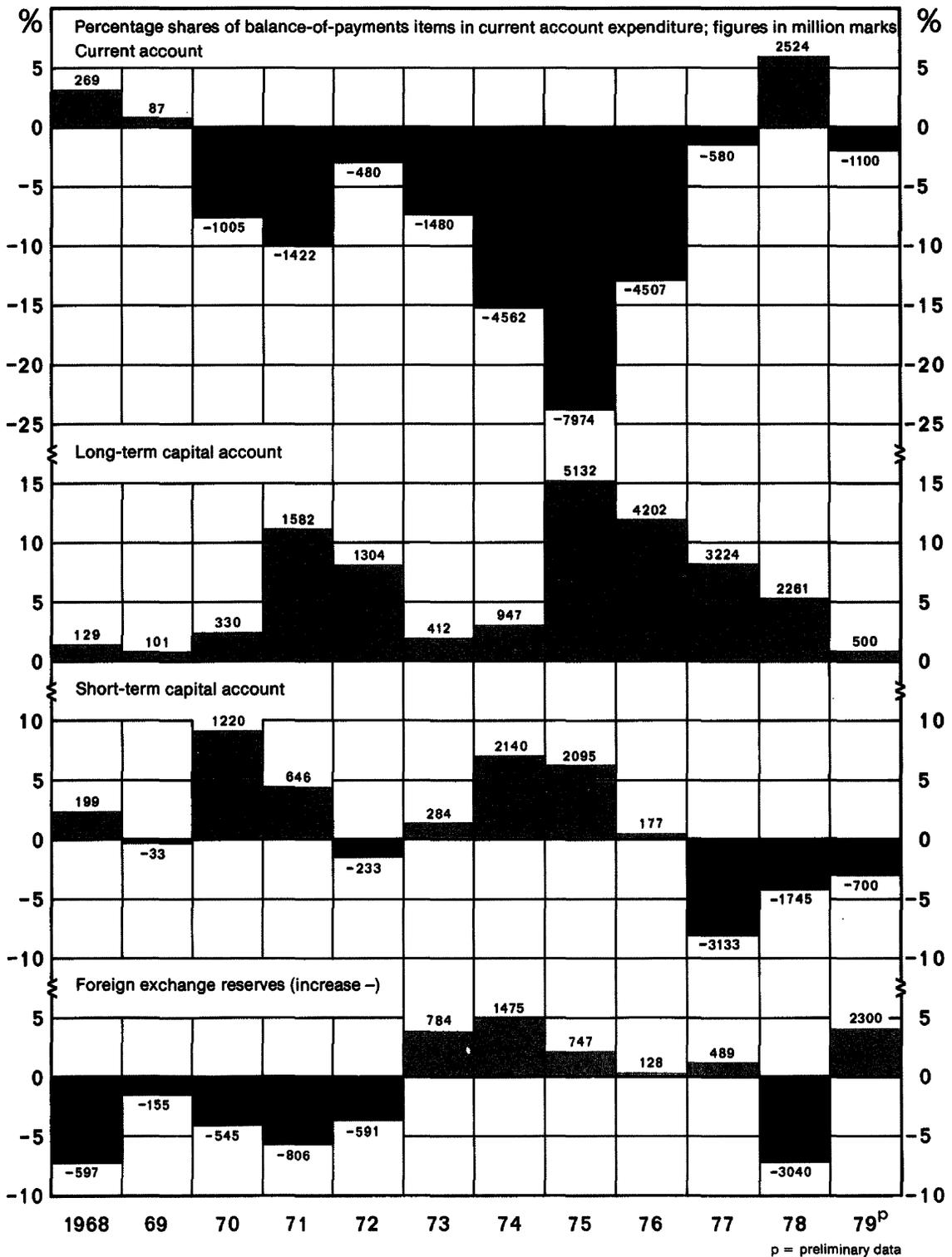
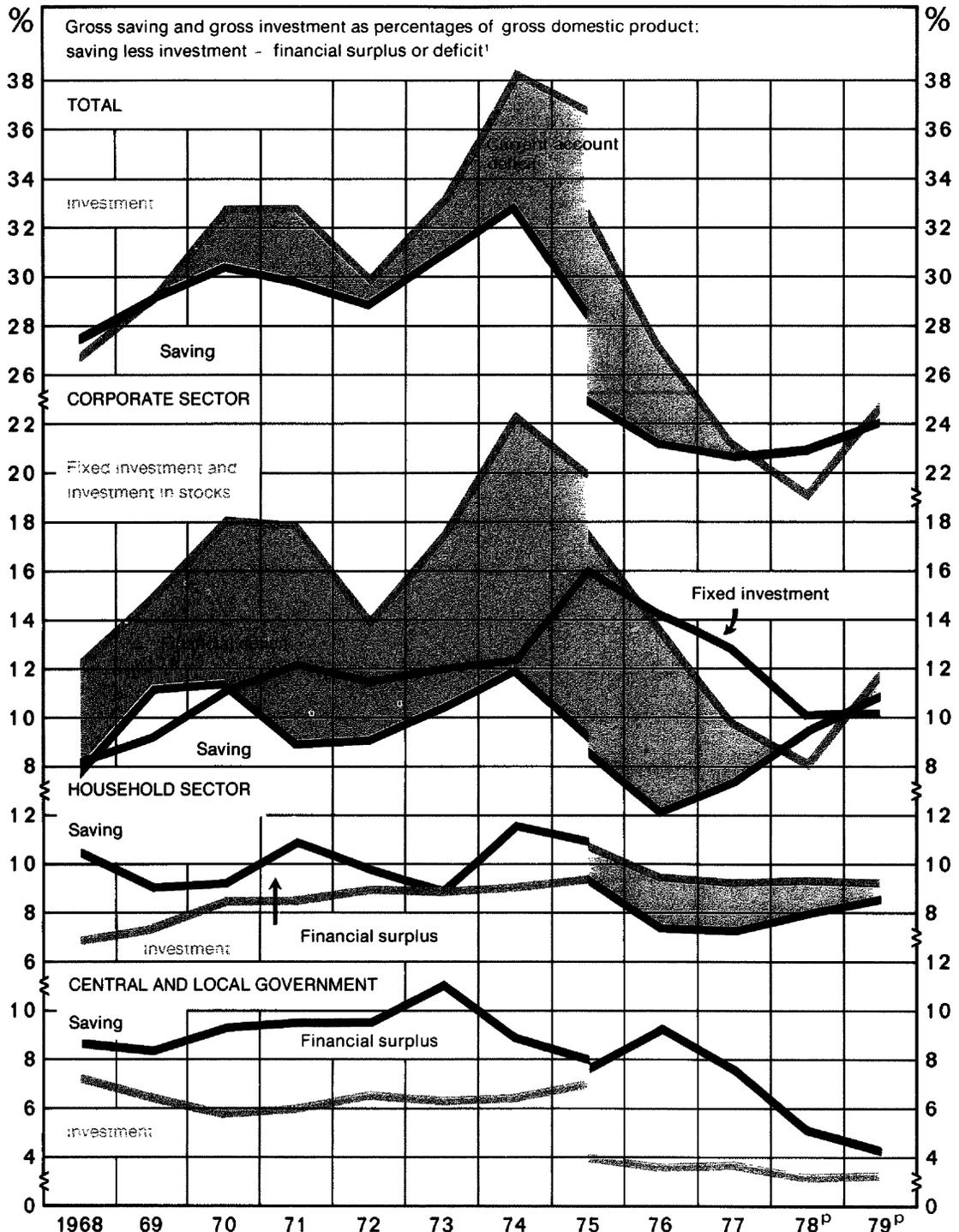


Chart 6.
SAVING AND INVESTMENT



¹ Figures are based on the national accounts revised in 1979. In connection with this revision, the Central Statistical Office of Finland revised the items in the account of gross domestic product and expenditure from 1970 and those in the income and outlay accounts and the capital finance accounts from 1975. At the same time, the flow-of-funds accounts were also incorporated in the national accounts.

p preliminary data

When the comprehensive incomes agreement was concluded in February, a threshold was set for the consumer price index number: the breaching of this threshold by October would have brought about additional pay increases. As the rise in prices of domestic goods and services was small, the index ceiling was not exceeded. However, a marked increase in wholesale prices and building costs indicated that inflationary pressures were strengthening in the course of the year.

Despite the marked revival in domestic demand, the current account still showed a surplus during the first half of the year. As the growth of exports decelerated and the terms of trade deteriorated towards the end of the year, while the growth of imports remained vigorous, the trade account moved towards a deficit. The 18 per cent increase in the volume of visible imports reflected particularly a revival in imports of raw materials. Although Finland's trade with

the Western markets clearly showed a surplus for the year as a whole, rises in the price of oil widened the deficit in bilateral trade to such an extent that the total trade account showed a deficit of about 800 million marks for 1979. As the invisible trade account showed a surplus of about 3 100 million marks and net investment income and unrequited transfers amounted to about 3 400 million marks, the current account showed a deficit of about 1 100 million marks (Chart 5). This was about 0.7 per cent of gross domestic product.

FINANCIAL DEVELOPMENTS

The fact that the current account moved towards a deficit during 1979 reflected the rise in the rate of investment and the subsequent financial deficit which arose mainly in the corporate sector. The central government's financial position also weakened, although the public sector, as a whole, continued to have a

Chart 7.
BANK ADVANCES AND DEPOSITS

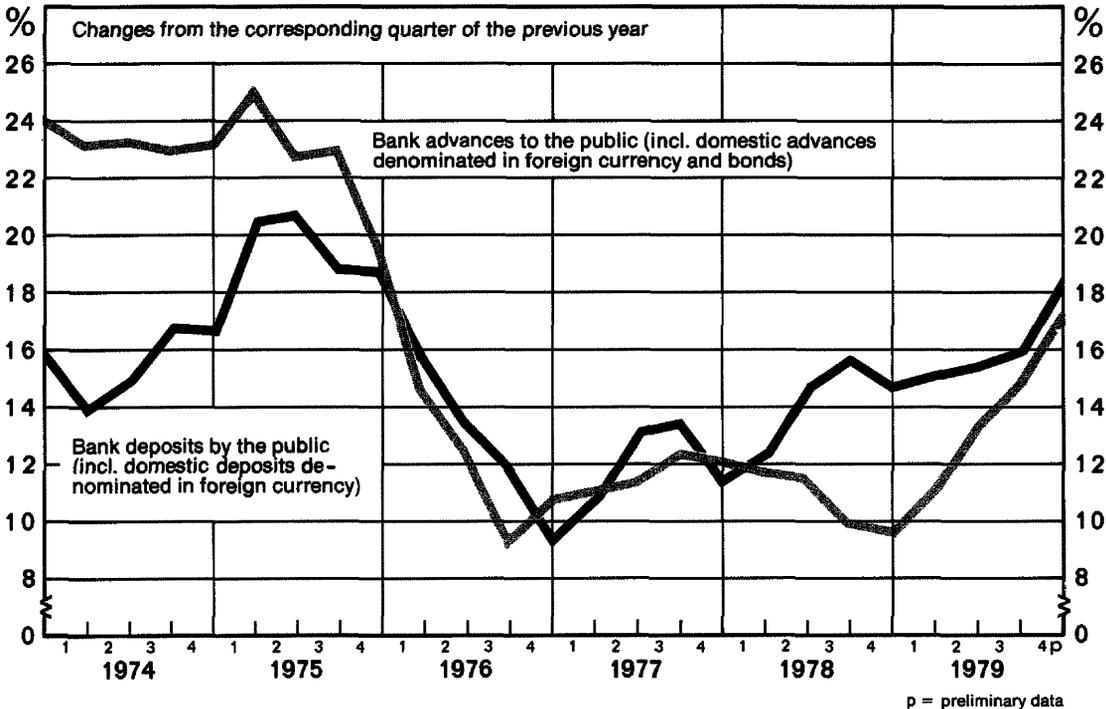
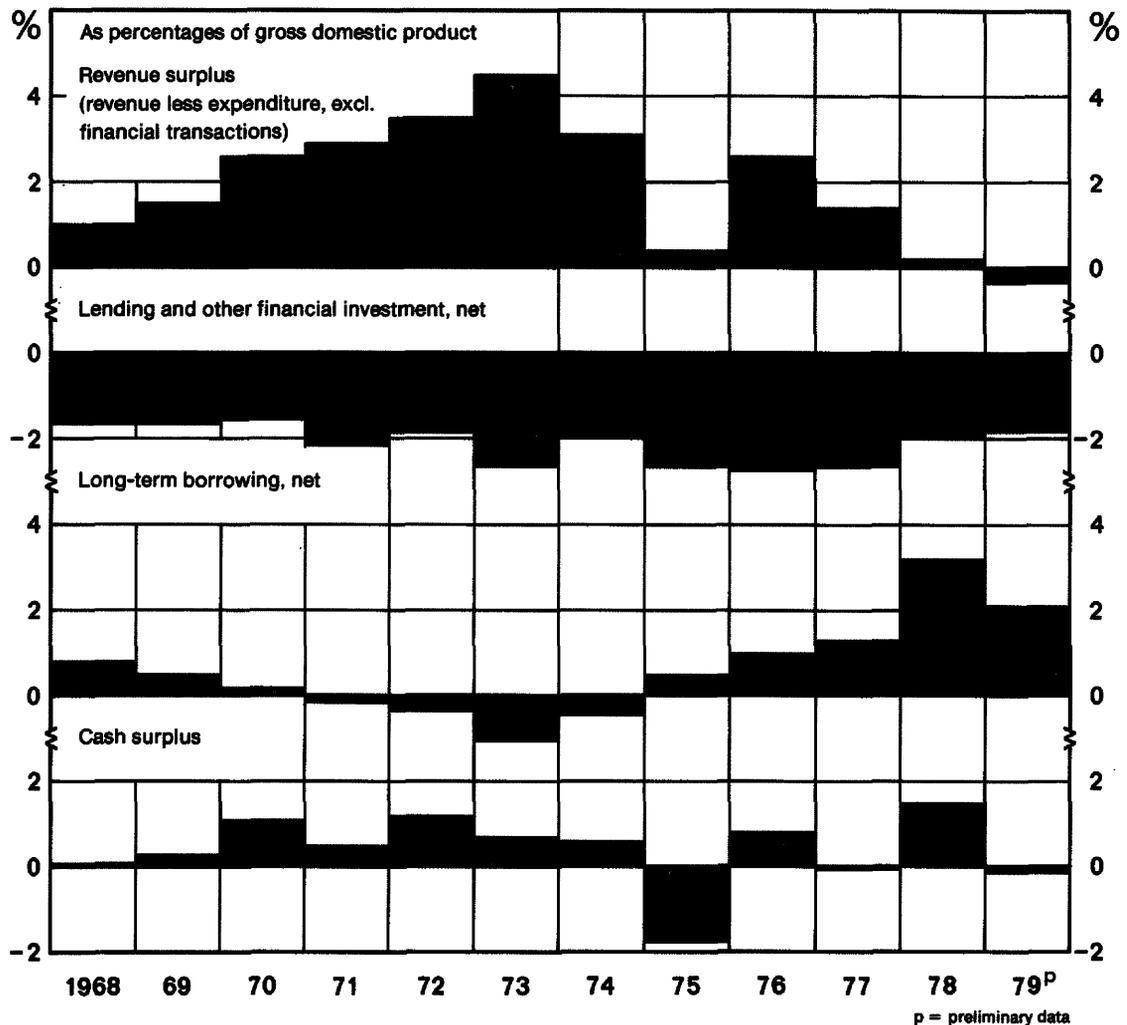


Chart 8.
STATE FINANCES



financial surplus. On the other hand, the household sector's financial position improved and its financial deficit almost completely disappeared (Chart 6).

The emergence of the corporate sector's financial deficit in spite of the favourable income developments was mainly the consequence of an expansion in purchases of machinery and equipment and an upturn in inventory investment. The corporate sector's domestic and foreign financial transactions in

1979 were significantly affected by exchange rate expectations and an increase in the differentials between domestic and foreign interest rates. The corporate sector's foreign debt was reduced during 1979; in addition, its borrowing from domestic financial institutions was fairly modest. The corporate sector's indebtedness declined and its liquidity position improved further, which was reflected in an increase of 28 per cent in demand deposits.

The household sector's financial position

improved as a result of favourable income developments and a rise in the rate of saving. Although the household sector's rate of investment remained almost unchanged, the volume of their borrowing increased substantially; the 17 per cent growth in bank advances was in fact mainly attributable to the household sector's strong demand for credit (Chart 7). Apart from purchases of consumer durables, the abundance of credit finance contributed to a revival in the housing market and an increase in financial assets. Time deposits denominated in marks grew by 17 per cent and placements in shares and Government bonds increased considerably.

Owing to an improvement in the local government financial position and a growth in public social security funds, the public sector as a whole showed a surplus, in spite of the deficit in central government finance. Although economic growth picked up, the central government financial position weakened primarily as a result of the adjustments made in income tax scales and the fact that tax rebates were brought forward. In addition, the central government's current transfers to the private sector and local government increased by almost one fifth. As the central government's cash revenue, excluding financial transactions, was not sufficient to cover consumption and real investment expenditure and current transfers, the central government had an exceptional revenue deficit of about 700 million marks (Chart 8). The central government's lending and other financial investments increased, in net terms, to about 3 000 million marks. The net borrowing requirement of about 3 700 million marks was met almost entirely by borrowing. A total of about 2 200 million marks was raised in the form of domestic loans; on

the basis of an agreement between the central government and the banks, bonds intended for public subscription accounted for about 1 600 million marks of the total. The central government raised a total of about 2 500 million marks in foreign loans during 1979; more than half of these loans were raised during the first half of the year. The central government's financial transactions tightened the financial market exceptionally during the first half of the year but eased it during the latter months of the year. The central government's cash deficit for the year as a whole amounted to about 300 million marks.

The net inflow of capital in 1979 was negligible, although there were sharp fluctuations in short-term capital flows in the course of the year. The net inflow of long-term capital declined clearly from the previous year and amounted to no more than 400 million marks (Chart 5). As the central government's net borrowing amounted to more than 2 200 million marks, the central government's share in the country's foreign debt increased substantially. The outflow of short-term capital amounted to about 1 600 million marks, of which more than half was attributable to an increase in the Bank of Finland's holdings of foreign bonds and the remainder primarily to a statistical revision according to which credits granted for the financing of imports and previously included in the corporate sector's credits, were intermediated through the balance sheets of the banks. Mainly because of this statistical revision, the bank's net foreign debt grew by about 1 400 million marks. If changes in exchange rates and the book value of gold are not taken into account, the foreign exchange reserves of the Bank of Finland declined by about 900 million marks.

CENTRAL BANK POLICY

The aim of central bank policy in 1979 was to create the financial prerequisites for an acceleration in growth, but in such a way that the price competitiveness achieved would not be jeopardized. The policy of promoting investment and production was continued during the first half of the year and, at the same time, attempts were made to absorb the excessive liquidity accrued in the economy, so as to forestall the danger of inflation. In the summer, the foreign exchange flows stemming from revaluation expectations induced a sharp increase in the foreign exchange reserves and an easing of the money market. As the growth of aggregate demand during the first half of the year proved stronger than anticipated and foreign trade prices continued to rise at a rapid rate, central bank policy was gradually tightened. In order to curb price pressures caused by foreign trade, the external value of the Finnmark was raised in May and again in September. Owing to an increase in the differential between domestic and foreign interest rates, the foreign exchange reserves continued to decline even after the impact of exchange rate expectations on the foreign exchange reserves had been offset. The raising of the general level of interest rates which became effective as from the beginning of November was designed to support the foreign exchange reserve position and to curb domestic economic developments. Certain other monetary policy measures had similar aims, while the decline in the foreign exchange reserves per se also tightened the domestic money market.

