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# ECONOMIC DEVELOPMENTS IN 1987

Economic activity picked up in 1987. As a result of vigorous demand in western markets and an improvement in industry's competitiveness in western Europe, the growth of exports to western markets accelerated to 7 per cent. The growth of total exports, however, remained fairly modest because of the contraction of bilateral exports. Terms-of-trade gains clearly boosted domestic demand, which was also supported by less restrictive fiscal policy. The growth of GDP amounted to over 3 per cent in spite of the considerable losses caused by the poor harvest. Import volumes grew notably faster than export volumes and the current account deficit widened to FIM 9.2 billion. Total employment remained almost unchanged. As, however, there was a decrease in the supply of labour, the unemployment rate fell slightly. There was a further slight fall in import prices but domestic costs continued to rise fairly rapidly. Consumer prices increased by 3.7 per cent in the course of the year. Monetary policy was kept fairly stringent so as to check inflation and the growth of the current account deficit.

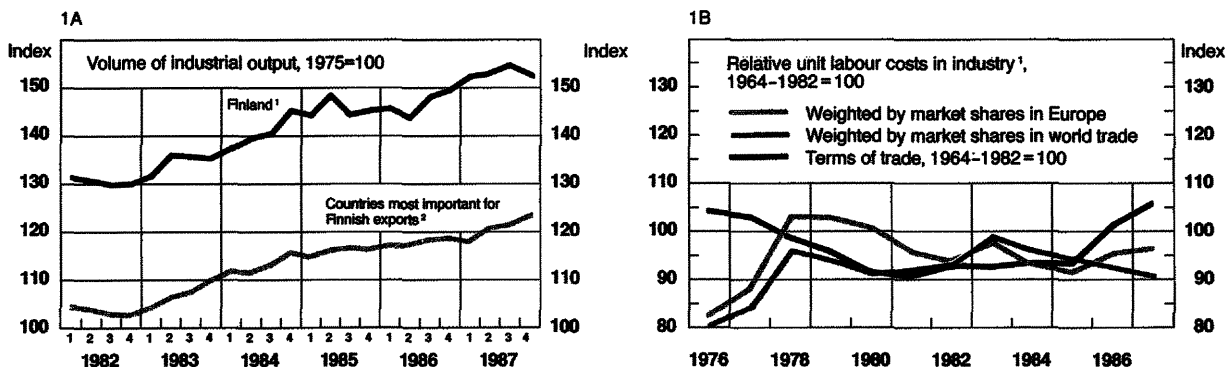
## THE WORLD ECONOMY AND FINNISH EXPORT MARKETS

The growth of total output in western industrial countries continued at the rate of 3 per cent in 1987 (Chart 1A). Growth was slightly slower in European countries than in the OECD area as a whole. In Europe, output growth was supported by domestic demand, whereas foreign trade imparted a negative contribution. Thus the growth of GDP was one percentage point lower than the growth of domestic demand. The growth of total output was not sufficient to reduce unemployment to any significant extent. In the European OECD countries, the unemployment rate was slightly under 11 per cent.

As in the previous year, Finland's western export markets grew by almost 5 per cent. As the price of oil partially recovered after its collapse in the previous year and prices of non-energy raw materials started to rise, inflation also accelerated in market economies. The rise in consumer prices in the OECD area accelerated appreciably, and was running at some 4 per cent at the end of the year. The increase in the rate of inflation was fastest in the United States. Nominal wages and unit labour costs continued to rise at a slow pace. The level of both nominal and real rates of interest remained fairly high in general.

Chart 1.

### INTERNATIONAL BUSINESS CONDITIONS AND RELATIVE LABOUR COSTS



<sup>1</sup> Calculated from an adjusted working day series.

<sup>2</sup> An index weighted by the shares of these countries in Finnish exports.

<sup>1</sup> Ratio of 14 countries to Finland in terms of a common currency.