MONETARY POLICY

Main features of monetary policy

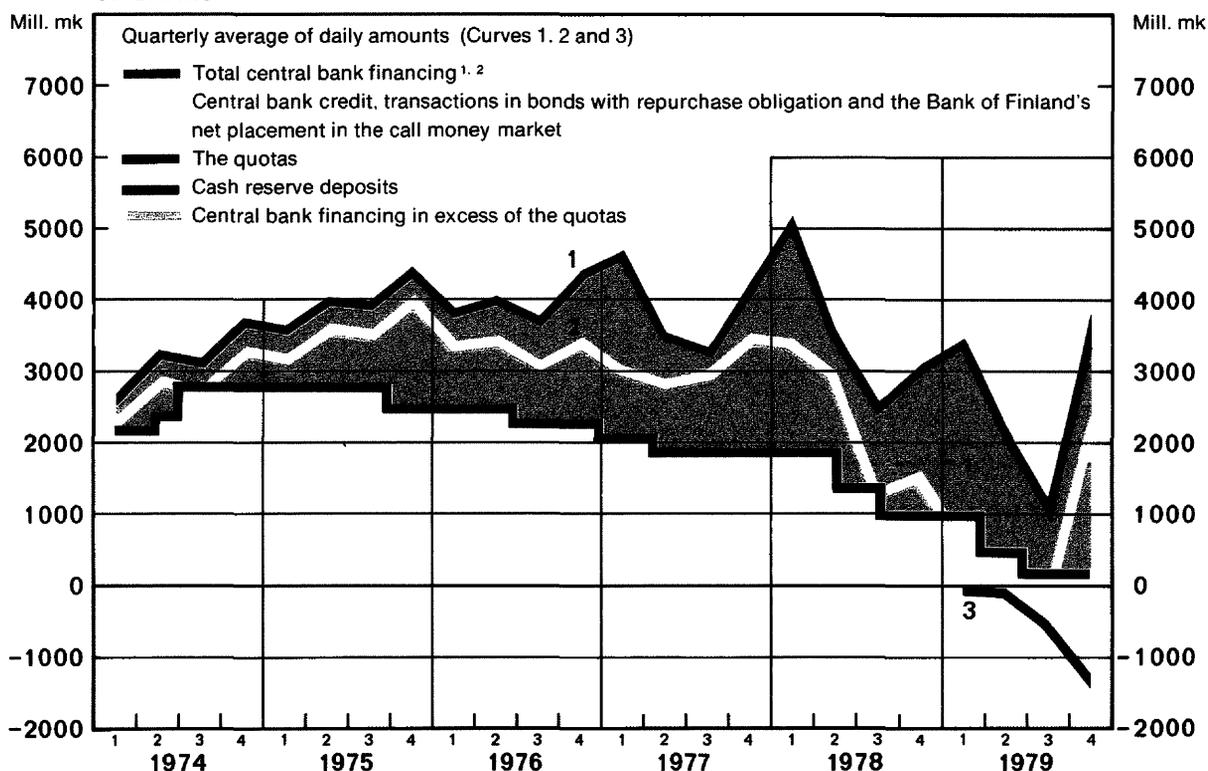
Owing to sluggish investment demand and an improvement in corporations' internal financing, the commercial banks' central bank financing was expected to decline sharply, with the banks moving towards a net receivable position vis-à-vis the central bank. For this reason, a cash reserve agreement was concluded with the banks in March: according to this agreement, the Bank of Finland could oblige all deposit banks to make cash reserve deposits in the Bank of Finland based on their deposit-taking. In this way the set of monetary policy tools was supplemented and, at the same time, monetary policy control was extended to cover all the various types of banking institution. On the other hand, the

surveillance limit and the target system applied to the commercial banks' central bank financing were abolished as from the beginning of the year, in accordance with the overall easing in monetary policy.

The easiness of the money market was maintained by allowing a fairly low level of interest rates on the call money market. Attempts were made to avoid the emergence of excessive easiness by lowering the commercial banks' central bank credit quotas in April and by starting to apply the cash reserve agreement. This overall regulation was supplemented by neutralizing part of the central government's capital imports in the Bank of Finland through transactions in deposit certificates.

A revised central bank financing system was

Chart 9.
COMMERCIAL BANKS' CENTRAL BANK FINANCING AND THE CASH RESERVE DEPOSITS OF BANKS



¹ The commercial banks' central bank financing consists of their central bank credit, their call money advances net of their call money deposits and their transactions in bonds with repurchase obligation. The commercial banks' central bank credit includes bills discounted by the banks at the Bank of Finland and their cheque account debts to the Bank of Finland net of their cheque account receivables from the Bank of Finland.

² Including deposits made by Postipankki in the commercial banks during 1974-1975.

introduced at the beginning of July. This system was based on the assessment that a fairly long-term balance in the financial market seemed likely. Call money market advances, the share of which in central bank financing had already gradually increased in connection with earlier decisions, were now to constitute the framework of central bank financing. The basic-rate quotas were set at a very low level and designed mainly to stabilize daily fluctuations in liquidity.

In the summer, the management of the money market was hampered by a vigorous growth in the foreign exchange reserves, which eased the market so rapidly that the liquidity produced could not be fully absorbed by using

the set of instruments available. This easing could be ascribed to favourable current account developments, the central government's capital imports and, in particular, to the rapid inflow of foreign exchange induced by expectations about changes in exchange rates. In order to neutralize the excessive liquidity, the Bank of Finland conducted transactions in deposit certificates with the central government and increased the rate of collecting cash reserve deposits up to the maximum allowed by the agreement.

Economic activity picked up during the first half of the year more rapidly than expected. Although capacity was by no means fully utilized, it was feared that the rapid growth

rate would cause inflationary pressures. International inflation continued to accelerate due to the rise in the price of oil. These factors, coupled with an easy financial situation, increased the risk of the development of a domestic price and cost spiral. Although forecasts suggested that the following year would see an international recession, it became increasingly clear that economic policy should be tightened to some extent, if balanced growth were to be ensured.

At the end of August, revaluation expectations weakened and the foreign exchange reserves started to decline. In order to curb the impact of rises in foreign trade prices, the Finnmark was revalued towards the end of September and, at the same time, it was decided that the general level of interest rates would be raised as from the beginning of November.

The collection of cash reserve deposits at the maximum rate was continued in the autumn. Inter-bank competition for customers had accelerated in the course of the year and there was a danger that the credit commitments allocated for secondary purposes would absorb a substantial part of the expansion in the banks' lending facilities.

The money market underwent a fairly rapid change in the autumn. In August, the commercial banks even had net receivables from the Bank of Finland for a short spell, but the subsequent decline in the foreign exchange reserves induced an almost equal increase in the commercial banks' central bank financing. However, the decline in the foreign exchange reserves was larger than could be expected merely on the basis of the disappearance of exchange rate expectations and certain revisions in the regulations concerning short-term capital flows; rather, it was attributable to the continuing rise in the international level of interest rates. As a result, the increase in interest rates implemented in Finland at the beginning of November only had a negligible impact on the foreign exchange reserves, be-

cause foreign interest rates had risen still further.

In connection with the raising of the general level of interest rates, the Bank of Finland allowed the call money rate to rise clearly more than the general level. In November the Bank also issued new credit policy guidelines, in which the banks were advised to tighten their lending policies. The aim of these measures was to curb domestic demand and inflation expectations, in particular, and to slow down the decline in the foreign exchange reserves. On the other hand, it was considered necessary to ensure the provision of finance for industrial investments which were just picking up.

The quota policy

The commercial banks' total central bank credit quotas were lowered from 1 000 million marks to 500 million marks from the beginning of April, which meant that the quotas were adjusted to the decline in the banks' central bank financing (Chart 9 and Table 7).

The system applied to the banks' central bank financing was revised from the beginning of July. Under the former system, each commercial bank had a quota expressed in marks; the bank was entitled to discount bills at the basic rate within the range of its quota and to exceed it by up to 70 per cent by paying a penalty interest charge which rose step by step. Under the revised system, the commercial banks' central bank credit took the form of cheque account overdrafts. The total of individual bank credit quotas, defined as monthly averages, was set at 200 million marks. On any given day, each commercial bank's cheque account overdraft could exceed up to 2.5 times the bank's quota. The Bank of Finland's basic rate was applied to cheque account overdrafts. The right to borrow in excess of the quotas at the penalty rate was rescinded.

In order to enable Postipankki to deal with daily fluctuations in its liquidity, it was granted

a basic-rate cheque account overdraft up to 50 million marks, subject to the condition that its average overdraft over the month did not exceed 10 million marks. At the same time, the bank-by-bank breakdown of the central bank credit facility was revised by taking into account changes in the breakdown of cyclical and seasonal fluctuations in liquidity and the breakdown of the banks' stock of deposits.

COMMERCIAL BANKS' CENTRAL BANK CREDIT QUOTAS IN 1979, MILL. MARKS

	Sept. 1, 1978— March 31, 1979	April 1, 1979— June 30, 1979	July 1, 1979—
BH	58.0	29.0	11.0
KOP	274.0	137.0	49.4
Okobank	178.0	89.0	41.8
Skopbank	228.0	114.0	51.0
UBF	256.0	128.0	45.4
ÅAB	6.0	3.0	1.4
Total	1 000.0	500.0	200.0

As the banks' demand for central bank finance was generally kept within the range of the bank-by-bank quota and call money overdraft limits, the volume of transactions in bonds with repurchase obligation was negligible in 1979. The interest rate differential applied to one-week transactions in bonds with repurchase obligation was reduced from 1/2 per cent to 1/3 per cent per week as from the beginning of July. The increase in the cost of central bank financing incurred by the commercial banks from interest rate differentials in transactions in bonds with repurchase obligation was insignificant.

The call money market

As before, besides the Bank of Finland itself, all the commercial banks entitled to receive central bank credit and Postipankki participated in the call money market. The Bank of Finland's participation in the call money market was determined by a placement rule decided by the Board of Management. Placements to curb rises in the call money rate were under-

taken whenever the rate exceeded a certain limit, and placements were increased as long as the rate rose. Conversely, to check the fall of the call money rate, the receipt of surplus deposits started whenever the call money rate fell to a certain level and continued as long as the rate was decreasing.

In connection with the quota reduction in April, the total call money overdraft limit was reduced from 5 000 million marks to 4 000 million marks. In the system of central bank financing introduced at the beginning of July, a more important role was assigned to call money overdrafts and the total call money overdraft limit was raised from 4 000 million marks to 5 000 million marks. At the same time, the bank-by-bank breakdown of the call money overdraft facility, which had earlier been the same as the breakdown of quotas, was revised in conformity with the breakdown of quotas.

In addition, Postipankki was authorized to borrow in the call money market up to a limit of 600 million marks. Previously, Postipankki had been allowed to participate in the call money market only as a depositor. The call money overdraft facility was granted in order

COMMERCIAL BANKS' CALL MONEY OVERDRAFT LIMITS IN 1979, MILL. MARKS

	Oct. 20, 1978— March 31, 1979	April 1, 1979— June 30, 1979	July 1, 1979 ¹ —
BH	290.0	232.0	275.0
KOP	1 370.0	1 096.0	1 235.0
Okobank	890.0	712.0	1 045.0
Skopbank	1 140.0	912.0	1 275.0
UBF	1 280.0	1 024.0	1 135.0
ÅAB	30.0	24.0	35.0
Total	5 000.0	4 000.0	5 000.0

¹ Due to a substantial decline in the foreign exchange reserves and a seasonal peak in the amount of notes in circulation, the commercial banks' call money overdraft limits were raised temporarily in November and December so that the limits could be exceeded by 40 per cent between November 12 and December 9 and by 70 per cent between December 10 and December 31, 1979.

to facilitate the management of the short-term fluctuations in Postipankki's liquidity caused by the seasonal flows in central government finance. However, owing to the favourable financial position of the central government, Postipankki did not resort to its call money overdraft facility during 1979.

The interest rate equalization scheme was also revised in connection with the introduction of the new system.¹ At the same time, the breakdown of funds distributed on the basis of this scheme was altered to correspond to changes in the strain on liquidity caused to the banks by central government finance.

In connection with the raising of the basic rate, the upper limit on the call money rate was raised from 23 per cent to 24 per cent as from the beginning of November.

Until the raising of the basic rate at the beginning of November, the rate of interest applied on the call money market varied between 8 and 9 per cent (Chart 10 and Table 8). In connection with the raising of the basic rate, the Bank of Finland revised its call money market policy so that the call money rate was allowed to rise notably more than the basic rate. During the last months of the year, the call money rate stood at about 13 per cent.

During the first half of the year, the Bank of Finland received an abundance of surplus deposits. After the reduction of the quotas at the beginning of April, the Bank of Finland's

¹ The aim of the interest rate equalization scheme is to reduce the interest expenses on the commercial banks' call money market transactions arising from central government cash surpluses. As before, Postipankki is credited with interest income at the call money rate for only half the amount of its deposits. For the other half, Postipankki is credited with interest income at the Bank of Finland's basic rate and the remainder in excess thereof is transferred to an interest equalization account kept with the Bank of Finland. Unlike the former practice, the Bank of Finland — provided it has received surplus deposits — is credited with the proportion in the funds accrued on the interest equalization account which corresponds to the Bank of Finland's receipt of surplus deposits multiplied by Postipankki's share in the total amount of call money market deposits; the rest of the funds is distributed among the commercial banks.

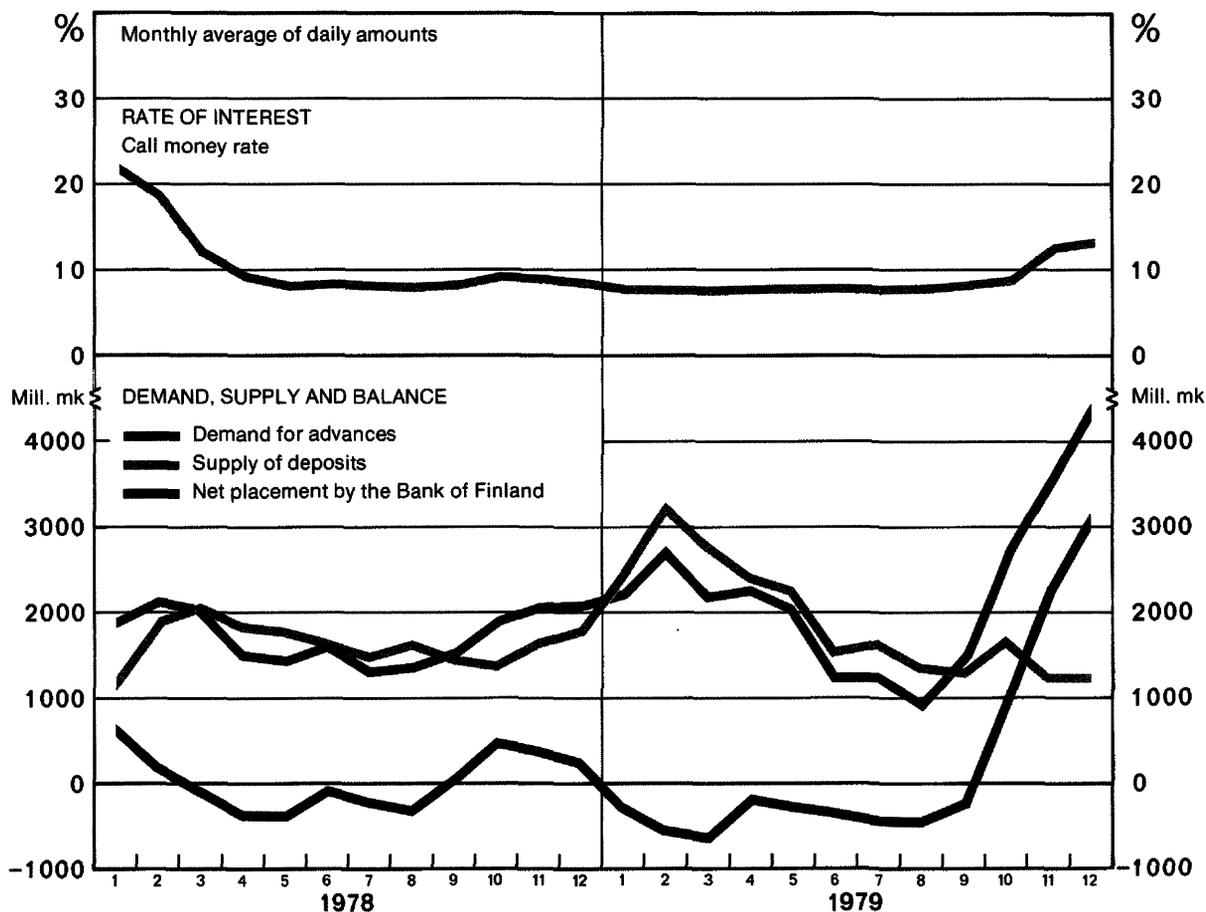
absorption of surplus deposits declined. Attempts were made to mop up the considerable excessive liquidity which had emerged during the summer on the money market by reducing the supply of call money market deposits through transactions in deposit certificates with the central government and the collection of cash reserve deposits at the maximum rate. Nevertheless, the Bank of Finland had to occasionally accept even large surpluses of call money market deposits. Starting in September when the foreign exchange reserves began to decline and the banks' liquidity was reduced, the demand for call money market advances exceeded the supply of call money market deposits. The call money rate was allowed to rise towards the end of the year, while the Bank of Finland's placements in the market increased sharply.

After the revision of the system of central bank financing implemented at the beginning of July, call money market advances represented an increasingly important form of central bank financing. In December, they accounted for 96 per cent of total central bank financing, while a year before their share had been 67 per cent.

The demand for call money market advances averaged 2 272 million marks in 1979 and the supply of call money market deposits 1 951 million marks. The average rate of interest applied on the call money market in 1979 was 9.7 per cent, while the rate of interest paid by the borrowers after interest rate equalization averaged 9.3 per cent.

The average rate of interest paid on total central bank financing in 1979 was 9.0 per cent. When calculating this rate of interest, account is taken, not only of the rate of interest paid on central bank credit, but also of net expenses incurred by the commercial banks in their use of the call money market and the difference between the purchase and resale rates for bonds with repurchase obligation. The corresponding rate of interest in 1978 was

Chart 10.
BANK OF FINLAND CALL MONEY MARKET



8.9 per cent. The differential between the average rate of interest on central bank financing and the average basic rate applied to central bank credit increased from 1.2 percentage points to 1.4 percentage points in 1979.

Cash reserve agreement

In March the Bank of Finland and the banking institutions signed a cash reserve agreement, so as to supplement the Bank's set of monetary policy tools in view of the easing of the money market. Cash reserve deposits had last been collected in the late 1960s. According

to the agreement, the Bank of Finland is entitled to oblige the banking institutions to hold funds in the central bank in the form of cash reserve deposits. The cash reserve requirement is set as a percentage, confirmed by the Bank of Finland, of the stock of deposits outstanding at the end of each month, and the corresponding amount of cash reserve deposits has to be made before the end of the following month. Deposits of another deposit bank, a mortgage bank, Finnish Export Credit Ltd and the central government are excluded from the stock of deposits. Only half of residents' deposits denominated in foreign currency are included when calculating the cash reserve

requirement. The Bank of Finland can raise the cash reserve deposit coefficient by at most 0.4 percentage points per month, and the ceiling on the coefficient has been set at 5 per cent. The Bank of Finland pays interest on the cash reserve deposits at an annual rate which is 3/4 percentage points lower than the prevailing basic rate. The cash reserve requirement will be in force until further notice.

It was decided that the application of the agreement would be started in April in order to prevent an excessive easing of the financial market. The reserve requirement was set for the first time on the basis of the stock of deposits outstanding at the end of April, and it was fixed at 0.2 per cent. In May the reserve requirement was raised to 0.4 per cent. From June it was raised until the end of the year by the maximum amounts allowed by the agreement so that the reserve requirement coefficient set on the basis of the stock of deposits outstanding at the end of December was 3.2 per cent. At the end of December, the cash reserve deposits determined on the basis of the stock of deposits at the end of November amounted to 1 764 million marks.

Interest rate policy

The general level of interest rates was raised as from the beginning of November. The Bank of Finland raised the basic rate on central bank credit extended to the banking institutions from 7 1/4 per cent to 8 1/2 per cent, the upper limit on the rates of interest charged on other credits from 8 1/2 per cent to 9 3/4 per cent and the lower limit from 5 1/2 per cent to 6 3/4 per cent (Chart 11 A and Table 5).

The banking institutions were to raise their lending rates similarly by 1 1/4 percentage points, and the upper limit on these was raised from 10 1/2 per cent to 11 3/4 per cent. In connection with the interest rate decision, the Bank of Finland advised the banking institutions to consider prospects for extending the loan periods of housing loans or for revising

the loan terms otherwise so that the increase in housing costs induced by the rise in the rates of interest could be reduced.

The banking institutions raised their deposit rates so that the interest rate differential was increased further to the benefit of long-term deposits. The deposit rates were as follows during 1979:

	May 1, 1978— Oct. 31, 1979 Per cent	As from Nov. 1, 1979— Per cent
36-month savings premium or tax concession deposits ¹	7.25	9.00
24-month term deposits	6.50	8.25
12-month term deposits	5.50	7.00
6-month term deposits	4.25	5.50
Deposits with 6 months' notice	4.25	5.50
Deposits with 4–5 months' notice	2.75	3.75
Deposits with 2–3 months' notice	1.75	2.75
Deposits with one month's notice	0.75	1.75
Savings accounts and ordinary deposit accounts ²	3.25	4.25
Deposit accounts with cheque facility ^{2,3}	3.00	4.25
Cheque accounts and postal giro accounts	0	0

On the international financial markets, rates of interest rose very vigorously, particularly during the latter half of the year. Chart 11 A shows developments in the rates of interest on credits denominated in dollars.

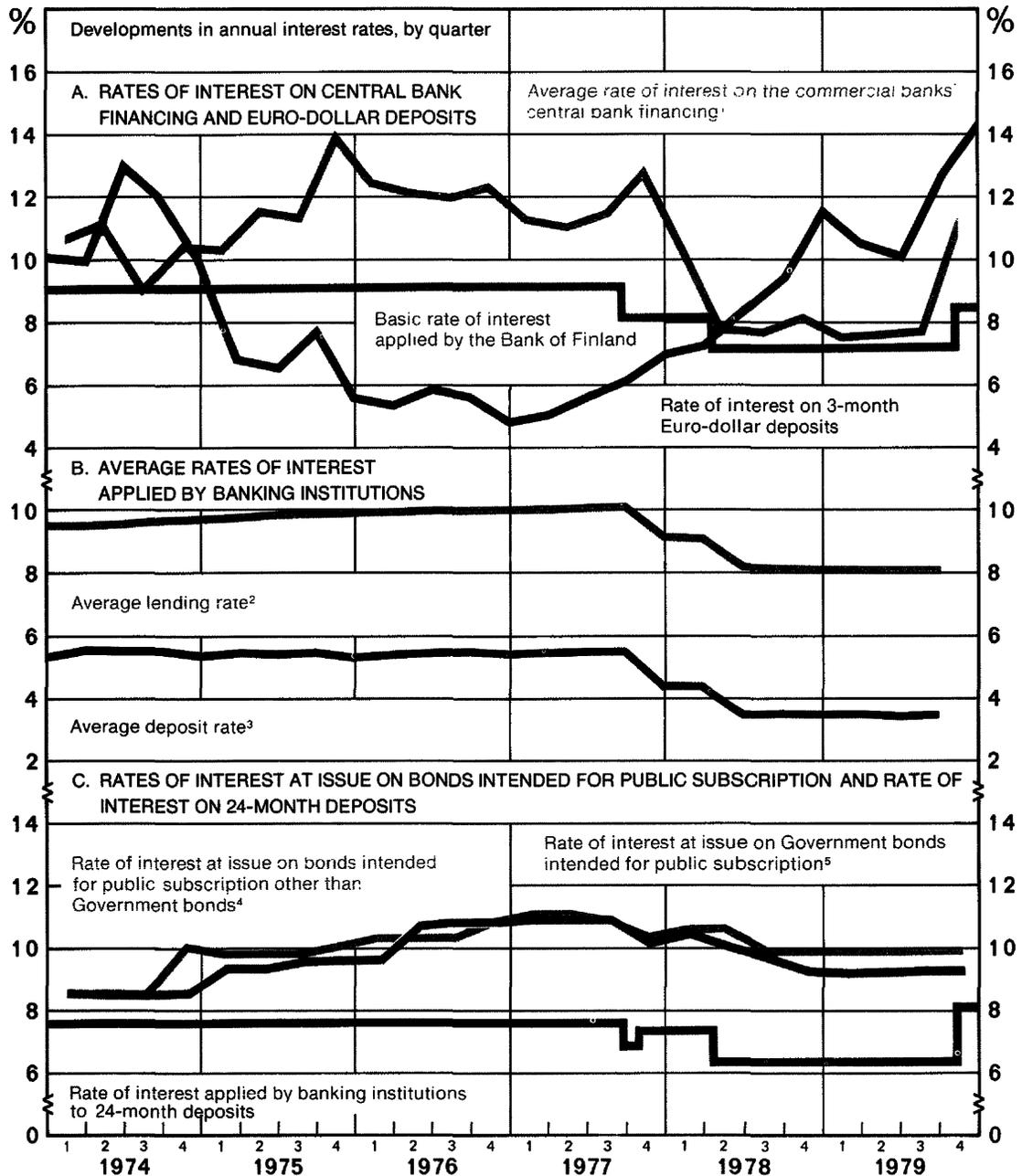
At the end of the year, the average lending rate applied by the banking institutions (Chart 11 B) was 9.42 per cent, as against 8.24 per cent in the previous year. The developments in the average lending rate were partly affected by the guidelines issued by the Bank of Finland concerning the timetable for reducing the average lending rate.

¹ In addition, the central government pays an interest premium of 1.25 per cent per annum; moreover, the depositor has a chance of winning a savings premium. In the case of tax concession deposits, the depositor receives a tax concession benefit.

² Since November 1, 1979 interest has been paid for the period between the value dates, but excluding both these days.

³ Interest paid is calculated on the basis of the lowest balance during the month.

Chart 11.
RATES OF INTEREST



¹ Including the sale of bonds with repurchase obligation and the Bank of Finland call money market (quarterly average of daily amounts).

² Weighted by shares in loans outstanding.

³ Weighted by shares of various types of deposit accounts.

⁴ Weighted by issues of bonds.

⁵ Weighted by sales of bonds.

WEIGHTED AVERAGE LENDING AND DEPOSIT RATES OF INTEREST APPLIED BY BANKING INSTITUTIONS AND THE DIFFERENCES BETWEEN THESE RATES AT THE END OF 1978 AND 1979, PER CENT

	Dec. 31, 1978			Dec. 31, 1979		
	Lending rate	Deposit rate	Difference	Lending rate	Deposit rate	Difference
Postipankki	7.95	2.62	5.33	9.19	3.30	5.89
Commercial banks	7.87	3.57	4.30	9.06	4.55	4.51
Savings banks	8.64	3.97	4.67	9.80	5.05	4.75
Co-operative banks	8.66	3.87	4.79	9.79	4.97	4.82
Banking institutions, overall	8.24	3.63	4.61	9.42	4.63	4.79

The average deposit rate applied by the banking institutions (Chart 11 B) was 4.63 per cent at the end of the year, 1.00 percentage points higher than a year earlier. At the end of the year, the difference between the lending and deposit rates was 4.79 percentage points, as against 4.61 percentage points at the end of 1978.

Despite the raising of the general level of interest rates at the beginning of November, the rates at issue on bonds intended for public subscription remained unchanged in 1979 (Chart 11 C).

Credit policy guidelines

In November the Bank of Finland issued new credit policy guidelines to the banking institutions. In these it was noted that economic growth was faster than forecast and that the active curbing of inflation would have to be continued if competitiveness and employment were to be safeguarded.

According to the guidelines, it seemed likely that the financial markets would tighten again after the disappearance of the easiness in the summer which was caused by exceptional factors. In order to stabilize developments in the financial markets, the banking institutions were advised to be more selective in their treatment of credit applications, so that excessive tightening of the financial markets could be forestalled at the stage when

domestic demand would again need supporting.

The banking institutions were advised to give priority to ensuring the availability of finance for profitable industrial investments and energy-saving investments. It was hoped that the timing of the investment projects could be influenced so that the impact on employment of their implementation would be greatest during the second half of 1980 and in 1981. On the other hand, according to the guidelines, strict criteria were to be applied when granting credit for the construction or purchases of dwellings. The banks were advised to be highly selective in granting credit for consumption and for speculative real investments or financial placements. In particular, they were advised to avoid competition concerning the terms of consumer and housing loans.

Statements concerning bonds

In 1979, the Bank of Finland gave the Council of State 33 statements concerning private bond issues. All issue applications received favourable statements, and were granted permits. The total nominal value of the loans was 1 664 million marks, which was almost 700 million marks more than in the previous year. Apart from increased issues of mortgage banks, the increase in long-term credit finance was attributable mainly to certain large energy investments and the consolidation of debts of certain industrial firms.

Of the loans, 22 were issued by private mortgage institutions, 10 by industrial or energy companies and one by a development credit institution. The total nominal value of the loans issued by private mortgage institutions was 1 084 million marks, 414 million marks more than in 1978. The total value of the loan applications made by industrial or energy companies in 1979 amounted to 560 million marks. The issue made by the development credit institution was worth 20 million marks. The loans issued by mortgage institutions and the development credit institution were mainly used to finance residential construction, and corporate and municipal industrial investments.

The total nominal value of the nine private bonds intended for public subscription was 512 million marks, about 200 million marks more than in the previous year. These loans bore a rate of interest of 10 per cent. The total nominal value of the other bonds issued amounted to 1 152 million marks, and the rate of interest on these, sometimes variable, was between 8.25 and 10.75 per cent.

Deposit certificates and term deposits

Transactions in deposit certificates were used very actively as a tool of monetary policy during 1979. The value of deposit certificates in circulation amounted to 1 090 million marks at the beginning of the year and reached a peak of 3 378 million marks in June—August. In the autumn, their value declined, totalling 1 700 million marks at the end of the year. In December the Bank Supervisors extended the interest payment period, which forms the basis for the sales of deposit certificates, until the end of 1983.

The public sector's term deposits at the Bank of Finland increased by 271 million marks. Owing to the addition of interest accrued, central government counter-cyclical reserves grew by 2 million marks to reach 42 million marks. Central government capital import

deposits increased by 269 million marks and amounted to 339 million marks at the end of the year.

Corporations' term deposits increased by 47 million marks during 1979 and reached 403 million marks at the end of the year. Their capital import deposits totalled 254 million marks at the end of the year, 49 million marks less than a year earlier. Owing partly to the introduction of an Investment Reserves Act which was more favourable to enterprises, corporations' deposits for investment and ship purchases increased by 101 million marks and totalled 133 million marks at the close of the year.

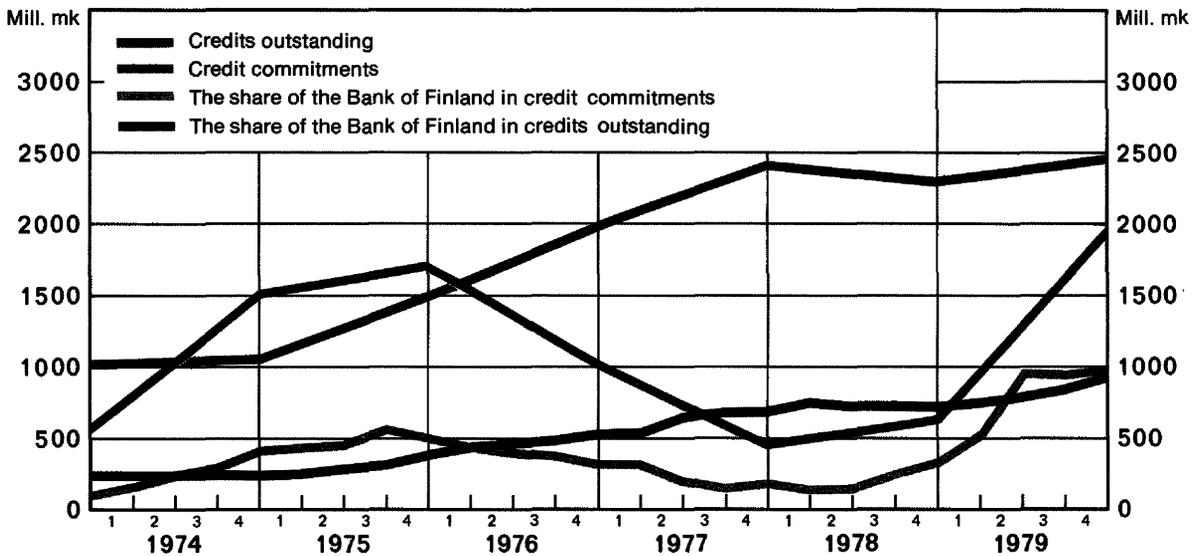
In order to support the use of investment reserves, the Bank of Finland decided to pay, as from the beginning of December, an annual rate of interest of 7 per cent on corporations' investment deposits which have been made out of the net profits for the accounting period ending before April 1, 1980, and for which the corresponding investment reserve has been made on November 15, 1979, or thereafter. The rate of interest paid on these deposits is 1 1/2 percentage points lower than the prevailing basic rate applied by the Bank of Finland.

Special financing arrangements

The Bank of Finland's permanent special financing arrangements comprise the arrangements made for the financing of domestic suppliers' credits, new-export credits and short-term export credits. The terms of these arrangements were kept unchanged during 1979, apart from the increase in the rates of interest applied thereto corresponding to the change in the basic rate. The stock of credits under special financing arrangements increased by nearly a third during 1979 and amounted to 2 201 million marks at the end of the year.

Domestic suppliers' credits are used to finance domestic suppliers' deliveries of capital goods to domestic customers. The aim of this system

Chart 12.
FINANCING OF DOMESTIC DELIVERIES



is to ensure that Finnish firms are financially competitive with foreign suppliers on the domestic market. The system is operated by the Bank of Finland, the commercial banks and Postipankki. Like the basic rate, the rate of interest on domestic suppliers' credits was raised to 8 1/2 per cent as from the beginning of November. The temporary arrangement for extending this system made in the previous year, under which domestic suppliers' credits could also be granted to finance major intra-corporate deliveries of machinery and equipment, was extended until the end of the year.

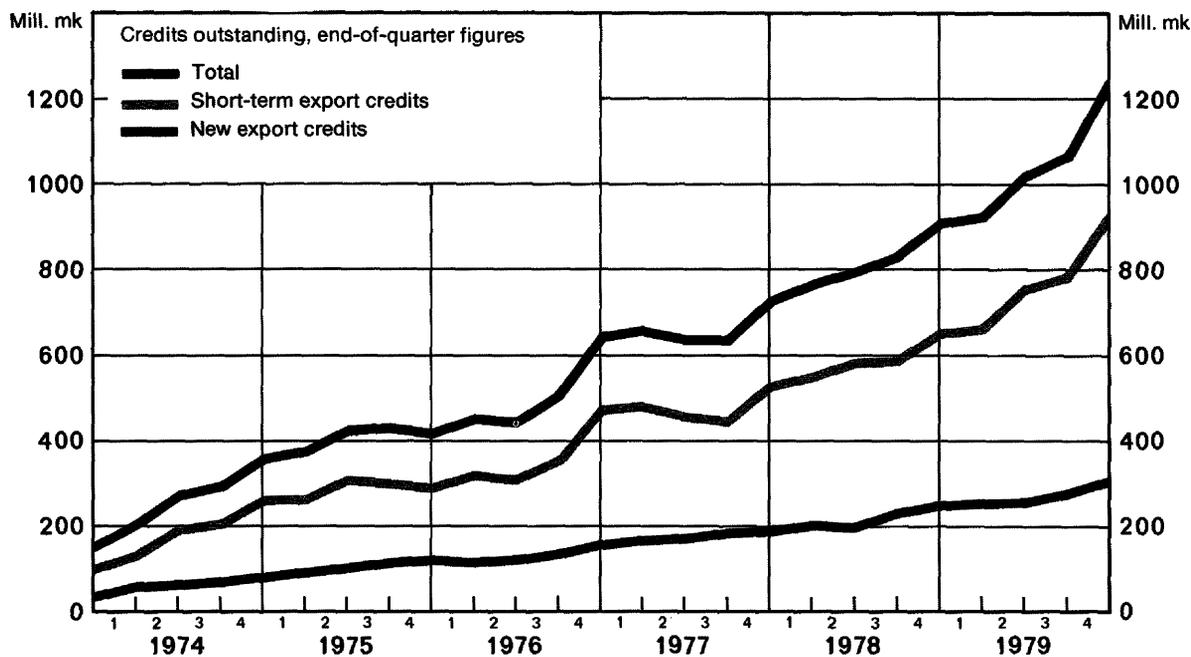
In line with the vigorous revival in investment, the stock of orders to be financed with domestic suppliers' credits tripled and amounted to 2 691 million marks at the end of the year. New credit commitments made in 1979 under this system totalled 2 235 million marks, of which the Bank of Finland's share was 1 117 million marks. At the end of the year, credit commitments outstanding totalled 1 972 million marks, of which the Bank of Finland accounted for 986 million marks (Chart 12). Drawings of domestic

suppliers' credits totalled 917 million marks, of which 466 million marks was financed by the Bank of Finland. At the end of the year, the stock of credits outstanding, 2 491 million marks, was 169 million marks more than a year earlier; the Bank of Finland's share in the financing comprised 952 million marks.

New-export credits are granted to provide pre-shipment finance to meet the demand for working capital needed by small and medium-sized industrial firms as a result of an expansion in their exports. The rate of interest applied by credit institutions to new-export credits was raised to 7 3/4 per cent as from the beginning of November. The stock of new-export credits outstanding grew by 22 per cent during 1979 and amounted to 311 million marks at the end of the year (Chart 13). The textile, wearing apparel and leather industries accounted for 29 per cent of the stock of credits outstanding and the manufacture of fabricated metal products, machinery and equipment for 27 per cent. At the close of the year, a total of 1 531 firms were in receipt of this type of credit. Fur farms accounted for

Chart 13.

FINANCING OF NEW EXPORT CREDITS AND SHORT-TERM EXPORT CREDITS



about 60 per cent of the total of borrower firms and for about 10 per cent of the stock of credits outstanding.

The purpose of the arrangements for the financing of short-term export credits is to refinance export credits granted to foreign buyers for up to 24 months, in connection with exports payable in convertible currencies. When the general level of interest rates was raised in November, the rate of interest on the refinancing of export deliveries payable within 12 months was raised to 7 3/4 per cent and that on the refinancing of export deliveries payable in more than 12 months to 8 1/4 per cent.

The stock of short-term export credits outstanding grew by 41 per cent and reached 919 million marks at the end of the year. In addition, credits granted to factoring companies under these financing arrangements increased from 12 million marks to 19 million

marks during 1979. The marked increase in the stock of credits outstanding was attributable to the brisk level of export and the growth in the differential between the rates of interest on domestic and foreign credits. At the end of the year, the manufacture of fabricated metal products, machinery and equipment accounted for 40 per cent of the stock of credits outstanding, the basic metal industries for 19 per cent, and the textile, wearing apparel and leather industries for 11 per cent. At the end of the year, a total of 717 firms were in receipt of credit of this type.