## ECONOMIC POLICY IN FINLAND

At the beginning of 1987, economic conditions in Finland were satisfactory. The growth of total output, which had accelerated in the latter half of the previous year, continued, boosted by buoyant demand.

In the state budget for 1987, fiscal policy was designed to have a slightly expansionary effect on growth in order to support exports and promote industrial investment. The full impact of the lowering of the corporate tax rate and the reform of energy taxation, which had come into force in 1986, was not felt until 1987. In keeping with earlier decisions, there was a further easing of personal income taxation. Furthermore, the payment of the 1986 tax refunds, which had been postponed because of the civil servants' strike, took place in January 1987. Central government budgetary operations were estimated to have boosted domestic growth by almost one percentage point. Local government operations also exercised a modest expansionary effect.

Inflation and the growth of the current account deficit were held in check by maintaining interest rates at a relatively high level in 1987, though market rates fell in the course of the year. The interest rate differential between Finland and other countries and the restoration of confidence in the external value of the markka induced heavy capital inflows. The inflow of short-term capital amounted to some FIM 25 billion. The Bank of Finland modified the system of monetary control by commencing market operations in certificates of deposit.

## SUPPLY AND DEMAND

The growth in the volume of exports of goods and services amounted to only 2 per cent because of a sharp cutback in bilateral trade. The fall in the oil price in 1986 caused an imbalance in bilateral trade, and this led to a further reduction in exports to the Soviet Union in 1987. Efforts to increase

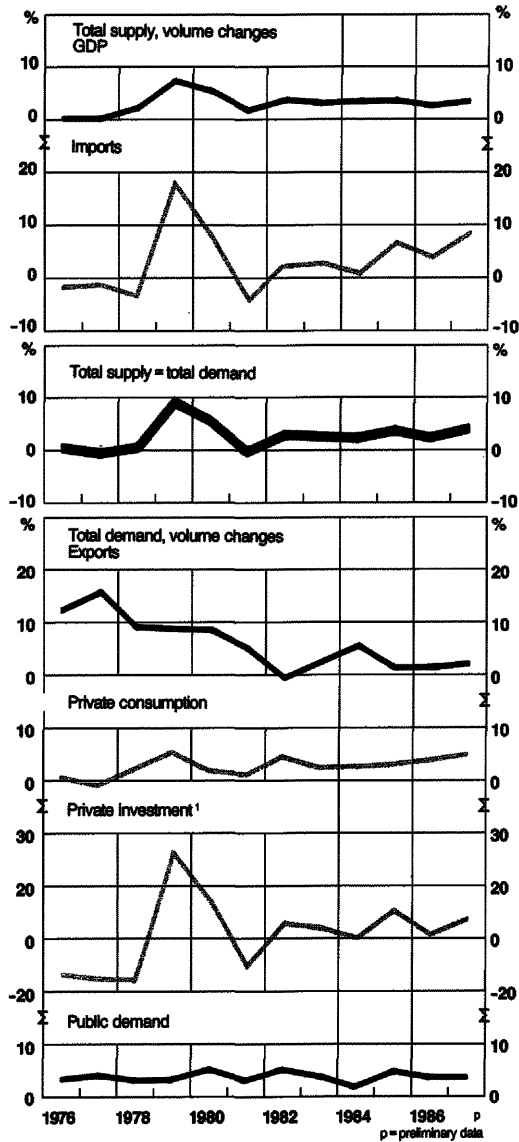
deliveries to western markets proved more successful than anticipated. The volume of exports to western markets increased by over 7 per cent, clearly exceeding the growth of these markets. There was only a modest increase in the volume of exports of services.

The rapid growth of total output was sustained by domestic demand (Chart 2). Private consumption remained buoyant, and the growth of investment accelerated. There was a marked improvement in corporate profitability, and the capacity utilization rate rose to a relatively high level (Chart 3B). Industrial investment, in particular, increased sharply with the exception of the metal and engineering industries where investment decreased. Investment by the service sector increased considerably, and residential construction also turned up slightly in the course of 1987. Investment growth in the public sector was mainly due to a pick-up in investment by the central government.