FOREIGN EXCHANGE POLICY

Developments in international foreign exchange and financial markets

The turmoil prevailing in the international foreign exchange markets in recent years did not abate in 1979, although the course of exchange rate development of certain major

currencies underwent a change. The U.S. dollar continued to weaken against the deutschemark and the Swiss franc, but strengthened against the Japanese yen. In order to influence the external value of their currencies, many countries resorted to monetary and foreign exchange policy measures which were occasionally quite strong. The developments in the foreign exchange and financial markets were characterized by a marked rise in the level of interest rates during the second half of the year.

The external value of the U.S. dollar fell in the course of the year, mainly as a result of accelerating inflation, the persistent trade account deficit and certain factors associated with international uncertainty. The markets remained calm until the middle of the year and the dollar was fairly stable against the above-mentioned currencies. However, during the summer months, the dollar started to weaken. In order to reduce pressures on the dollar and to curb inflation, the U.S. authorities resorted to significant economic policy measures at the beginning of October. The raising of the discount rate to 12 per cent and a tightening of the regulations applied to the banks' cash reserves constituted the most important of these measures. The aim of the measures was to curtail lending, and as a result the dollar strengthened clearly. At the end of the year, the dollar weakened again owing to a decline in the differential between the interest rates on loans and deposits denominated in dollars and other currencies, the rises in the price of crude oil and heightened tension in the international political situation. For these reasons, the price of gold also rose sharply, particularly at the end of the year; during the year as a whole, the price of gold more than doubled. The U.S. dollar weakened by 5 per cent against the deutschemark and by 2 per cent against the Swiss franc, while it strengthened by 23 per cent against the Japanese yen.

Rates of interest rose substantially in the major industrial countries during 1979. In the

United States, rates of interest rose almost continuously until the last months of the year. November and December saw a slight fall in rates of interest. At the end of the year, the minimum lending rate applied by the U.S. commercial banks was 15 per cent. The three-month Euro-dollar rate reached almost the same level (Chart 11). The Euro-deutschemark rate amounted to 9 per cent and the Euro-Swiss franc rate to 6 per cent at the end of the year.

In March, the EEC countries replaced their system of joint floating of currencies by the new European Monetary System (EMS), in which the values of currencies are tied to each other by means of a common currency unit. The EEC countries, excluding the United Kingdom, decided to participate in this system. In addition, countries outside the EEC were also invited to participate.

The primary aim of the European Monetary System is to stabilize the mutual exchange-rate development of the member countries' currencies. A satisfactory functioning of the system requires that there are no marked disparities between the rates of inflation and competitiveness of the member countries. In particular, the relatively slow rate of inflation and the strong balance-of-payments position of the Federal Republic of Germany created tension between the EMS currencies during the summer and early autumn. Because of this and the weakening of the dollar, the exchange rates for the currencies in the system were revised: the deutschemark was revalued by 5 per cent against the Danish krone and by 2 per cent against the other EMS currencies. At the end of November, Denmark devalued its krone by another 5 per cent.

The persistently large borrowing requirements of several industrial and developing countries contributed to an expansion in international lending and borrowing activities last year. The total current account deficit of the OECD countries amounted to about 30 000 million dollars in 1979 and that of the developing

countries to about 47 000 million dollars. On the other hand, the total current account surplus of the OPEC countries increased from about 7 000 million dollars in 1978 to about 65 000 million dollars, mainly as a result of the marked rise in the price of oil. The supply of loan capital remained good in the international financial markets. The rise in the level of interest rates was mainly attributable to domestic inflationary developments in the countries of loan currencies rather than to an excessive growth in the international demand for credit.

International lending totalled about 120 000 million dollars in 1979. This figure includes the new publicly announced Euro-currency loans, international bond issues and foreign bonds floated on domestic financial markets. Developments in the international financial markets were characterized by rises in the level of interest rates on loans denominated in the major loan currencies. On the other hand, the spread applied to loans with a variable interest rate on top of a fixed basic rate remained small and even diminished.

New publicly announced Euro-currency loans amounted to the equivalent of about 80 000 million dollars. About a half of this amount comprised credits granted to developing countries. The share of industrial countries in the total of new Euro-currency loans declined in 1979 mainly as a result of the rise in Euro-dollar rates.

The total volume of international bond issues and foreign bonds floated on domestic financial markets amounted to more than 40 000 million dollars. Due to the rise in the level of interest rates, foreign bond issues in the United States declined markedly. On the other hand, issues of Euro-bonds denominated in dollars increased owing to a vigorous expansion in issues of floating-rate bonds. Although the level of interest rates rose, the total volume of issues of bonds denominated in deutschmarks remained almost the same as

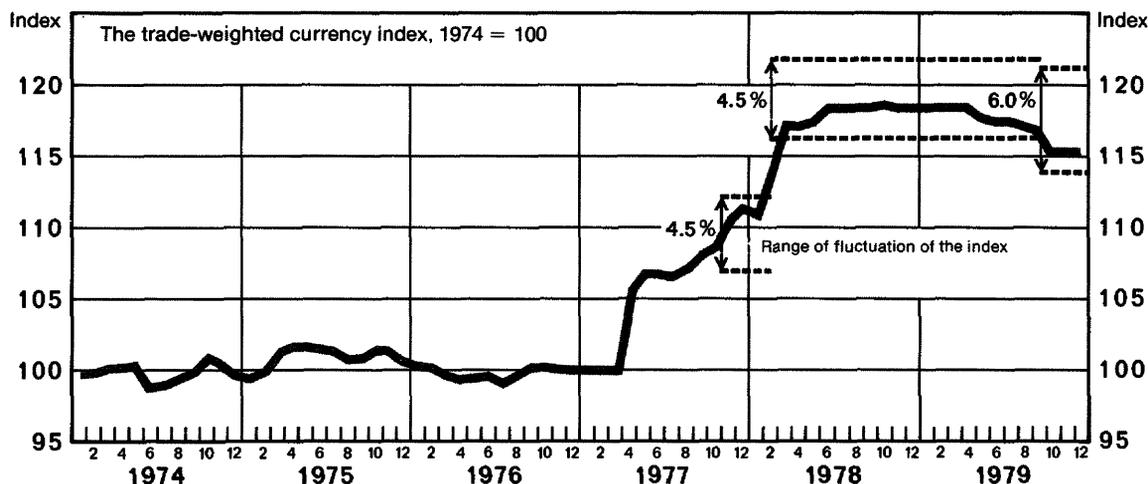
in the previous year, while the volume of foreign bond issues on the Swiss capital market increased substantially. The volume of foreign bond issues in Japan declined as a result of a devaluation of the yen and a rise in the level of interest rates.

Foreign exchange policy and the domestic foreign exchange market

After the devaluation of the Finnmark in 1978, the domestic foreign exchange market remained fairly peaceful until the first months of 1979. During this period, the currency index indicating the external value of the mark was kept stable. However, in the spring a public debate about revaluation induced speculative capital flows, resulting in a rapid growth in the foreign exchange reserves. At their peak level in August, the convertible foreign exchange reserves of the Bank of Finland amounted to about 7 000 million marks. In May and August, the Bank of Finland raised the external value of the mark within the range of fluctuation of the currency index by a total of about 1.5 per cent. On 21st September, the Council of State decided, on the proposal of the Bank of Finland, to widen the range of fluctuation of the currency index from 4.5 per cent to 6 per cent. On the same date, the external value of the mark was raised by almost 2 per cent. The new fluctuation limits of the currency index were 114.0 and 121.0, as against 116.4 and 121.7 previously.

The increases in the external value of the mark implemented in the course of the year were designed to soften the impact of the acceleration in domestic inflation caused by the sharp rises in foreign trade prices during 1979. In the autumn, the foreign exchange reserves started to decline rapidly after the slackening of revaluation expectations. This was also affected by the increase in the differential between domestic and foreign interest rates caused by the sharp rise in foreign interest

Chart 14.
BANK OF FINLAND CURRENCY INDEX



rates. The decline in the foreign exchange reserves came to a halt at the end of the year.

The development of the mark rates for individual currencies was much more stable than in the preceding two years. In terms of the currency index, the external value of the Finnmark strengthened by 2.7 per cent during 1979 (Chart 14). Of the various currencies, the dollar weakened by 5.5 per cent against the mark, the Swedish krona by 2.3 per cent and the rouble by 3.3 per cent. The Japanese yen weakened the most, by 23 per cent, against the mark. The rate for the deutsche-mark remained unchanged and the pound sterling strengthened by 3.4 per cent (Chart 15). The selling rates for the currencies quoted by the Bank of Finland in 1979 are shown in Table 14. In 1979, the Bank of Finland's spot sales of currencies to the authorized banks totalled 1 823 million dollars and spot purchases 1 434 million dollars (Chart 16).

Revaluation expectations were also felt in the dollar forward exchange markets. During the spring and summer, the Bank of Finland mainly covered transactions of exporters. On the other hand, in September and October, after the

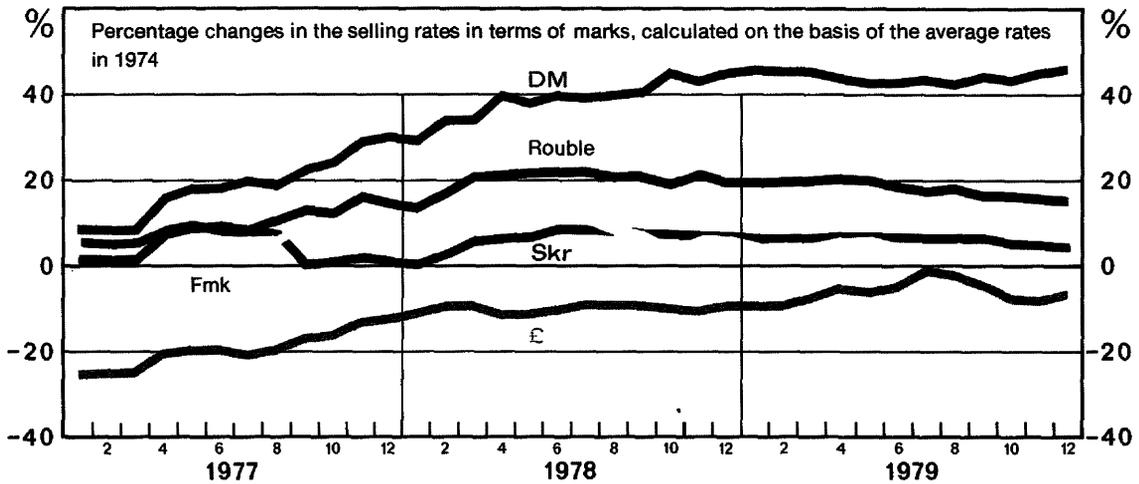
revaluation, the Bank of Finland mostly covered importers' transactions.

During the first months of the year, the mark was at a discount against the U.S. dollar, i.e. the forward rates for the dollar were higher than the spot rates. From April onwards, interest rate parity was observed in the determination of exchange rates, and the forward rates were determined on the basis of the differential between domestic and foreign interest rates. In consequence, the mark was at a premium against the dollar, i.e. the forward rates for the dollar were lower than the spot rates. When interest rates rose sharply in the United States, the premium reached its peak level, 4 per cent per annum. The Bank of Finland's forward exchange purchases in dollars totalled 482 million dollars in 1979 and sales 324 million dollars.

The rouble forward exchange markets were very sluggish. The Bank of Finland's forward exchange purchases in roubles totalled 5 million roubles and sales 15 million roubles. The forward rates for the rouble equalled the spot rates throughout the year.

Chart 15.

CHANGES IN EXCHANGE RATES OF MAJOR CURRENCIES



The convertible foreign exchange reserves of the Bank of Finland grew by 884 million marks in 1979 and amounted to 4 692 million marks at the end of the year (Chart 17). This increase in the reserves was mainly attributable to the fact that the value of gold reserves was raised by 897 million marks in connection with the closing of the accounts. Foreign bonds, which totalled 1 749 million marks, were not included in the reserves; as a result of a revision in accounting practices, these have been included in the reserves only since January 1, 1980.

Repurchases totalling the equivalent of 440 million marks were made of the 1975 and 1976 drawings under the Oil Facility of the International Monetary Fund.

At the end of 1979, the Bank of Finland had negotiated credit facility arrangements with foreign banks to the total value of 667 million U.S. dollars; these can be used, whenever needed, to support the foreign exchange reserves.

Long-term capital flows and foreign debt

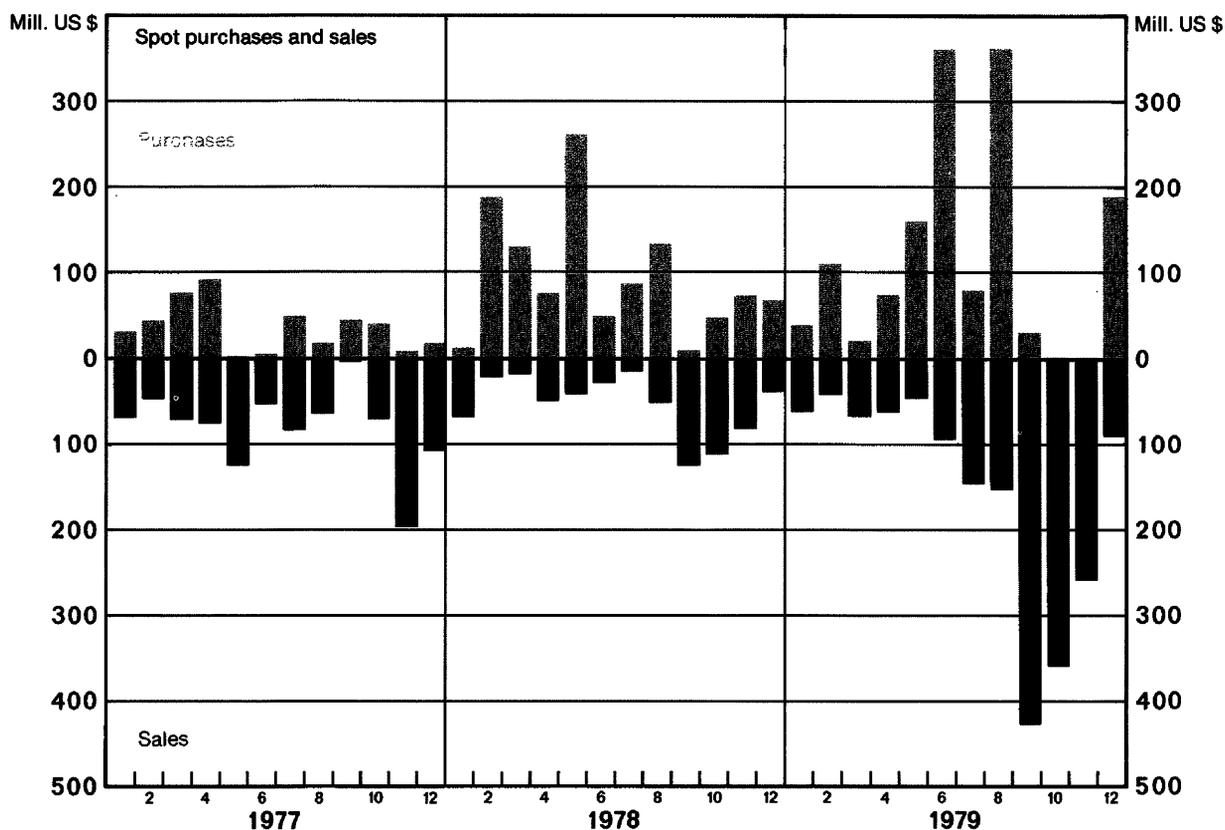
The need for foreign finance was reduced from

the previous year by the improved profitability and financial position of corporations and the easiness prevailing on the domestic financial market until the autumn. The desire to import capital was weakened during 1979 by the rise in interest rates in the international financial markets. Both corporations' and the central government's foreign borrowing was down on the previous year.

Permits to import long-term capital were granted primarily for the financing of industrial investments, particularly profitable expansion investments in the open sector but, to some extent, also replacement investments. In granting the permits, the Bank of Finland tried to contribute to an improvement in the structure of corporations' foreign debt. Corporations were allowed to repay a substantial amount of their outstanding loans prematurely and to replace these with new ones. Several corporations took advantage of this facility, and the average life of credits increased from 5.0 years to 5.2 years.

According to preliminary figures, Finland's net foreign debt declined by about 1 000 million marks in 1979 and amounted to

Chart 16.
SPOT TRANSACTIONS OF THE BANK OF FINLAND



about 24 500 million marks at the end of the year. The net long-term debt declined by about 1 000 million marks to about 28 700 million marks. The value of net short-term assets increased only slightly, even though both short-term assets and liabilities grew substantially owing to a vigorous expansion in foreign trade. At the end of the year, the ratio of net foreign debt to gross domestic product was 15.0 per cent, 3.3 percentage points less than a year earlier (Chart 18). This fall in the level of indebtedness contributed to the fact that Finland's credit-worthiness on international financial markets remained good.

At the end of 1979, the mark value of Finland's gross long-term foreign debt was about 35 400 million marks, or almost the same as a year

earlier. Corporations' repayments of outstanding loans exceeded the volume of their raising of new loans by about 500 million marks. The financial institutions' foreign debt also declined, as their redemptions exceeded drawings by about 300 million marks. On the other hand, the central government's foreign debt increased by about 1 700 million marks.

Drawings of long-term foreign credits amounted to about 6 600 million marks, which was more than a quarter less than in the previous year. Foreign bond issues declined by a half from the previous year and amounted to about 1 700 million marks. The following 11 Finnish bond issues were floated abroad in 1979:

Chart 17.
CONVERTIBLE FOREIGN EXCHANGE RESERVES



Industrial Bank of Finland Ltd	} floated jointly	KD	6 million
Industrial Bank of Finland Ltd		KD	5 million
Land and Industrial Mortgage Bank Ltd			
Finnish Real Estate Bank Ltd			
Republic of Finland		\$	100 million
Republic of Finland		SDR	50 million
Republic of Finland		\$	100 million
Republic of Finland		FF	70 million
Republic of Finland		FF	80 million
Republic of Finland		Sfr	80 million
Republic of Finland ¹		DM	150 million
Teollisuuden Voima Oy		\$	30 million
Teollisuuden Voima Oy		KD	7 million

The Bank of Finland continued to take a cautious attitude towards the use of long-term import and leasing credits. Drawings of these totalled about 500 million marks, which was a quarter less than in the previous year.