Investment growth focused on investment in machinery and equipment. In the public sector, however, the emphasis was on building investment. By contrast, construction activity in the private sector was sluggish. All in all, fixed investment increased by over 4 per cent on the previous year.

Household disposable income increased by 9 per cent in nominal terms. Approximately 2 percentage points of the increase derived from the rescheduling of the payment of tax refunds from December 1986 to January 1987. The postponement did not, however, have any significant effect on the timing of private consumption. The marked improvement in the terms of trade (Chart 1B) supported the growth in real income for the second successive year. The volume of private consumption increased by 5 per cent, i.e. almost as much as real income. Developments among the various components of consumption were fairly even, though the increase was highest for consumer durables. Public consumption increased by just under 4 per cent.

Chart 2.  
SUPPLY AND DEMAND



<sup>1</sup> Incl. stockbuilding and statistical discrepancy; N.B. different scale.

The strong growth in domestic demand was reflected in imports. Imports of consumer goods increased by 15 per cent in volume terms from the previous year; the rapid growth of imports of passenger cars and clothing, for instance, continued. The volume of imports of investment goods increased by almost 10 per cent. As there was also

a marked increase in imports of raw materials, the volume of total imports grew by almost one-tenth.

The volume of GDP increased by 3.2 per cent in 1987. The poor harvest reduced the rate of growth by about one percentage point, dampening growth particularly in the second half of the year. Sluggish exports to the Soviet Union had a similar effect. By contrast, domestic consumption and investment continued brisk throughout the year. The growth of industrial output exceeded that of total output, with fairly uniform developments by industrial sector.

## EMPLOYMENT

The slight fall in total employment, which had started in 1986, continued in 1987. It was particularly marked in industry and primary production. In the service sector, however, total employment increased.

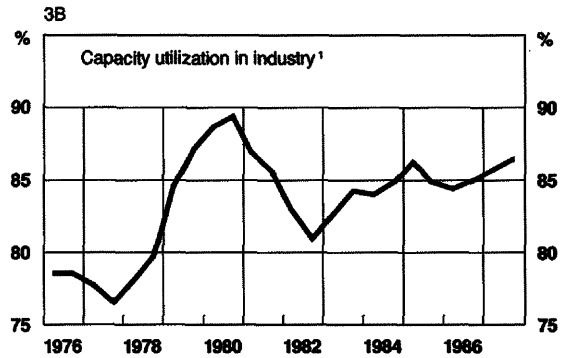
Labour supply decreased more than total employment. The labour force participation rate fell in the 55—74 years age group, in particular, as a consequence, inter alia, of the expansion of early retirement schemes. Because of the decrease in labour supply, unemployment started to decline and the unemployment rate fell to 5.1 per cent (Chart 3A).

## PRICE DEVELOPMENTS

Developments in foreign trade prices were quiet in 1987. Import prices remained stable throughout the year, but were slightly lower on average than in the previous year. Export prices showed a slight increase compared with 1986. However, price developments among the various sectors were divergent. The prices of some forest industry products rose markedly. The slight appreciation of the markka curbed the rise in both export and import prices. The terms of trade improved by 4 percentage points.

The fall in worldmarket prices was transmitted to domestic prices more slowly than in most competitor countries in 1986. Part of the lowering of costs was not reflected in consumer prices

Chart 3.  
UNEMPLOYMENT AND CAPACITY UTILIZATION



<sup>1</sup>According to the Bank of Finland investment inquiry.

until 1987. In the early part of the year, consumer prices rose more rapidly in Finland than in OECD countries on average but towards the end of the year the rate of inflation in Finland was running below the average rise in prices in the OECD area. Wholesale prices were up one per cent on the previous year. Consumer prices rose by 3.7 per cent on average from the previous year, and by 3.7 per cent in the twelve months to December (Chart 4A).

Labour costs continued to rise faster in Finland than in competitor countries in 1987. Wage and salary earnings rose by 7 per cent, i.e. almost the same as in the previous year. Negotiated pay increases exceeded to some extent the level provided for in the 1986 incomes agreements. Wage drift slowed down slightly, amounting to some 2 per cent. A strong improvement in productivity supported competitiveness, and thus unit labour costs calculated in national curren-

Chart 4.  
CONSUMER PRICES AND THE CURRENT ACCOUNT

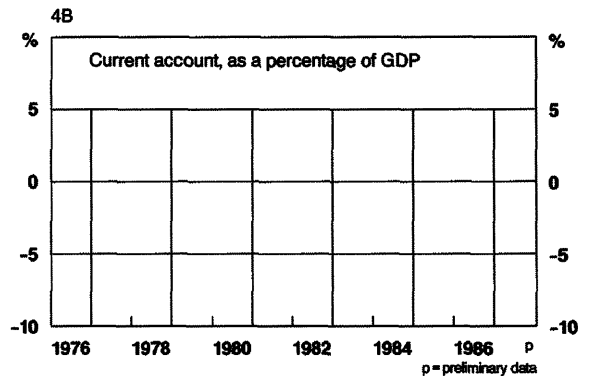
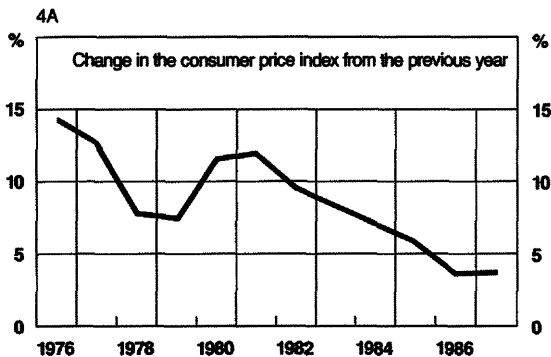
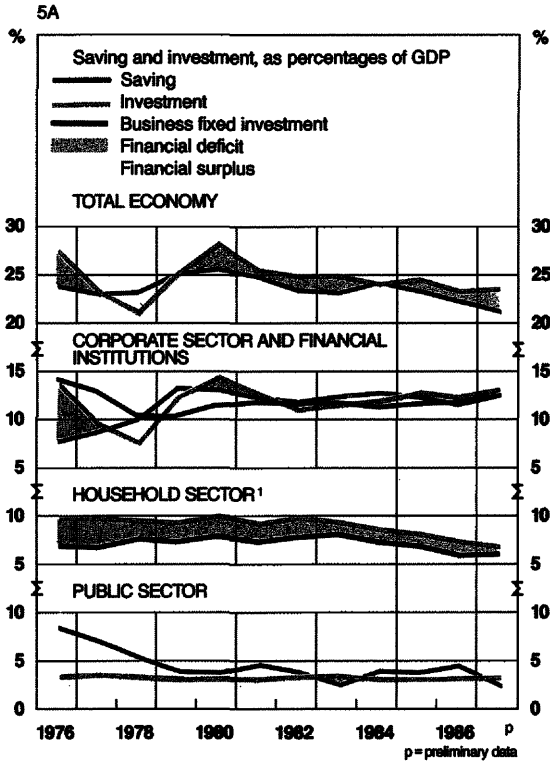
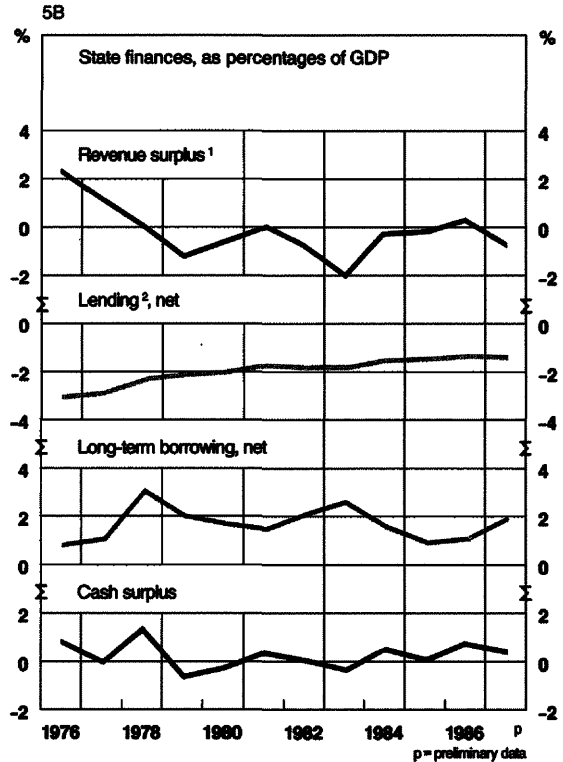