Redemptions of long-term foreign liabilities declined by 13 per cent and amounted to about 5 000 million marks. Due to the rise in foreign

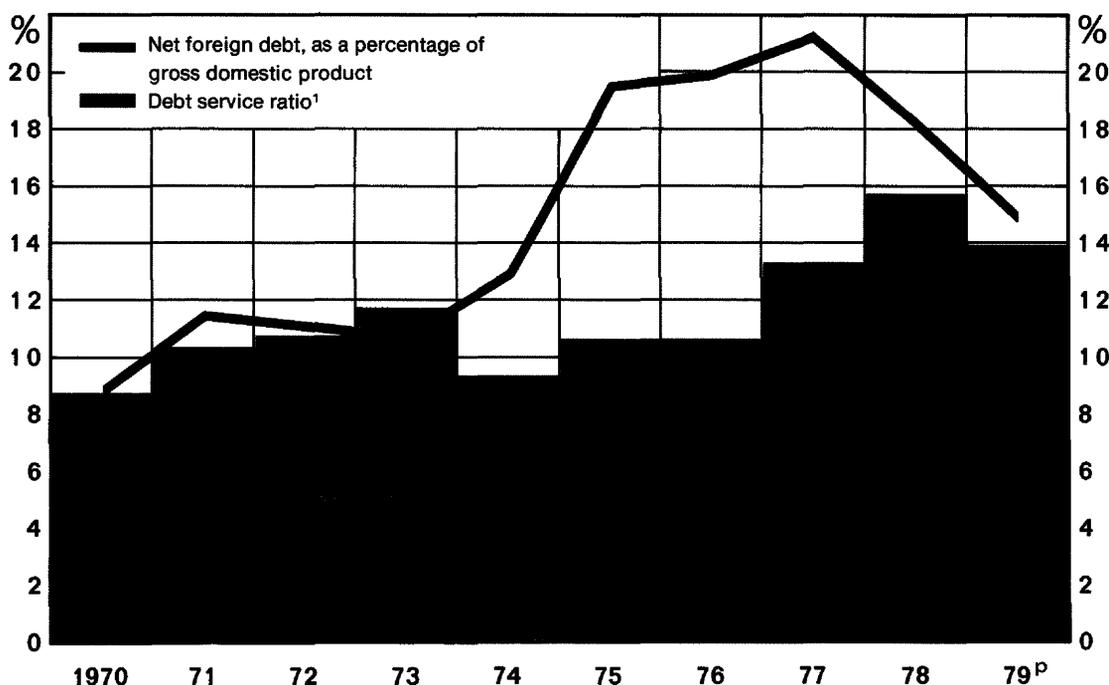
interest rates, interest expenses on the foreign debt increased by 14 per cent from the previous year and reached about 3 000 million marks. The weighted average rate of interest on financial loans outstanding rose from 8.7 per cent to 9.2 per cent during 1979.

Direct investment by foreign firms in Finland declined by a quarter in 1979 and amounted, in net terms, to 106 million marks. The debt outstanding connected with foreign direct investment in Finland represented 1.2 per cent of gross domestic product. At the end of 1979, a total of 891 firms in Finland were more than 20 per cent foreign-owned.

At the end of the year, 41 per cent of Finland's gross long-term debt was denominated in U.S. dollars, 14 per cent in deutschemarks and 13 per cent in Swiss francs. The remainder of the debt was distributed between some 20 other currencies.

¹ The loan was drawn in January 1980.

Chart 18.
DEVELOPMENT OF INDEBTEDNESS



¹ Debt service charges (redemptions and interest expenses) on gross foreign debt, as a percentage of current account earnings.

p = preliminary data

Finland's gross long-term foreign assets increased by 16 per cent and totalled about 6 700 million marks at the end of 1979. This growth in assets was primarily attributable to a net increase of about 500 million marks in the total amount of export credits granted in Finland. The increase of about 200 million marks in the stock of financial loans was attributable to a bond issue floated by the Nordic Investment Bank and to financial arrangements related to bilateral payments agreements. The stock of development credits outstanding declined from 206 million marks to 93 million marks, with part of the credits being converted into donations in kind.

Direct investment by Finnish firms abroad amounted, in net terms, to 487 million marks, which was 89 per cent more than in the previous year. At the end of 1979, the value

of Finnish direct investment abroad amounted to about 2 300 million marks, which represented 1.4 per cent of gross domestic product at market prices. At the end of 1979, a total of 975 firms abroad, including so-called dormant firms, were more than 20 per cent Finnish-owned.

Short-term capital flows

During the first months of the year, corporations' and banks' imports of short-term capital were negligible, but they increased substantially during the second and third quarters of the year. This inflow of capital, which eased the financial market, was mainly attributable to revaluation expectations. The inflow of capital was also increased somewhat by the abolition of the cash payment scheme for imports at the beginning of March; this per-

mitted the resumption in the use of import credits for financing imports of goods previously prohibited under the scheme.

At the end of August, the inflow of short-term capital was reversed into an outflow. In the beginning, the outflow of capital was a consequence of a weakening in revaluation expectations which had already started before the revaluation of the Finnmark in September. However, the outflow of short-term capital continued even after the influence of revaluation expectations had waned. This could be ascribed mainly to an increase in the differential between domestic and foreign interest rates and to the prohibition of the pre-shipment financing of timber exports.

On March 1, 1979, the Bank of Finland abolished the cash payment scheme for imports which had been applied to a variable extent since 1973. Before the Bank decided to abolish the cash payment scheme, the goods specified under this scheme accounted for 18 per cent of Finland's visible imports. Originally, the aim of the scheme was to curb the growth of short-term foreign liabilities, improve the debt structure by paving the way for the inflow of long-term capital and to make the average payment terms applied to visible imports correspond more closely to the terms of payment applied in inland trade. This scheme was abolished, because the easing of the domestic financial market had sharply reduced its real effectiveness and the net short-term debt had moved into a net receivable position.

When the cash payment scheme was abolished, certain regulations concerning import credits were amended so that the authorized banks were granted the right to raise foreign credit, on their own account, to be intermediated to importers in accordance with the conditions and restrictions laid down by the Bank of Finland. The purpose of this amendment was to bring the financial loans related to imports more closely into line with domestic sup-

pliers' credits. The specific permission of the Bank of Finland became necessary if the importer of goods wanted to raise, on his own account, a foreign financial loan for the payment of his imports.

At the beginning of March, the calculation of the loan period of suppliers' credits for imports was also altered so that it was to start from the date of Customs clearance instead of the date of import of goods. In a number of cases, this meant a lengthening in the actual credit period.

The right of the authorized banks and corporations to raise short-term foreign credit for the pre-shipment financing of timber exports was gradually withdrawn in 1979. The aim of this measure was to divert the demand for credit away from foreign financial sources towards domestic sources.

Certain other amendments to Foreign Exchange Regulations also came into force on 1st March, 1979. By the decision of the Council of State, the value of the means of payment which can be taken out of the country without the specific permission of the Bank of Finland was raised from 3 000 Finnmarks to 5 000 Finnmarks. On the basis of the same decision, the export of Finnish banknotes with a nominal value of more than 100 Finnmarks was prohibited. In addition, the right to acquire foreign exchange and the authorized banks' rights to surrender foreign exchange were extended in certain cases.

Bilateral payments arrangements

At the end of 1979, Finland had bilateral payments agreements with eight Socialist countries. In accordance with these agreements, accounts were kept with the Soviet Union in clearing roubles, with Bulgaria, the German Democratic Republic, Hungary and Romania in clearing dollars, and with the People's Republic of China in clearing marks. With Czechoslovakia and Poland, the ar-

rangements to keep accounts in freely convertible U.S. dollars were continued. As in the past, U.S. dollar rates were adopted for clearing dollar sales and purchases.

In accordance with the trade agreement be-

tween Finland and the Mongolian People's Republic, payments between these countries were settled in convertible U.S. dollars through accounts kept at the Bank of Finland and the central bank of the Mongolian People's Republic.

THE BALANCE SHEET AND THE INCOME STATEMENT OF THE BANK OF FINLAND

The Bank of Finland's end-of-year Balance Sheets for the year under review and the preceding two years are presented in Table 1 of the statistical section of the Year Book. In keeping with the Regulations for the Bank, balance sheets are prepared four times a month. The balance sheets for the end of each month are presented in Table 2. The Income Statements for the year under review and the preceding two years are presented in Table 4. Chart 19 shows the movements of the major items in the Balance Sheet during 1979.

FOREIGN SECTOR

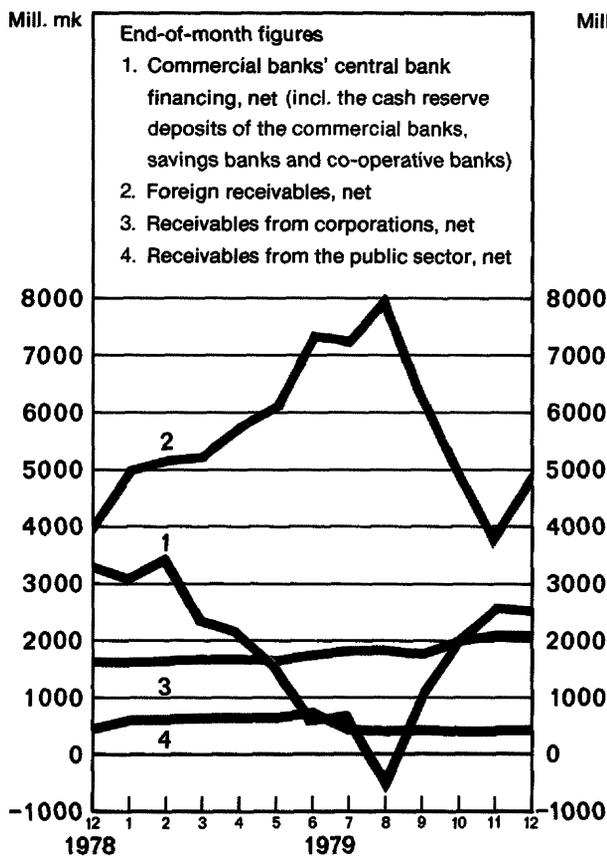
'Net foreign receivables' of the Bank of Finland increased by 947 million marks in 1979 and amounted to 4 999 million marks. Net foreign receivables grew substantially from

the beginning of the year until the late summer, reaching a peak of 8 073 million marks at the end of August. Towards the end of the year, net foreign receivables declined sharply and totalled 3 922 million marks at their lowest at the end of November.

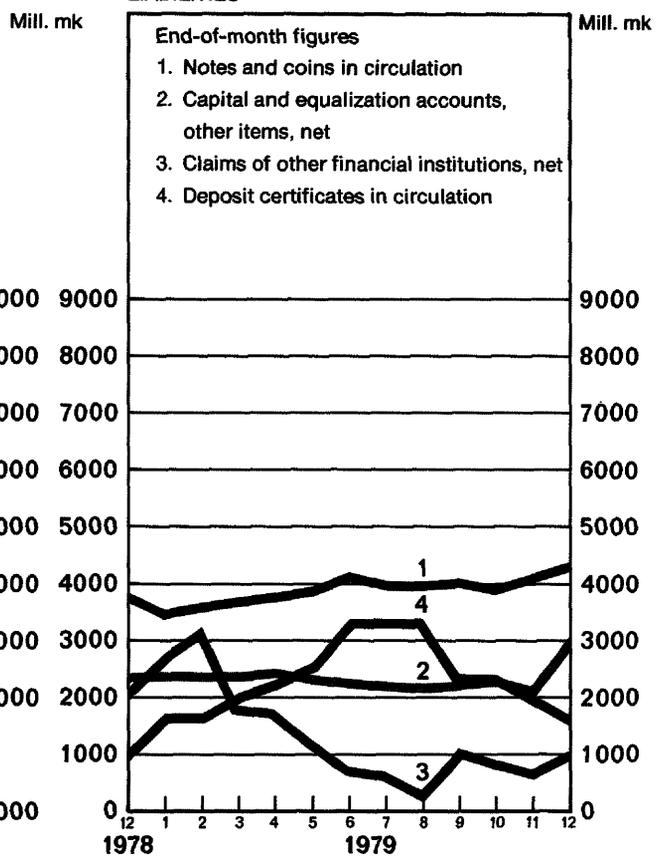
FOREIGN ACCOUNTS, MILL. MARKS

	December 31, 1978	December 31, 1979	Change
Gold	169	1 073	+ 904
Special drawing rights	316	430	+ 114
IMF reserve tranche	243	225	- 18
Convertible currencies	3 126	2 978	- 148
Tied currencies	485	154	- 331
Gold and foreign exchange receivables	4 339	4 860	+ 521
Foreign bonds	872	1 749	+ 877
Mark subscription to Finland's quota in the IMF	1 096	1 054	- 42
Other foreign receivables	1 968	2 803	+ 835
Total foreign receivables	6 307	7 663	+1 356
Convertible accounts	46	14	- 32
Tied accounts	14	832	+ 818
Foreign exchange liabilities	60	846	+ 786
IMF mark accounts	1 881	1 385	- 496
Allocations of special drawing rights	314	433	+ 119
Term liabilities	—	—	—
Other foreign liabilities	2 195	1 818	- 377
Total foreign liabilities	2 255	2 664	+ 409
Net foreign receivables	4 052	4 999	+ 947

Chart 19.
THE BALANCE SHEET OF THE BANK OF FINLAND
ASSETS



LIABILITIES



The convertible foreign exchange reserves of the Bank of Finland, which include gold, special drawing rights, the reserve tranche in the International Monetary Fund and net convertible foreign exchange receivables, grew by 884 million marks during 1979 and totalled 4 692 million marks at the end of the year. This growth in the reserves was mainly attributable to the raising of the value of gold reserves in connection with the closing of the accounts.

The tied foreign exchange reserves, which consist of the tied foreign exchange receivables and liabilities of the Bank of Finland, declined by 1 149 million marks due to a substantial

deficit in Finland's trade with the Eastern bloc. At the end of the year, the tied accounts showed a net debt of 678 million marks.

Of 'Other foreign receivables' of the Bank of Finland, foreign bonds increased by 877 million marks, while the mark subscription to Finland's quota in the IMF declined by 42 million marks. Of 'Other foreign liabilities' of the Bank of Finland, the mark accounts in the IMF fell by 496 million marks mainly owing to repurchases of drawings under the Oil Facility; special drawing rights increased by 119 million marks due to additional allocations.

FINANCIAL INSTITUTIONS

The Bank of Finland's net receivables from financial institutions grew by 320 million marks and amounted to 1 495 million marks at the end of the year. The central bank financing of the commercial banks, which had declined markedly in the previous year, increased by 784 million marks and reached 4 103 million marks at the end of the year. Call money market advances accounted for most of this amount, 3 870 million marks, and overdraft facilities for the rest, 233 million marks. Central bank financing fell sharply from the beginning of the year until the late summer, so that, at the end of August, the commercial banks had receivables from the Bank of Finland, if their cash reserve deposits are taken into account. Thereafter central bank financing increased substantially owing to seasonal factors and the decline in foreign exchange reserves. Nevertheless, total central bank financing amounted, on average, to about 940 million marks less than in the previous year.

The quota-related central bank credit of the commercial banks, which during the first half of the year consisted of discounted bills and overdraft facilities, and from the beginning of

July, of overdraft facilities alone, declined by 873 million marks and amounted to 233 million marks at the end of the year. On average, central bank credit amounted to about 1 430 million marks less than in 1978.

On the Bank of Finland's call money market, advances to the commercial banks amounted to 3 870 million marks at the end of the year; this was 1 657 million marks more than at the end of the previous year. Call money market advances to the commercial banks were at their lowest, 392 million marks, at the end of August and at their highest at the end of the year. The commercial banks had no call money market deposits at the end of the year. Call money market deposits of the commercial banks were at their highest at the end of August, totalling 468 million marks. On average, the commercial banks' call money market advances amounted to about 500 million marks more and their call money market deposits to about 40 million marks less than in the previous year. In order to meet the demand for call money market advances, the Bank of Finland placed 2 739 million marks in the call money market at the end of the year. The Bank of Finland's placement in the call money market at the end of the previous year was 138 million marks.

ACCOUNTS OF FINANCIAL INSTITUTIONS, MILL. MARKS

	December 31, 1978	December 31, 1979	Change
Cheque accounts of the banks	137	233	+ 96
Discounted bills	970	—	- 970
Bonds	361	408	+ 47
Call money market advances	2 213	3 870	+1 657
Other accounts	14	27	+ 13
Receivables from financial institutions	3 695	4 538	+ 843
Cheque accounts of the banks	2	4	+ 2
Call money market deposits	2 075	1 131	- 944
Cash reserve deposits	—	1 764	+1 764
Capital import deposits	405	140	- 265
Other accounts	38	4	- 34
Claims of financial institutions	2 520	3 043	+ 523
Net receivables from financial institutions	1 175	1 495	+ 320

Total claims of financial institutions on the Bank of Finland grew by 523 million marks and amounted to 3 043 million marks. Of these, call money market deposits declined by 944 million marks and capital import deposits by 265 million marks. Cash reserve deposits, which are based on an agreement signed in March, totalled 1 764 million marks at the end of the year. Of this amount, the commercial banks, excluding Skopbank and Okobank, accounted for 629 million marks, the savings banks, including Skopbank, for 516 million marks, the co-operative banks, including Okobank, for 399 million marks, and Postipankki for 220 million marks.

In addition to receivables and liabilities, financial institutions have contingent liabilities to the Bank of Finland; these have arisen in connection with various financing arrangements. The bills bought by the Bank of Finland, for the repayment of which the banks are liable, include export bills and new-export bills. In the Bank of Finland's Balance Sheet, these are included in receivables from corporations under the heading 'Financing of exports'. Contingent liabilities also include the guarantees given by banks for the repayment of domestic suppliers' credit.

THE PUBLIC SECTOR

The receivables of the Bank of Finland from the public sector increased by 251 million

marks. Of this sum, 158 million marks was attributable to drawings under a 700 million mark credit facility granted to the central government in 1978. By the end of the year, the central government had drawn a total of 346 million marks under this facility. The total value of bonds issued by the central government and held by the Bank rose by 52 million marks and total coinage by 36 million marks.

Claims of the public sector increased by 273 million marks, which was mainly attributable to an increase in the capital import deposits of the public sector. Owing to the accrual of interest, the central government's counter-cyclical reserves grew by 2 million marks and totalled 42 million marks at the end of the year.

The Bank of Finland's net receivables from the public sector declined by 22 million marks and amounted to 497 million marks at the end of the year.

CORPORATIONS

The receivables of the Bank of Finland from corporations increased by 572 million marks and amounted to 2 520 million marks. 'Financing of exports', which comprises export bills and new-export bills, grew by 326 million marks. Short-term export credits accounted for 270 million marks of this amount and new-export credits for 56 million marks. 'Financing of domestic deliveries' increased by 200 million

ACCOUNTS OF THE PUBLIC SECTOR, MILL. MARKS

	December 31, 1978	December 31, 1979	Change
Government promissory notes	188	346	+158
Bonds	93	145	+ 52
Total coinage	336	372	+ 36
Other accounts	16	21	+ 5
Receivables from the public sector	633	884	+251
Cheque accounts	2	2	0
Counter-cyclical reserves	40	42	+ 2
Capital import deposits	70	339	+269
Other accounts	2	4	+ 2
Claims of the public sector	114	387	+273
Net receivables from the public sector	519	497	- 22

ACCOUNTS OF CORPORATIONS, MILL. MARKS

	December 31, 1978	December 31, 1979	Change
Financing of exports	904	1 230	+326
Financing of domestic deliveries	752	952	+200
Bonds	207	205	- 2
Other accounts	85	133	+ 48
Receivables from corporations	1 948	2 520	+572
Deposits for investment and ship purchase	32	133	+101
Capital import deposits	303	254	- 49
Import levy deposits	6	2	- 4
Other accounts	15	14	- 1
Claims of corporations	356	403	+ 47
Net receivables from corporations	1 592	2 117	+525

marks and reached 952 million marks. All in all, the stock of credits outstanding under these three special financing arrangements grew by 526 million marks in 1979 and amounted to 2 182 million marks. Of other receivables, bonds issued by corporations and held by the Bank of Finland declined by 2 million marks, while receivables under 'Other accounts' increased by 48 million marks.

Claims of corporations on the Bank of Finland grew by 47 million marks to reach 403 million marks. Of the claims, deposits for investment and ship purchase increased by 101 million marks, while capital import deposits declined by 49 million marks.

NOTES, COINS AND DEPOSIT CERTIFICATES IN CIRCULATION

Notes and coins in circulation increased by 553 million marks in 1979 and totalled 4 375 million marks at the end of the year. Notes amounted to 4 020 million marks and coins to 355 million marks. Notes in the old denomination, amounting to 9 million marks, are included in 'Other liabilities' in the Balance Sheet.