Chart 5.  
SECTOR FINANCIAL BALANCES



<sup>1</sup> Incl. non-profit institutions.



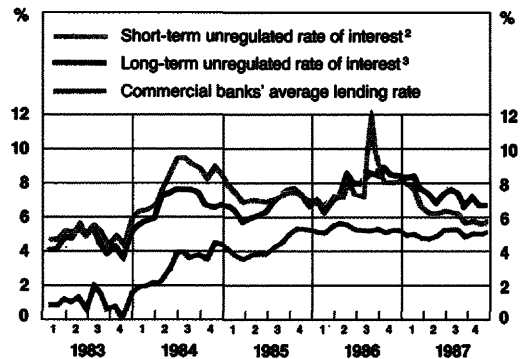
<sup>1</sup> Revenue less expenditure, excl. financial transactions.  
<sup>2</sup> Incl. other financial investments.

cies rose less in Finland than in competitor countries. Because of divergent trends in foreign exchange rates, the relative price competitiveness of Finnish exports improved in European markets but deteriorated when calculated with worldmarket weights (Chart 1B).

## FOREIGN AND DOMESTIC FINANCING

The volume of imports increased notably faster than that of exports in 1987. The surplus on the trade account diminished from the previous year, despite a further improvement in the terms of trade. For the year as a whole, the trade account showed a surplus of FIM 2.5 billion, of which FIM 1.7 billion was attributable to western trade. The services account recorded a slight deficit.

Chart 6.  
DOMESTIC REAL RATES OF INTEREST<sup>1</sup>



<sup>1</sup> Nominal rate of interest less actual 12-month change in consumer prices.  
<sup>2</sup> Unregulated deposit rate.  
<sup>3</sup> Effective yield on debentures.



The deficit on the investment income and unrequited transfers account continued to widen in spite of lower interest rates abroad. All in all, the current account registered a deficit of FIM 9.2 billion (Chart 4B). Current transactions in tied currencies posted a surplus of FIM 2.6 billion.

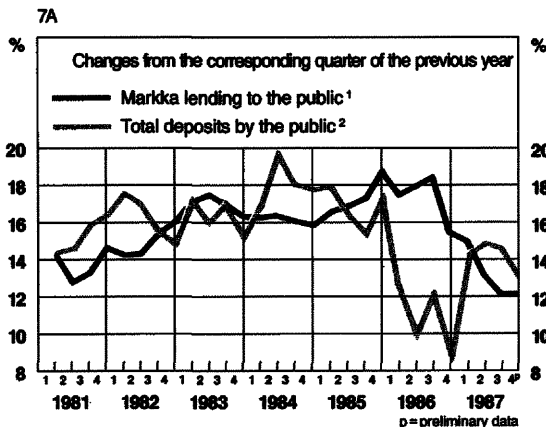
The financial balance of the economy deteriorated slightly from the previous year (Chart 5A). There was a slight increase in the financial deficit of the corporate sector. The surplus of the financial sector remained at virtually the same level as in the previous year. The financial deficit of the household sector continued to diminish, and the household saving ratio remained unchanged. The shift from traditional bank deposits to higher-yielding investment outlets continued.