At the end of the year, deposit certificates in circulation amounted to 1 700 million marks, which was 610 million marks more than a year

earlier. The amount of deposit certificates was at its lowest, 1 090 million marks, at the beginning of the year and at its highest, 3 378 million marks, during June–August.

OTHER BALANCE SHEET ITEMS

According to the Statement of the Bank of Finland, the Bank's capital accounts amounted, before the deduction of the net loss for the accounting year, to 2 036 million marks, which was 91 million marks more than at the end of the previous year. This increase was attributable to the transfer of one-half of the 1978 profits to the reserve fund at the opening of the accounts. By the decision of Parliament, the other half was transferred to the central government budget in November 1979. Of other balance sheet items, the Bank's equalization accounts increased by 902 million marks, mainly as a result of the raising of the value of gold reserves in connection with the closing of the accounts.

In addition to its capital accounts, the Bank has some capital items which are not shown in the Bank's Balance Sheet. These include the head office and branch office buildings, the Security Printing House, the basic capital of the Finnish Fund for Research and Development (SITRA), and certain other real estate and shareholdings indispensable for the Bank's

operations. The main shareholdings are the majority ownership of the Mortgage Bank of Finland Oy and Tervakoski Oy (a paper mill which manufactures high quality paper for bank notes and similar purposes).

THE NET BALANCE SHEET OF THE BANK OF FINLAND

Developments in the major items of the Balance Sheet are summarized in the net balance sheet table presented below.

ITEMS IN THE NET BALANCE SHEET, MILL. MARKS

	December 31, 1978	December 31, 1979	Change
+ Net foreign receivables	4 052	4 999	+ 947
+ Central bank financing of the commercial banks	1 175	1 495	+ 320
+ Net receivables from corporations	1 592	2 117	+ 525
+ Net receivables from the public sector	519	497	- 22
= Net receivables together	7 338	9 108	+1 770
+ Net claims of other financial institutions			
+ Deposit certificates in circulation	1 090	1 700	+ 610
+ Notes and coins in circulation	3 822	4 375	+ 553
+ Capital accounts, equalization accounts and other balance sheet items, net	2 426	3 033	+ 607
= Net claims plus capital accounts	7 338	9 108	+1 770

NOTE ISSUE

Ordinary note cover, which includes gold and the Bank's indisputable foreign receivables, increased by 1 680 million marks during 1979 and amounted to 6 429 million marks at the end of the year. Supplementary note cover, which includes coverable domestic bills, declined by 603 million marks and amounted to

364 million marks at the end of the year. Accordingly, the total right of note issue grew by 1 077 million marks. As the used right of note issue, which includes notes in circulation, liabilities payable on demand and unused overdraft facilities, increased by a total of 1 260 million marks, the note reserve declined by 183 million marks and amounted to 1 888 million marks at the end of the year.

RIGHT OF NOTE ISSUE AND ITS USE, MILL. MARKS

	December 31, 1978	December 31, 1979	Change
Ordinary cover	4 749	6 429	+1 680
Supplementary cover	967	364	- 603
Right of note issue	5 716	6 793	+1 077
Notes in circulation	3 509	4 020	+ 511
Liabilities payable on demand	134	884	+ 750
Unused overdraft facilities	2	1	- 1
Used right of note issue	3 645	4 905	+1 260
Note reserve	2 071	1 888	- 183

INCOME STATEMENT

The Income Statement of the Bank of Finland for 1979 is presented in Table 4. According to the Statement, the Bank's interest earnings increased by 164 million marks and interest expenses by 119 million marks. Consequently, net interest earnings grew by 45 million marks and amounted to 434 million marks. Of interest earnings, interest on foreign receivables almost doubled and interest on bonds rose by one-half. Of interest expenses, interest on domestic liabilities nearly quadrupled while interest and commission on drawn and undrawn foreign claims declined to slightly more than one-third.

From the point of view of the Bank's results, the most significant change took place in 'Other expenses', which increased by a total of 340 million marks and amounted to 644

million marks. The majority of these, 443 million marks, was attributable to an increase of 387 million marks in costs stemming from agios. These were due to the rise in the value of the Finnmark mainly in connection with the revaluation and to changes in the values of major reserve currencies during the accounting period. Depreciation in connection with the closing of the accounts amounted to 86 million marks, which was 57 million marks less than in the previous year.

The Bank of Finland's net loss for the accounting year amounted to 195 million marks. In the previous year, the Bank's net earnings amounted to 183 million marks. In keeping with the Regulations for the Bank, the loss has been covered from the reserve fund in connection with the opening of the accounts for 1980.

THE BANK OF FINLAND AND INTERNATIONAL ORGANIZATIONS

The Bank of Finland acts as an agent for the Government in its relations with the International Monetary Fund (IMF). In addition, the Bank assists the ministries concerned in their relations with the following banking institutions of which Finland is a member: the International Bank for Reconstruction and Development, the International Finance Corporation and the International Development Association (World Bank Group: IBRD, IFC and IDA). Finland is also a member of the Asian Development Bank (ADB), the African Development Fund (AfDF) and the Inter-American Development Bank (IDB). In accordance with the respective agreements, the Bank of Finland is the Finnish deposit bank for these organizations. The Bank of Finland is a shareholder in the Bank for International Settlements (BIS).

INTERNATIONAL MONETARY FUND (IMF)

In 1979 two new member countries joined the Fund: St. Lucia and Saint Vincent. At the end of the year, the Fund had a total of 140 member countries. The Fund's membership quotas totalled 39 000 million SDRs. The value of one SDR unit was 4.88035 marks.

The total amount of currency purchased from the International Monetary Fund by its members during 1979 remained fairly negligible and did not even approach the record figures of 1975—1977. The demand for credit from the Fund was reduced by the easiness prevailing on the international capital markets. Mainly as a result of sizable repurchases of the drawings made under the Oil Facility in previous years, the Fund's net lending declined for the second consecutive year.

The seventh increase in the membership quotas decided by the International Monetary Fund in 1978, which will raise the total of all membership quotas by 50 per cent from the present 39 000 million SDRs to about 59 000

million SDRs, was under way in 1979. The member countries shall announce their approval of the increase before November 1, 1980. This increase in the membership quotas will raise the Finnish quota from the present 262 million SDRs to 393 million SDRs, almost 2 000 million marks. After the increase, the relative share of the Finnish quota will remain unchanged at 0.67 per cent of all quotas. The member countries will pay one quarter of their increase in SDRs and the remainder in their own currencies. The increase will take effect after three quarters of the membership quotas have been subscribed, which is expected to happen towards the end of 1980.

After the Fund allocated 4 000 million SDRs to its members at the beginning of the year, SDRs totalled about 13 300 million units. Allocations of new SDRs will be continued at an equal level in 1980 and 1981. In 1979 Finland was allocated 27.2 million SDRs, which meant an increase of about 140 million marks in the convertible foreign exchange reserves of the Bank of Finland. At the end of the year, Finland's holdings of SDRs

totalled 88.1 million units. As a result of the rise in the international level of interest rates, the rate of interest paid on member countries' holdings of SDRs also increased, amounting to 7.75 per cent at the end of December.

The Supplementary Financing Facility, which was set up in connection with the Fund, became effective on February 23, 1979. Under this Supplementary Financing Facility, the Fund can grant longer-term and larger credits than has been possible under the Fund's traditional arrangements designed for the financing of balance-of-payments deficits. The Supplementary Financing Facility is intended for both the developing countries and the industrial countries; at the end of the year, it had about 7 500 million SDRs at its disposal. It can be resorted to progressively in connection with the raising of normal reserve tranche credits. The repayment of credits drawn under the Supplementary Financing Facility shall be started not later than three and one-half years after the drawing of the credit and completed within seven years at the latest.

During the year under review, the Fund continued its four-year programme of gold sales, which had been started in mid-1976. These sales take the form of monthly auctions. The difference between the selling and the acquisition price will be used for the benefit of the developing countries through the Trust Fund. By the end of 1979, these auctions had brought about 2 800 million SDRs into the Trust Fund. In connection with its four-year sales programme, the Fund will also have reimbursed one-sixth of its holdings of gold to the member countries at the price of 35 SDRs per ounce. A total of 162 608 ounces has been reimbursed to Finland at this price.

The International Monetary Fund's sales of currency and SDRs in 1979 totalled the equivalent of about 1 800 million SDRs (compared with a total of about 3 700 million SDRs in 1978, which included the SDR 2 300

million reserve tranche drawn by the United States). Drawings in the form of credit tranches under the Fund's normal stand-by credit arrangements totalled about 1 800 million SDRs and those under the Compensatory Financing Facility, intended for smoothing out fluctuations in the export earnings of developing countries, 572 million SDRs. Drawings under the Extended Fund Facility, set up primarily to meet the needs of the developing countries, totalled 233 million SDRs. Drawings under the above-mentioned Supplementary Financing Facility amounted to 307 million SDRs. As in the previous year, no new purchases were made under the Oil Facility. By the end of 1979, total purchases of foreign exchange, including those under the Oil Facility and all other above-mentioned credit arrangements, amounted to slightly less than 9 000 million SDRs, which was about 4 000 million SDRs less than at the end of 1978. Of this amount, purchases under the Oil Facility accounted for about 2 800 million SDRs and credits under the Compensatory Financing Facility for about 2 900 million SDRs.

Finland made no purchases of foreign exchange from the Fund during 1979. Repurchases with a total value of 85.7 million SDRs were made in February, May and August of the 1975 and 1976 drawings under the Oil Facility, totalling 186 million SDRs. By the end of the year, Oil Facility purchases totalling 66.4 million SDRs had still to be repaid.

Finland's status in the International Monetary Fund was changed in 1979. In September Finland announced that it had accepted the Article VIII obligations of the Fund's Articles of Agreement. This implied that the Finnmark formally became a convertible currency. In fact, the Finnmark had been convertible since the end of 1958, so that this revision was not of any great practical importance.

Jacques de Larosière of France continued to

act as the Fund's Managing Director during 1979. The Nordic countries were represented on the Fund's Executive Board by Matti Vanhala of Finland, with Gísli Blöndal of Iceland as his alternate. Since the Nordic representative on the Fund's Executive Board is from Finland, the Bank of Finland has been in charge of coordinating the opinions presented by the Nordic countries in the Fund.

THE BANK FOR INTERNATIONAL SETTLEMENTS (BIS)

The Bank for International Settlements, which is owned mainly by European central banks, acts as an international monetary and foreign exchange policy forum for examining and discussing questions of mutual interest. The Bank also performs a variety of banking services on the account of central banks. Sweden is the only Nordic country represented on the Bank's Executive Board.

The total of the BIS Balance Sheet amounted to about 70 400 million gold francs, more than 102 000 million marks, at the end of the fiscal year which closed on March 31, 1979. The Bank of Finland's share in the capital of the BIS is about 2 per cent.

THE WORLD BANK GROUP (IBRD, IDA, IFC)

During the fiscal year closing on June 30, 1979, the International Bank for Reconstruction and Development (IBRD) made 142 lending commitments to 44 countries, with a total value of 6 989 million U.S. dollars, which compares with 6 098 million U.S. dollars in the previous year. The lending commitments made by the International Development Association (IDA) during the fiscal year to 42 countries amounted to 3 022 million dollars, as against 2 313 million dollars in the previous year. At the close of the last fiscal year, the World Bank Group's total stock of credits outstanding amounted, in net terms, to about 61 300 million dollars.

The implementation of the increase in the IBRD's capital continued in 1979. Finland has paid two thirds of its 51.9 million dollar contribution to this increase; the last instalment of this increase in the capital decided in 1977 will be paid in 1980. In 1979 the Executive Board decided to propose to the Board of Governors that the IBRD's capital would be raised from the present 41 000 million dollars to almost double this amount, or 81 000 million dollars.

Finland made its second payment of the Replenishment of the IDA's funds, to be implemented in three years and totalling 7 000 million dollars. Finland's total contribution to this is about 156 million marks.

Finland also paid to the IFC a quarter of the amount of 1.8 million dollars which Finland had decided to contribute to the increase in the IFC's capital from 110 million dollars to 650 million dollars.

OTHER INTERNATIONAL CO-OPERATION

The Bank of Finland, together with other authorities concerned, continued to take part in the activities of the Organization for Economic Co-operation and Development (OECD), the European Free Trade Association (EFTA), and the Economic Commission for Europe (ECE). The Bank of Finland provided its expertise to the North-South discussions and to several issues of co-operation within GATT, UNCTAD and other organizations which were concerned with the international payments system and capital markets.

Finland is a member of the following international regional development banks: the Asian Development Bank (ADB, which Finland joined in 1966), the African Development Fund (AfDF, 1973) operating in connection with the African Development Bank, the EFTA Industrial Fund for Portugal (1977) operating in connection with EFTA, and the Inter-American Development Bank (IDB, 1977).

Nordic co-operation continued in the Nordic Financial Commission (NFU), the Nordic Central Bank Meetings, and in the Nordic Government Officials Committee on Finance and Foreign Exchange Questions appointed by the Nordic Council of Ministers. This committee prepared, at the request of the Nordic Council, a report on the development of Nordic co-operation in foreign exchange policy matters. The report, which has been submitted to the Nordic Council of Ministers, will be dealt with in the Nordic Council in the spring of 1980.

The Bank of Finland has taken part in the activities of the Finnish-Soviet Commission for Economic Co-operation and the Commission for Co-operation between Finland and the CMEA. The Bank of Finland participated as an observer in the 23rd session of the International Investment Bank (MIB) of the

CMEA held in Moscow in March. The Bank of Finland was represented in the Helsinki negotiations concerning the exchange of goods between Finland and the Soviet Union in 1980, and in the negotiations held in Moscow and Helsinki concerning the preparation of a framework agreement for 1981—1985. The Bank of Finland has also participated, whenever requested, as an expert in the meetings of other Socialist countries' Joint Commissions for the Reciprocal Removal of Obstacles to Trade and for Economic, Scientific and Technical Co-operation.

The Finnish-Soviet Banking Seminar, which is arranged every second year, was held in Finland in September. Gosbank and the Foreign Trade Bank of the U.S.S.R., as well as Finnish commercial banks, Postipankki, co-operative banks and savings banks were represented in this seminar.

TABLES

Table 1.

**THE END-OF-YEAR BALANCE SHEET OF THE BANK OF FINLAND FOR THE YEARS
1977—1979, MILLION MARKS**

ASSETS	1977	1978	1979
Gold	133	169	1 073
Special drawing rights	204	316	430
IMF reserve tranche	—	243	225
Convertible currencies	1 265	3 126	2 978
Tied currencies	537	485	154
Gold and foreign exchange receivables	2 139	4 339	4 860
Foreign bonds	543	872	1 749
Mark subscription to Finland's quota in the IMF	928	1 096	1 054
Other foreign receivables	1 471	1 968	2 803
Banks' cheque accounts	110	137	233
Discounted bills	3 091	970	—
Bonds	354	361	408
Call money market advances	1 804	2 213	3 870
Other financial institution receivables	61	14	27
Receivables from financial institutions	5 420	3 695	4 538
Government promissory notes	—	188	346
Bonds	60	93	145
Total coinage	304	336	372
Other public sector receivables	27	16	21
Receivables from the public sector	391	633	884
Financing of exports	682	904	1 230
Financing of domestic deliveries	714	752	952
Bonds	214	207	205
Other corporate receivables	294	85	133
Receivables from corporations	1 904	1 948	2 520
Other assets	85	64	73
TOTAL	11 410	12 647	15 678

LIABILITIES	1977	1978	1979
Convertible accounts	53	46	14
Tied accounts	41	14	832
Foreign exchange liabilities	94	60	846
IMF mark accounts	1 838	1 881	1 385
Allocations of special drawing rights	300	314	433
Term liabilities	1 309	—	—
Other foreign liabilities	3 447	2 195	1 818
Notes	2 892	3 509	4 020
Coins	275	313	355
Notes and coins in circulation	3 167	3 822	4 375
Deposit certificates in circulation	200	1 090	1 700
Banks' cheque accounts	4	2	4
Call money market deposits	850	2 075	1 131
Cash reserve deposits	—	—	1 764
Capital import deposits	246	405	140
Other financial institution claims	94	38	4
Claims of financial institutions	1 194	2 520	3 043
Cheque accounts	2	2	2
Counter-cyclical reserves	36	40	42
Capital import deposits	287	70	339
Other public sector claims	3	2	4
Claims of the public sector	328	114	387
Deposits for investment and ship purchase	35	32	133
Capital import deposits	181	303	254
Import levy deposits	19	6	2
Other corporate claims	7	15	14
Claims of corporations	242	356	403
Other liabilities	13	12	13
Equalization accounts	671	350	1 252
Primary capital	1 400	1 400	1 400
Reserve fund	436	545	636
Net earnings for the accounting year	218	183	— 195
Capital accounts	2 054	2 128	1 841
TOTAL	11 410	12 647	15 678

Table 2.

**THE MONTHLY BALANCE SHEET OF THE BANK OF FINLAND IN 1979,
MILLION MARKS**

ASSETS	I	II	III
Gold	169	169	169
Special drawing rights	455	458	458
IMF reserve tranche	243	243	243
Convertible currencies	3 497	3 576	3 638
Tied currencies	997	932	768
Gold and foreign exchange receivables	5 361	5 378	5 276
Foreign bonds	964	1 023	1 191
Mark subscription to Finland's quota in the IMF	1 097	1 097	1 097
Other foreign receivables	2 061	2 120	2 288
Banks' cheque accounts	114	169	113
Discounted bills	919	891	829
Bonds	379	404	366
Call money market advances	2 080	2 431	1 735
Other financial institution receivables	19	28	19
Receivables from financial institutions	3 511	3 923	3 062
Government promissory notes	346	346	346
Bonds	93	94	107
Total coinage	340	341	350
Other public sector receivables	12	17	18
Receivables from the public sector	791	798	821
Financing of exports	902	886	917
Financing of domestic deliveries	778	783	776
Bonds	204	202	201
Other corporate receivables	84	102	114
Receivables from corporations	1 968	1 973	2 008
Other assets	65	66	67
TOTAL	13 757	14 258	13 522

IV	V	VI	VII	VIII	IX	X	XI	XII
169	169	169	169	169	169	169	169	1 073
458	451	451	458	448	448	453	450	430
243	236	236	236	236	236	236	236	225
3 920	4 050	5 143	5 004	5 670	4 201	3 337	2 605	2 978
911	838	916	770	504	186	106	123	154
5 701	5 744	6 915	6 637	7 027	5 240	4 301	3 583	4 860
1 269	1 442	1 531	1 690	1 865	2 001	1 860	1 783	1 749
1 097	1 106	1 106	1 106	1 106	1 106	1 106	1 106	1 054
2 366	2 548	2 637	2 796	2 971	3 107	2 966	2 889	2 803
176	139	117	380	331	127	233	195	233
349	379	295	—	—	—	—	—	—
358	377	362	369	370	382	398	393	408
1 808	1 368	736	935	392	1 919	2 894	3 735	3 870
20	36	32	32	17	24	29	30	27
2 711	2 299	1 542	1 716	1 110	2 452	3 554	4 353	4 538
346	346	346	346	346	346	346	346	346
112	119	127	135	134	144	149	148	145
354	356	365	364	366	368	370	371	372
10	7	6	8	2	1	1	2	21
822	828	844	853	848	859	866	867	884
891	960	1 009	1 025	1 034	1 054	1 244	1 282	1 230
782	782	818	859	875	869	929	951	952
216	216	208	207	205	202	203	213	205
118	122	127	139	142	147	137	136	133
2 007	2 080	2 162	2 230	2 256	2 272	2 513	2 582	2 520
67	69	69	69	69	70	71	71	73
13 674	13 568	14 169	14 301	14 281	14 000	14 271	14 345	15 678

Table 2. (Cont.)