Central government expenditure grew at a clearly faster pace than central government revenue (Chart 5B). The net borrowing requirement increased by FIM 5.1 billion compared with the previous year. The gross borrowing requirement amounted to FIM 16.2 billion. The emphasis in central government borrowing was on domestic financing.

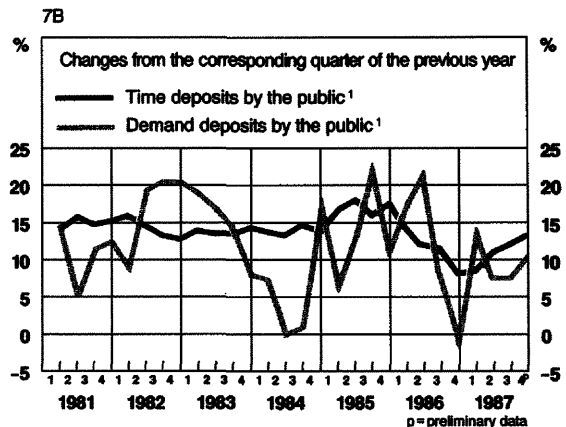
The interest rate differential between Finland and abroad and the restoration of confidence in the external value of the Finnish markka increased companies' willingness to import foreign capital. The incentive to import foreign capital also grew because of the virtually complete removal of the controls on companies' foreign loans of 5 years or over. Short-term capital imports by the corporate sector, both directly and through banks, amounted to FIM 24.8 billion in net terms. Companies' forward exchange assets with banks increased by FIM 10.4 billion in net terms.

The Bank of Finland's convertible foreign exchange reserves increased by FIM 16.8 billion, and stood at FIM 27.4 billion at the end of the year. At the end of December, the Bank of Finland's outstanding forward purchase contracts amounted to FIM 1.4 billion. The tied currency reserves declined by FIM 2.2 billion and showed a net claim of FIM 1.2 billion at the end of the year.

Chart 7.  
BANK LENDING AND DEPOSITS



<sup>1</sup> Lending subject to interest rate regulation plus purchases of bonds and debentures. The regulation of average lending rates was abolished on July 31, 1986.  
<sup>2</sup> Regulated and unregulated deposits.



<sup>1</sup> Incl. domestic deposits denominated in foreign currency.

Calculated on the basis of changes in consumer prices, real market rates of interest fell (Chart 6). The fall in the short-term market rate was rapid, particularly in the first quarter of the year. Market operations in certificates of deposit, which the Bank of Finland commenced in March, retarded the lowering of interest rates.

The average lending rate applied by commercial banks rose slightly as market rates were increasingly applied to loans. Rates of interest on new markka lending fell slowly in the course of the year.

The growth of bank lending continued at a rapid pace. Markka-denominated lending increased by over 15 per cent (Chart 7A). The share of bonds and debentures in total lending fell. The growth rate of banks' total deposit-taking accelerated considerably in the course of 1987. In January, the growth of unregulated deposits accelerated markedly but levelled off in the course of the year. At the end of the year, unregulated deposits on banks' balance sheets totalled FIM 30.7 billion, an increase of FIM 13.4 billion on the previous year.

# CENTRAL BANK POLICY

In 1987, the main objective of central bank policy was to stabilize inflation at a level not exceeding that in competitor countries and, particularly in the latter part of the year, to check the growth of the current account deficit. Confidence in the external value of the markka was restored, and this was reflected in a substantial increase in the foreign exchange reserves. The central bank used open market operations to retard the fall in market rates of interest due to increased liquidity. The fluctuation limits of the official currency index were kept unchanged but the external value of the markka strengthened in the course of the year. The reform of the system of central bank financing continued with the introduction of a market-orientated control system. The gradual relaxation of exchange controls proceeded in the same fashion as in previous years. The domestic financial markets were further developed by allowing banks to use long-term floating rates of interest as reference rates in their lending from the beginning of 1988.