LIABILITIES	I	II	III
Convertible accounts	38	44	39
Tied accounts	14	12	14
Foreign exchange liabilities	52	56	53
IMF mark accounts	1 881	1 759	1 759
Allocations of special drawing rights	454	454	454
Term liabilities	—	—	—
Other foreign liabilities	2 335	2 213	2 213
Notes	3 208	3 348	3 431
Coins	304	305	309
Notes and coins in circulation	3 512	3 653	3 740
Deposit certificates in circulation	1 718	1 718	2 068
Banks' cheque accounts	2	1	0
Call money market deposits	2 573	3 135	2 138
Cash reserve deposits	—	—	—
Capital import deposits	533	494	351
Other financial institution claims	47	33	11
Claims of financial institutions	3 155	3 663	2 500
Cheque accounts	0	0	0
Counter-cyclical reserves	40	40	40
Capital import deposits	71	71	71
Other public sector claims	3	3	2
Claims of the public sector	114	114	113
Deposits for investment and ship purchase	32	30	41
Capital import deposits	307	297	290
Import levy deposits	6	5	3
Other corporate claims	14	9	8
Claims of corporations	359	341	342
Other liabilities	13	13	12
Equalization accounts	359	335	317
Primary capital	1 400	1 400	1 400
Reserve fund	636	636	636
Net earnings	104	116	128
Capital accounts	2 140	2 152	2 164
TOTAL	13 757	14 258	13 522

IV	V	VI	VII	VIII	IX	X	XI	XII
28	25	30	20	26	20	21	23	14
11	14	15	—	—	—	263	628	832
39	39	45	20	26	20	284	651	846
1 759	1 623	1 623	1 623	1 445	1 445	1 445	1 445	1 385
454	454	454	454	454	454	454	454	433
—	—	—	—	—	—	—	—	—
2 213	2 077	2 077	2 077	1 899	1 899	1 899	1 899	1 818
3 504	3 604	3 861	3 690	3 685	3 735	3 625	3 812	4 020
318	319	325	335	337	337	338	344	355
3 822	3 923	4 186	4 025	4 022	4 072	3 963	4 156	4 375
2 288	2 588	3 378	3 378	3 378	2 390	2 390	2 040	1 700
1	2	1	4	1	8	1	3	4
2 078	1 589	1 246	1 104	1 038	1 334	1 058	836	1 131
—	115	235	482	730	989	1 232	1 496	1 764
257	234	182	111	103	92	140	156	140
4	4	2	3	8	2	3	5	4
2 340	1 944	1 666	1 704	1 880	2 425	2 434	2 496	3 043
0	0	0	1	0	1	0	0	2
40	40	40	40	40	40	40	40	42
72	71	—	332	333	322	348	341	339
1	1	1	0	1	1	0	0	4
113	112	41	373	374	364	388	381	387
44	52	111	117	120	126	130	133	133
293	380	286	282	282	358	357	321	254
1	1	1	1	1	1	1	1	2
6	3	4	1	4	8	2	1	14
344	436	402	401	407	493	490	456	403
12	13	14	14	13	13	13	13	13
326	248	166	126	112	173	307	322	1 252
1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400	1 400
636	636	636	636	636	636	636	636	636
141	152	158	147	134	115	67	—105	—195
2 177	2 188	2 194	2 183	2 170	2 151	2 103	1 931	1 841
13 674	13 568	14 169	14 301	14 281	14 000	14 271	14 345	15 678

Table 3.

CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES AT THE END OF THE YEAR, 1977—1979, MILLION MARKS

	1977	1978	1979
Gold	133	169	1 073
Special drawing rights	204	316	430
IMF reserve tranche	—	243	225
Convertible currencies			
Receivables	1 265	3 126	2 978
Liabilities	— 53	— 46	— 14
Convertible foreign exchange reserves	1 549	3 808	4 692
Tied currencies			
Receivables	537	485	154
Liabilities	— 41	— 14	— 832
Tied foreign exchange reserves	496	471	— 678

Table 4.

THE INCOME STATEMENT OF THE BANK OF FINLAND, 1977—1979, MILLION MARKS

	1977	1978	1979
Interest on domestic receivables	458	309	248
Interest on foreign receivables	72	190	360
Interest on bonds	126	127	181
Interest earnings	656	626	789
Interest on domestic claims	69	78	294
Interest and commission on drawn and undrawn foreign claims	103	159	61
Interest expenses	172	237	355
Interest earnings, net	484	389	434
Commissions	6	2	2
Agio	166	—	—
Other earnings	16	16	13
Other earnings	188	18	15
Salaries	40	42	49
Social security contributions	3	4	3
Pensions	11	13	15
Printing of bank notes	21	32	31
Depreciation	135	143	86
Agio	—	56	443
Other expenses	14	14	17
Other expenses	224	304	644
Transfer from equalization accounts	— 230	80	—
NET EARNINGS FOR THE ACCOUNTING YEAR	218	183	— 195

Table 5.

INTEREST RATES APPLIED BY THE BANK OF FINLAND IN 1969—1979, PER CENT

From	Basic discount rate of the Bank of Finland	Range of discount rates		Upper limit on call money rate
		Minimum	Maximum	
Dec. 12, 1969	7	6	9	.
June 1, 1971	8 ½	6	9	.
Jan. 1, 1972	7 ¾	6	9	.
July 1, 1973	9 ¼	7 ½	10 ½	.
Sept. 1, 1975	9 ¼	7 ½	10 ½	30
June 1, 1976	9 ¼	7 ½	10 ½	25
Oct. 1, 1977	8 ¼	6 ½	9 ½	25
Jan. 1, 1978	8 ¼	6 ½	9 ½	24
May 1, 1978	7 ¼	5 ½	8 ½	23
Nov. 1, 1979	8 ½	6 ¾	9 ¾	24

Table 6.

INTERNAL CLEARING OPERATIONS: NUMBER AND VALUE OF BANK BILLS, CHEQUES AND TRANSFERS BETWEEN ACCOUNTS IN 1977—1979

Year and month	Head office		Branch offices		Total	
	Number, in thousands	Value, in million marks	Number, in thousands	Value, in million marks	Number, in thousands	Value, in million marks
1977	28 150	162 170	14 819	39 658	42 969	201 828
1978	29 615	185 405	13 413	39 706	43 028	225 111
1979						
January	2 773	18 129	1 006	3 158	3 779	21 287
February	2 537	16 410	900	2 741	3 437	19 151
March	2 955	17 985	974	2 902	3 929	20 887
April	2 972	17 495	918	2 702	3 890	20 197
May	3 490	18 765	1 016	2 886	4 506	21 651
June	3 079	18 170	884	3 002	3 963	21 172
July	3 337	19 691	915	3 147	4 252	22 838
August	3 292	18 268	915	2 842	4 207	21 110
September	2 971	17 890	842	2 871	3 813	20 761
October	3 496	20 802	977	3 245	4 473	24 047
November	3 344	21 080	874	2 993	4 218	24 073
December	3 545	17 677	712	2 530	4 257	20 207
Total	37 791	222 362	10 933	35 019	48 724	257 381

Table 7.

COMMERCIAL BANKS' CENTRAL BANK FINANCING, ITS BREAKDOWN AND COST IN 1976—1979¹

Year and month	Total central bank financing Mill. mk	Central bank credit Mill. mk	Call money market advances to the commercial banks Mill. mk	Call money market deposits by the commercial banks Mill. mk	Transactions in bonds with repurchase obligation Mill. mk	Total cost of central bank financing Per cent
1976	4 001.3	3 255.0	859.2	123.9	11.0	12.38
1977	3 913.6	2 874.7	1 241.4	273.2	70.7	11.82
1978	3 573.2	1 931.4	1 772.2	178.7	48.3	8.88
1979	2 628.9	496.4	2 271.9	141.9	2.5	8.99
1979						
January	3 334.2	1 065.0	2 253.7	—	15.5	7.68
February	3 814.2	1 062.1	2 758.5	6.4	—	7.59
March	3 138.1	1 043.2	2 218.1	123.2	—	7.53
April	2 682.2	560.2	2 295.6	173.6	—	7.76
May	2 342.9	518.1	2 049.7	224.9	—	7.65
June	1 499.1	508.1	1 273.3	282.3	—	7.52
July	1 257.3	207.5	1 272.4	222.6	—	7.68
August	784.3	198.6	963.0	377.3	—	7.61
September	1 426.7	196.5	1 511.6	281.4	—	8.03
October	2 904.6	198.8	2 715.5	9.7	—	8.50
November	3 760.2	199.4	3 546.1	—	14.7	11.94
December	4 603.3	199.1	4 405.4	1.2	—	12.76

¹ Annual and monthly averages calculated on the basis of daily figures.

Table 8.

BANK OF FINLAND CALL MONEY MARKET IN 1975—1979¹

Year and month	Demand for advances	Supply of deposits		Bank of Finland's net placement in the market Mill. mk	Call money rate Per cent	Call money rate after equalization of rates Per cent
	Commercial banks Mill. mk	Commercial banks Mill. mk	Posti-pankki Mill. mk			
1975 ²	615.7	376.6	—	239.1	26.80	—
1976	859.2	123.9	656.4	78.9	18.39	—
1977	1 241.4	273.2	819.2	149.0	17.24	15.72
1978	1 772.2	178.7	1 503.3	90.2	11.99	10.78
1979	2 271.9	141.9	1 808.9	321.1	9.74	9.31
1979						
January	2 253.7	—	2 496.2	-242.5	8.48	7.82
February	2 758.5	6.4	3 261.0	-508.9	8.40	7.75
March	2 218.1	123.2	2 682.8	-587.9	8.29	7.77
April	2 295.6	173.6	2 264.7	-142.7	8.42	7.95
May	2 049.7	224.9	2 051.1	-226.3	8.35	7.90
June	1 273.3	282.3	1 298.9	-307.9	8.35	7.89
July	1 272.4	222.6	1 437.4	-387.6	8.31	7.87
August	963.0	377.3	992.7	-407.0	8.36	8.10
September	1 511.6	281.4	1 032.1	198.1	8.68	8.33
October	2 715.5	9.7	1 688.1	1 017.7	9.13	8.58
November	3 546.1	—	1 248.0	2 298.1	12.87	12.11
December	4 405.4	1.2	1 253.3	3 150.9	13.53	12.81

¹ Annual and monthly averages calculated on the basis of daily figures.² Average calculated on the basis of daily figures for the four-month period Sept. 1, 1975 to Dec. 31, 1975.

Table 9.

NOTE ISSUE IN 1977—1979, MILLION MARKS

Date	Right of note issue			Used right of note issue			Note reserve	
	Ordinary cover	Supplementary cover	Total	Notes in circulation	Liabilities payable on demand	Undrawn cheque credits		Total
Dec. 31, 1977	2 691	1 500	4 191	2 892	232	2	3 126	1 065
1978	4 749	967	5 716	3 509	134	2	3 645	2 071
1979								
Jan. 31	5 787	939	6 726	3 208	134	2	3 344	3 382
Feb. 28	5 821	955	6 776	3 348	117	1	3 466	3 310
March 30	5 838	766	6 604	3 431	491	1	3 923	2 681
April 30	6 282	542	6 824	3 503	334	1	3 838	2 986
May 31	6 699	578	7 277	3 604	283	1	3 888	3 389
June 29	7 960	416	8 376	3 861	576	1	4 438	3 938
July 31	7 781	330	8 111	3 690	212	0	3 902	4 209
Aug. 31	8 278	326	8 604	3 685	699	1	4 385	4 219
Sept. 28	6 592	335	6 927	3 736	53	0	3 789	3 138
Oct. 31	5 669	364	6 033	3 625	303	1	3 929	2 104
Nov. 30	4 955	370	5 325	3 811	674	2	4 487	838
Dec. 31	6 429	364	6 793	4 020	884	1	4 905	1 888

Table 10.

**NOTES AND COINS IN CIRCULATION AT THE END OF THE YEAR, 1974—1979,
MILLION MARKS**

Denomination	1974	1975	1976	1977	1978	1979
NOTES						
NEW						
500 mk	—	163.1	408.5	574.1	853.3	1 109.3
100 »	1 623.0	1 788.4	1 573.0	1 647.2	1 924.6	2 136.6
50 »	347.4	362.6	354.8	361.6	388.4	406.9
10 »	227.4	239.8	235.5	243.0	268.6	287.6
5 »	53.6	56.6	57.9	60.5	68.5	72.0
1 »	8.1	6.3	5.7	5.6	5.7	7.5
Total	2 259.5	2 616.8	2 635.4	2 892.0	3 509.1	4 019.9
OLD						
10 000—100 omk	8.3	8.2	8.2	8.2	8.2	8.2
50—5 »	1.2	1.2	1.2	1.2	1.2	1.2
Total	9.5	9.4	9.4	9.4	9.4	9.4
Grand total	2 269.0	2 626.2	2 644.8	2 901.4	3 518.5	4 029.3
COINS						
NEW						
25 mk	—	—	—	—	12.5	19.8
10 »	24.8	34.9	35.0	39.1	39.1	39.2
5 »	11.7	14.4	15.7	17.5	18.6	24.5
1 »	92.6	107.2	112.5	123.3	139.2	157.8
50 p	24.7	27.4	28.4	31.3	33.6	38.2
20 »	18.5	20.7	22.3	24.7	27.2	30.3
10 »	10.8	12.2	13.0	14.1	15.5	17.4
5 »	9.9	11.1	11.7	12.9	14.5	15.7
1 »	9.7	10.4	10.9	11.7	12.4	12.5
Total	202.7	238.3	249.5	274.6	312.6	355.4
OLD						
1 000—1 omk	15.2	15.2	15.2	15.2	15.2	15.2
50—1 op	0.5	0.5	0.5	0.5	0.5	0.5
Total	15.7	15.7	15.7	15.7	15.7	15.7
Grand total	218.4	254.0	265.2	290.3	328.3	371.1

Table 11.

PRINTING AND DESTRUCTION OF NOTES IN 1977—1979, MILLION MARKS

Denomination	Notes printed			Notes cancelled		
	1977	1978	1979	1977	1978	1979
NOTES						
NEW						
500 mk	—	3 000.0	—	94.5	122.0	777.0
100 »	916.0	1 884.0	1 408.0	1 225.0	1 375.0	1 430.0
50 »	910.5	766.0	2 188.0	465.1	562.4	570.1
10 »	542.4	749.2	285.2	530.0	582.0	572.0
5 »	211.0	266.5	229.0	216.8	227.2	222.7
1 »	1.0	—	5.2	0.8	0.6	0.3
Total	2 580.9	6 665.7	4 115.4	2 532.2	2 869.2	3 572.1
In millions	124.8	168.4	137.4	118.8	129.5	129.3
OLD						
Total	—	—	—	0.0	0.0	—
In millions	—	—	—	0.0	0.0	—
Grand total	2 580.9	6 665.7	4 115.4	2 532.2	2 869.2	3 572.1
In millions	124.8	168.4	137.4	118.8	129.5	129.3

Table 12.

NOTES AND COINS IN 1979, MILLION MARKS

Denomination	Total issue Dec. 31, 1978	Issued in 1979	Destroyed in 1979	Total issue Dec. 31, 1979	Held by the Bank of Finland Dec. 31, 1979	In circulation Dec. 31, 1979
NOTES						
NEW						
500 mk	3 883.0	—	777.0	3 106.0	1 996.7	1 109.3
100 »	3 465.2	1 408.0	1 430.0	3 443.2	1 306.6	2 136.6
50 »	1 289.6	2 188.0	570.1	2 907.5	2 500.6	406.9
10 »	763.7	285.2	572.0	476.9	189.3	287.6
5 »	154.1	229.0	222.7	160.4	88.4	72.0
1 »	6.5	5.2	0.3	11.4	3.9	7.5
Total	9 562.1	4 115.4	3 572.1	10 105.4	6 085.5	4 019.9
In millions	181.9	137.4	129.3	190.0	107.6	82.4
OLD						
Total	9.4	—	—	9.4	0.0	9.4
In millions	11.5	—	—	11.5	0.0	11.5
Grand total	9 571.5	4 115.4	3 572.1	10 114.8	6 085.5	4 029.3
In millions	193.4	137.4	129.3	201.5	107.6	93.9
COINS						
NEW						
25 mk	12.5	7.5	—	20.0	0.2	19.8
10 »	39.3	—	0.0	39.3	0.1	39.2
5 »	19.9	10.1	1.3	28.7	4.2	24.5
1 »	149.2	11.3	0.1	160.4	2.6	157.8
50 p	41.6	4.0	0.0	45.6	7.4	38.2
20 »	29.2	1.5	0.0	30.7	0.4	30.3
10 »	16.4	1.3	0.0	17.7	0.3	17.4
5 »	15.1	2.0	0.0	17.1	1.4	15.7
1 »	12.8	0.3	0.2	12.9	0.4	12.5
Total	336.0	38.0	1.6	372.4	17.0	355.4
OLD						
1 000—100 omk	15.2	—	—	15.2	0.0	15.2
50 omk—1 op	0.5	—	—	0.5	0.0	0.5
Total	15.7	—	—	15.7	0.0	15.7
Grand total	351.7	38.0	1.6	388.1	17.0	371.1

Table 13.

FOREIGN EXCHANGE: SPOT SELLING RATES IN 1974—1979, MARKS

Currency	1974			1975			1976		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 US \$, New York	4.030	3.744	3.560	3.958	3.679	3.465	3.929	3.864	3.776
1£, London	9.075	8.833	8.355	8.540	8.155	7.800	7.820	6.983	6.070
1 Ir £, Dublin									
100 Skr, Stockholm	87.80	85.22	82.45	90.90	88.80	86.30	91.90	88.86	87.10
100 Nkr, Oslo	70.80	68.44	66.10	72.70	70.59	68.40	73.50	70.95	69.20
100 Dkr, Copenhagen	64.00	62.17	58.80	65.80	64.21	62.40	66.25	64.04	62.10
100 DM, Frankf. o.M.	152.50	146.21	139.20	152.30	149.80	146.70	161.20	153.78	147.36
100 Hfl, Amsterdam	145.30	140.70	134.20	149.05	145.73	141.90	154.00	146.42	142.20
100 FB, Brussels ¹	9.970	9.715	9.230	10.300	10.033	9.710	10.530	10.030	9.740
100 Sfr, Zurich	142.60	127.19	116.75	148.00	142.64	138.00	163.90	154.86	147.30
100 FF, Paris ²	81.95	78.65	73.85	89.30	86.00	80.60	86.45	81.09	76.10
100 Lit, Rome	0.6370	0.5827	0.5550	0.5770	0.5650	0.5480	0.567	0.468	0.417
100 ÖS, Vienna	22.30	20.27	19.10	21.50	21.18	20.80	22.68	21.59	20.84
100 Y, Tokyo				1.308	1.244	1.175	1.364	1.307	1.258
1 Rbl, Moscow, clearing	5.321	4.995	4.852	5.386	5.093	4.760	5.197	5.125	5.053
1 special drawing right (SDR)				4.59305	4.45230	4.32164	4.50899	4.45099	4.37684

¹ Since September 12, 1972, the Bank of Finland has quoted both a commercial and a financial rate for the Belgian franc. The commercial rate has been used in the calculations.

² The Bank of Finland quoted a separate commercial and financial rate for the French franc from August 24, 1971, to March 20, 1974. The commercial rate has been used in these calculations.

Currency	1977			1978			1979		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 US \$, New York	4.216	4.029	3.760	4.327	4.117	3.772	4.033	3.896	3.711
1£, London	7.705	7.042	6.415	8.215	7.917	7.700	8.915	8.275	7.895
1 Ir £, Dublin ¹							8.088	7.956	7.839
100 Skr, Stockholm	94.25	90.21	86.10	93.50	91.43	85.80	92.10	91.12	89.60
100 Nkr, Oslo	79.50	75.83	71.90	81.60	78.93	77.90	79.25	77.22	75.00
100 Dkr, Copenhagen	70.10	67.23	64.50	79.20	75.06	69.30	78.00	74.38	69.55
100 DM, Frankf. o.M.	193.85	174.15	158.35	219.20	205.53	188.90	216.70	212.75	209.20
100 Hfl, Amsterdam	178.60	164.59	151.20	202.80	190.77	176.10	200.00	194.43	189.40
100 FB, Brussels	12.330	11.277	10.340	14.020	13.152	12.220	13.740	13.338	13.010
100 Sfr, Zurich	202.80	168.70	148.50	274.40	231.83	199.00	242.70	234.36	227.40
100 FF, Paris	87.00	82.16	76.40	96.10	91.77	81.00	94.70	91.88	89.70
100 Lit, Rome	0.482	0.459	0.430	0.504	0.489	0.463	0.480	0.473	0.458
100 ÖS, Vienna	27.00	24.47	22.28	29.95	28.45	26.35	30.13	29.19	28.44
100 Y, Tokyo	1.755	1.512	1.290	2.253	1.983	1.658	2.035	1.797	1.503
1 Rbl, Moscow, clearing	5.865	5.475	5.067	6.185	6.037	5.601	6.081	5.941	5.711
1 special drawing right (SDR)	4.99043	4.69556	4.37250	5.27229	5.13633	4.81488	5.12720	5.01678	4.87141

¹ Quoted since July 1, 1979.

Table 14.

FOREIGN EXCHANGE: SPOT SELLING RATES IN 1979, MARKS

Currency	January			February			March		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 US \$, New York	3.992	3.967	3.908	4.015	3.979	3.961	3.992	3.983	3.971
1 C \$, Montreal	3.365	3.340	3.295	3.350	3.332	3.320	3.440	3.394	3.335
1 £, London	8.026	7.970	7.940	8.065	7.990	7.960	8.250	8.132	8.065
100 Skr, Stockholm	92.10	91.55	91.20	91.50	91.38	91.20	91.60	91.49	91.40
100 Nkr, Oslo	79.25	78.66	78.15	78.60	78.40	78.05	78.60	78.45	78.30
100 Dkr, Copenhagen	78.00	77.65	77.25	77.95	77.64	77.20	77.30	77.05	76.60
100 DM, Frankf. o.M.	216.55	214.91	214.05	215.35	214.63	213.30	214.85	214.34	213.70
100 Hfl, Amsterdam	200.00	199.07	198.30	199.30	198.74	197.70	199.00	198.59	198.20
100 FB, Brussels									
commercial rate	13.740	13.656	13.590	13.700	13.652	13.600	13.640	13.590	13.570
financial rate	13.530	13.434	13.350	13.480	13.444	13.370	13.450	13.420	13.390
100 Sfr, Zurich	242.70	237.78	235.00	239.60	237.79	235.30	238.20	237.14	235.90
100 FF, Paris	94.70	93.88	93.50	93.95	93.46	93.10	93.40	93.23	93.10
100 Lit, Rome	0.480	0.479	0.478	0.479	0.478	0.477	0.480	0.478	0.475
100 ÖS, Vienna	29.56	29.35	29.23	29.42	29.32	29.15	29.32	29.25	29.15
100 Esc., Lisbon	8.70	8.65	8.60	8.63	8.55	8.50	8.53	8.48	8.43
100 lkr, Reykjavik	1.31	1.28	1.27	1.27	1.27	1.27	1.25	1.25	1.25
100 Ptas, Madrid	5.74	5.71	5.63	5.81	5.78	5.71	5.87	5.81	5.80
100 Y, Tokyo	2.035	2.018	1.994	2.024	1.996	1.976	1.971	1.940	1.910
1 Rbl, Moscow, clearing	6.056	6.018	5.929	6.072	6.018	5.991	6.038	6.024	6.006
1 special drawing right (SDR)	5.12720	5.11628	5.09741	5.12639	5.11129	5.10323	5.12026	5.11444	5.10813

Currency	April			May			June		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 US \$, New York	4.033	4.012	3.993	4.030	4.013	3.991	4.016	3.973	3.905
1 C \$, Montreal	3.535	3.501	3.450	3.535	3.475	3.435	3.462	3.394	3.350
1 £, London	8.425	8.332	8.250	8.380	8.276	8.178	8.462	8.390	8.292
100 Skr, Stockholm	91.85	91.65	91.30	91.85	91.59	91.15	91.90	91.71	91.55
100 Nkr, Oslo	78.50	78.33	78.10	78.20	77.63	77.20	77.70	77.29	76.60
100 Dkr, Copenhagen	76.90	76.40	76.10	76.15	74.76	73.25	74.00	73.35	72.80
100 DM, Frankf. o.M.	213.10	212.10	211.10	212.40	210.53	209.20	212.50	210.71	209.40
100 Hfl, Amsterdam	197.55	196.16	194.80	195.60	193.27	191.20	193.40	192.13	191.25
100 FB, Brussels commercial rate	13.500	13.414	13.380	13.380	13.192	13.050	13.250	13.158	13.070
financial rate	13.250	13.167	13.110	13.130	12.746	12.500	12.820	12.699	12.630
100 Sfr, Zurich	235.10	234.14	233.00	235.15	232.49	230.80	238.20	233.39	231.20
100 FF, Paris	93.00	92.55	92.20	92.55	91.31	90.45	91.80	91.21	90.80
100 Lit, Rome	0.480	0.480	0.478	0.480	0.476	0.473	0.474	0.473	0.473
100 ÖS, Vienna	29.06	28.91	28.77	28.89	28.63	28.44	28.91	28.63	28.45
100 Esc., Lisbon	8.43	8.40	8.35	8.35	8.28	8.20	8.20	8.17	8.10
100 lkr, Reykjavik	1.25	1.25	1.25	1.25	1.23	1.22	1.22	1.20	1.17
100 Ptas, Madrid	6.15	5.94	5.90	6.15	6.12	6.08	6.12	6.06	5.95
100 Y, Tokyo	1.894	1.866	1.825	1.894	1.849	1.795	1.842	1.825	1.810
1 Rbl, Moscow, clearing	6.081	6.055	6.036	6.059	6.032	5.990	6.002	5.956	5.885
1 special drawing right (SDR)	5.12249	5.11457	5.10324	5.12077	5.08842	5.06783	5.07795	5.05969	5.02803

Table 14. (Cont.)

Currency	July			August			September		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 US \$, New York	3.895	3.851	3.815	3.856	3.845	3.822	3.867	3.821	3.725
1 C \$, Montreal	3.358	3.312	3.270	3.304	3.288	3.265	3.329	3.281	3.196
1 £, London	8.915	8.716	8.510	8.772	8.620	8.526	8.700	8.415	8.121
1 Ir £, Dublin	8.050	7.990	7.882	7.966	7.928	7.896	8.088	7.995	7.919
100 Skr, Stockholm	91.65	91.52	91.45	91.80	91.34	91.00	91.95	91.38	90.30
100 Nkr, Oslo	77.10	76.66	76.40	76.90	76.71	76.45	78.00	76.95	75.85
100 Dkr, Copenhagen	74.10	73.75	73.00	74.00	73.25	73.10	75.35	73.85	72.70
100 DM, Frankf. o.M.	212.45	211.37	209.45	211.00	210.34	209.50	215.80	212.88	211.40
100 Hfl, Amsterdam	193.20	192.12	191.00	192.50	191.64	190.75	196.00	193.43	191.90
100 FB, Brussels commercial rate	13.350	13.243	13.150	13.240	13.178	13.130	13.480	13.291	13.180
financial rate	12.750	12.648	12.600	12.750	12.686	12.590	12.890	12.761	12.660
100 Sfr, Zurich	235.90	234.03	231.30	232.85	232.22	231.55	241.40	236.64	232.70
100 FF, Paris	91.60	91.04	90.30	91.00	90.59	90.20	92.10	91.23	90.75
100 Lit, Rome	0.475	0.474	0.473	0.475	0.474	0.473	0.480	0.475	0.470
100 ÖS, Vienna	28.92	28.80	28.58	28.90	28.80	28.70	30.00	29.47	28.90
100 Esc., Lisbon	8.17	8.07	8.02	8.08	7.98	7.94	8.00	7.89	7.64
100 lkr, Reykjavik	1.17	1.13	1.10	1.10	1.08	1.05	1.05	1.02	0.99
100 Ptas, Madrid	5.95	5.87	5.80	5.86	5.85	5.82	5.88	5.82	5.69
100 Y, Tokyo	1.795	1.789	1.777	1.789	1.774	1.745	1.754	1.728	1.675
1 Rbl, Moscow, clearing	5.972	5.915	5.842	5.958	5.942	5.925	5.929	5.858	5.711
1 special drawing right (SDR)	5.03964	5.00689	4.98730	5.00506	4.98702	5.97364	5.00271	4.91773	4.89676

Currency	October			November			December		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 US \$, New York	3.834	3.780	3.717	3.829	3.794	3.739	3.768	3.735	3.711
1 C \$, Montreal	3.248	3.222	3.205	3.244	3.218	3.197	3.244	3.198	3.166
1 £, London	8.200	8.132	7.970	8.282	8.097	7.895	8.318	8.233	8.170
1 Ir £, Dublin	8.000	7.901	7.839	7.976	7.923	7.889	8.020	7.973	7.940
100 Skr, Stockholm	90.40	90.09	89.80	90.30	90.03	89.75	89.90	89.67	89.60
100 Nkr, Oslo	76.90	76.39	76.00	76.70	75.82	75.30	76.10	75.39	75.00
100 Dkr, Copenhagen	73.20	72.57	71.70	73.10	72.41	70.25	70.25	69.89	69.55
100 DM, Frankf. o.M.	213.75	211.60	210.25	216.00	213.96	212.60	216.70	215.60	214.40
100 Hfl, Amsterdam	192.70	190.79	189.40	194.00	192.15	191.25	195.75	195.04	193.40
100 FB, Brussels commercial rate	13.290	13.154	13.010	13.340	13.240	13.190	13.340	13.286	13.200
financial rate	12.910	12.780	12.590	13.100	12.997	12.910	13.090	12.972	12.810
100 Sfr, Zurich	240.60	232.68	228.30	232.90	230.42	227.40	235.80	233.65	231.70
100 FF, Paris	91.60	90.46	89.70	92.15	91.43	91.00	92.90	92.22	91.50
100 Lit, Rome	0.470	0.463	0.458	0.465	0.463	0.462	0.467	0.464	0.462
100 ÖS, Vienna	29.67	29.41	29.25	30.00	29.77	29.57	30.13	29.98	29.79
100 Esc., Lisbon	7.76	7.72	7.65	7.70	7.68	7.63	7.66	7.64	7.60
100 lkr, Reykjavik	1.00	1.00	0.99	1.00	1.00	1.00	1.00	0.99	0.96
100 Ptas, Madrid	5.83	5.75	5.67	5.81	5.76	5.68	5.72	5.66	5.63
100 Y, Tokyo	1.689	1.652	1.611	1.630	1.560	1.509	1.615	1.564	1.503
1 Rbl, Moscow, clearing	5.890	5.845	5.774	5.853	5.828	5.770	5.849	5.798	5.760
1 special drawing right (SDR)	4.91409	4.89678	4.88035	4.92795	4.89735	4.87811	4.91028	4.89087	4.87141

Table 15.

**FINLAND'S LONG-TERM FOREIGN LIABILITIES AND ASSETS
DEC. 31, 1978—DEC. 31, 1979, MILLION MARKS**

	Debt Dec. 31, 1978	Drawings in 1979	Redemp- tions in 1979	Net drawings in 1979	Impact of exchange rates	Debt Dec. 31, 1979
FINANCIAL LOANS	27 716	5 703	3 722	+1 981	-1 503	28 194
Individual financial loans	12 385	3 236	2 453	+ 783	- 560	12 608
Bank of Finland's reserve credits and Oil Facility purchases	778	—	433	- 433	- 20	325
Bonds and debentures	15 331	2 467	1 269	+1 198	- 943	15 586
Bond issues	9 755	1 737	803	+ 934	- 635	10 054
Debenture issues	344	—	—	—	- 13	331
Private placement loans	4 887	730	397	+ 333	- 277	4 943
Loans from the World Bank	345	—	69	- 69	- 18	258
IMPORT CREDITS	5 612	507	1 102	- 595	- 119	4 898
Ship and aircraft credits	2 446	159	578	- 419	- 59	1 968
Other import credits	3 166	348	524	- 176	- 60	2 930
LEASING CREDITS	122	20	19	+ 1	- 7	116
DIRECT INVESTMENT	1 885	270	164	+ 106	- 12	1 979
Equity capital	1 298	211	25	+ 186	—	1 484
Loans to subsidiaries	587	59	139	- 80	- 12	495
SUBSCRIPTIONS¹	109	111	36	+ 75	—	184
GROSS LONG-TERM DEBT²	35 444	6 611	5 043	+1 568	-1 641	35 371
FINANCIAL LOANS	247	231	202	+ 29	- 12	264
EXPORT CREDITS	2 978	1 346	805	+ 541	- 130	3 389
DEVELOPMENT CREDITS	206	16	129	- 113	—	93
DIRECT INVESTMENT	1 850	489	2	+ 487	- 13	2 324
Equity capital	1 505	440	1	+ 439	..	1 944
Loans to subsidiaries	345	49	1	+ 48	- 13	380
SUBSCRIPTIONS¹	503	123	—	+ 123	—	626
GROSS LONG-TERM ASSETS²	5 784	2 205	1 138	+1 067	- 155	6 696
NET LONG-TERM DEBT	29 660	4 406	3 905	+ 501	-1 486	28 675

¹ On the liabilities side, subscriptions to international financial institutions paid up in the form of bonds; on the assets side, Finland's subscriptions to international financial institutions.

² The mark values of balances outstanding have been calculated by using the selling rates of the same date, drawings and redemptions by using the average monthly selling rates.

AUDITORS' REPORT

on the Audit of the Accounts and Operations of the Bank of Finland for 1979

We, the undersigned, the Auditors elected by Parliament in 1979, have audited the accounts and operations of the Bank of Finland for 1979 on February 18—22, 1980, as reported in detail in the minutes.

All relevant accounting books, records, minutes of meetings, documents and vouchers were placed at our disposal for the purpose of auditing. In addition, the Bank's Board of Management and the officials concerned provided us with detailed information on the Bank's operations, lending and financial position, and with reports on the internal auditing of cash funds and accounts.

On the basis of our audit, we report

that the cash funds kept in the Vault of the Bank's Head Office and by the cashiers, and the holdings of bullion and coins, notes, bonds, open and sealed deposits, bills, promissory notes and securities corresponded with the Bank's accounts. We also concluded, from the Vault Register and other verifications, that the cash funds kept in the Vault and by the cashiers of the Head Office, and the cash funds registered in the cash inventories kept by the branch cashiers and in other safes of the Bank on December 31, 1979 accorded with the figures of the closing of the accounts;

that the inventories and audits set forth in the Regulations for the Bank of Finland have been carried out;

that the Bank's lending has been conducted with discretion;

that the closing of the accounts has been conducted on the basis of established principles.

We have also examined the accounts of the Längman Funds managed by the Bank and the closing of the accounts of the 1967 Finnish National Fund for Research and Development (SITRA) and concluded that these are correct, in order and properly kept.

The Income Statement of the Bank of Finland, showing a net loss of 194 704 973,80 marks, which was mainly attributable to the raising of the external value of the mark and to exchange rate losses, has been correctly derived from the accounts.

During the accounting year, the Bank has been managed firmly and in accordance with the Regulations for the Bank. The Bank's position is stable.

On the basis of the above and in the absence of any further comments raised by the audit, we propose that the Board of Management of the Bank of Finland be discharged from responsibility for the year 1979.

Helsinki, this 22nd of February 1980

Mikko Kaarna

Erkki Liikanen

Erkki Kivimäki

Pentti Mäki-Hakola

Håkan Malm

./ Tyko Vanhala

BANK SUPERVISORS, DELEGATED BY PARLIAMENT, AT THE END OF 1979

Matti Jaatinen (Chairman)
Jermu Laine (Vice Chairman)
Matti Maijala
Kalevi Sorsa
Ilkka-Christian Björklund

Aarne Saarinen
Mikko Jokela
Ingvar S. Melin
Mauri Miettinen

THE BOARD OF MANAGEMENT OF THE BANK OF FINLAND, AT THE END OF 1979

The division of responsibilities in the Board of Management, confirmed by the Bank Supervisors delegated by Parliament

Governor Mauno Koivisto
(Chairman, Prime Minister,
on leave of absence)

Acting Governor Ahti Karjalainen
(Vice Chairman, Acting Chairman)

Overall management and supervision of the activities of the Bank
Representation of the Board of Management
Supervision of the activities of the Members of the Board and the subject matter of their decisions
Matters related to
— the Internal Audit Department
— the ADP Department
International organizations, excluding the International Monetary Fund

Rolf Kullberg
(Acting Vice Chairman)

General principles of central bank policy
Matters related to
— the Monetary Policy Department
— the Domestic Financial Operations Department
SITRA (the Finnish National Fund for Research and Development)

Pentti Uusivirta

Matters related to
— the Foreign Exchange Policy Department
— the Foreign Exchange Department
— the Eastern Trade Department
— the Department of Foreign Financing
International financial institutions, including the International Monetary Fund
The Finnish Guarantee Pool
The legal affairs related to the Department of Administration and Legal Affairs

Ele Alenius

Matters related to
— the Banking Services Department
— the Cash Department
Security Printing House

Harri Holkeri

Matters related to
— the Department of Administration and Legal Affairs, excluding legal affairs
— the Personnel Department
— the Foreign Exchange Control Department
Building projects and real estate
Branches

Seppo Lindblom
(Acting Member of the Board)

Matters related to
— the Economics Department
— the Research Department
— the Information and Publications Department

HEAD OFFICE

Directors

Markku Puntila

Eino Helenius

Pentti Koivikko

Kari Nars

Antti Lehtinen

Departments

Monetary Policy
Domestic Financial Operations

Administration and Legal Affairs
Internal Audit
International Legal Affairs
Automatic Data Processing

Personnel Department
Banking Services
Cash Department
Research Department
Information and Publications

Foreign Exchange Policy
Foreign Exchange
Eastern Trade Department
Special Eastern Affairs
Economics Department

Foreign Financing
Foreign Exchange Control

Heads of Department

Ralf Pauli (ad int.)
Raimo Hyvärinen

H. T. Hämäläinen
Timo Männistö
U. Levo
Erkki Vehkamäki

Anton Mäkelä
Stig G Björklund
Reijo Mäkinen
Heikki Koskenkylä
Markku Pietinen

Kari Pekonen
Raine Panula
Kari Holopainen
Antti Saarlo
Sirikka Hämäläinen (ad int.)

Pekka Tukiainen
J. Ojala

Director of ADP Planning

Pertti Kukkonen

Branch Manager, Special Projects

M. Hannula

BRANCH NETWORK

Branches

Joensuu
Jyväskylä
Kotka
Kuopio
Lahti
Mikkeli
Oulu
Pori
Rovaniemi
Tampere
Turku
Vaasa

Managers

K. Karhi
E. M. Tammi
Reino Ylönen
Keijo Kallasmaa
V. Lehto
J. Huuskonen
Harri Salenius
V. Kaarnakorpi
Heikki Hakola
E. Vuorela
S. Paavola
Rauno Haikarainen

SECURITY PRINTING HOUSE

Tor-Leif Huggare, Managing Director
H. Taipale, Production Director, Acting Deputy Managing Director

BANK OF FINLAND

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