## THE MAIN FEATURES OF CENTRAL BANK POLICY

The improvement in the economic situation in the early months of 1987 reduced uncertainty in the foreign exchange market. The favourable export performance in western markets and high domestic interest rates in relation to international rates contributed to the growth of the foreign exchange reserves, particularly in early 1987. The foreign exchange reserves grew from FIM 14 billion to almost FIM 29 billion in the course of the year (Chart 9). As liquidity flowed into the country, pressures for lower market rates mounted. In order to curb the growth of domestic demand and the consequent widening of the current account deficit and acceleration of inflation, the Bank of Finland retarded the lowering of market rates by sterilizing liquidity at the central bank. This led to a decrease in the banks' central bank debt, and the banks accumulated a significant net claim on the Bank of Finland. Between January and May short-term market rates fell by over 3 percentage points; the fall continued in the latter part of the year but at notably slower pace. The base rate remained unchanged in 1987.

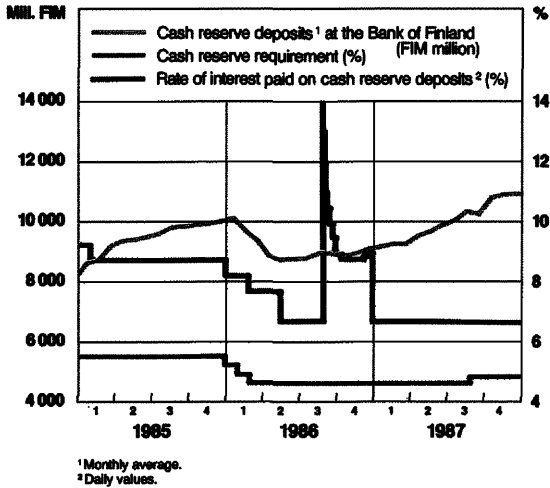
The system of monetary control, which had previously relied mainly on call money interest rates, was replaced by a market-orientated control system, and the central bank started to influence the amount of the banks' central bank debt and

market rates directly through open market operations in markkaa and foreign currencies.

In February, the Bank of Finland started to accept three-month deposits from the banks so as to reduce liquidity in the markets. This innovation complemented the arrangement for three-month central bank credits introduced in December 1986. In March, the Bank of Finland started dealings with the banks in its own certificates of deposit and in certificates of deposit issued by the banks (Chart 10).

As from the beginning of April, the use of call money credit was restricted by setting an upper limit on each bank's access to call money credits at the call money credit rate; borrowing exceeding this limit was subject to a penalty rate of interest. The use of call money credits and deposits was also reduced by means of their pricing. The relatively high call money credit rate was lowered several times over the period from January to April, though by less than the fall in market rates over the same period. At the same time, the call money deposit rate was lowered so that it remained clearly below market rates (Chart 14). As a result, the importance of the call money rates and the call money market declined substantially. The call money rates remained unchanged for the rest of the year. As from the beginning of April, the Bank of Finland's call money market served merely as a secondary source of liquidity for the banks' daily

Chart 8.  
BANKS' CASH RESERVE DEPOSITS



deposit quickly became the most important instrument of short-term financing. In mid-April, the Bank of Finland abandoned three-month central bank credits and deposits, and began to carry out open market operations solely on the basis of certificates of deposit.

At the beginning of May, the Bank of Finland started to publish daily money market rates called HELIBOR<sup>1</sup>, which reflect developments in short-term market rates in Finland. These rates quickly became established alongside the base rate as reference rates for bank loans.

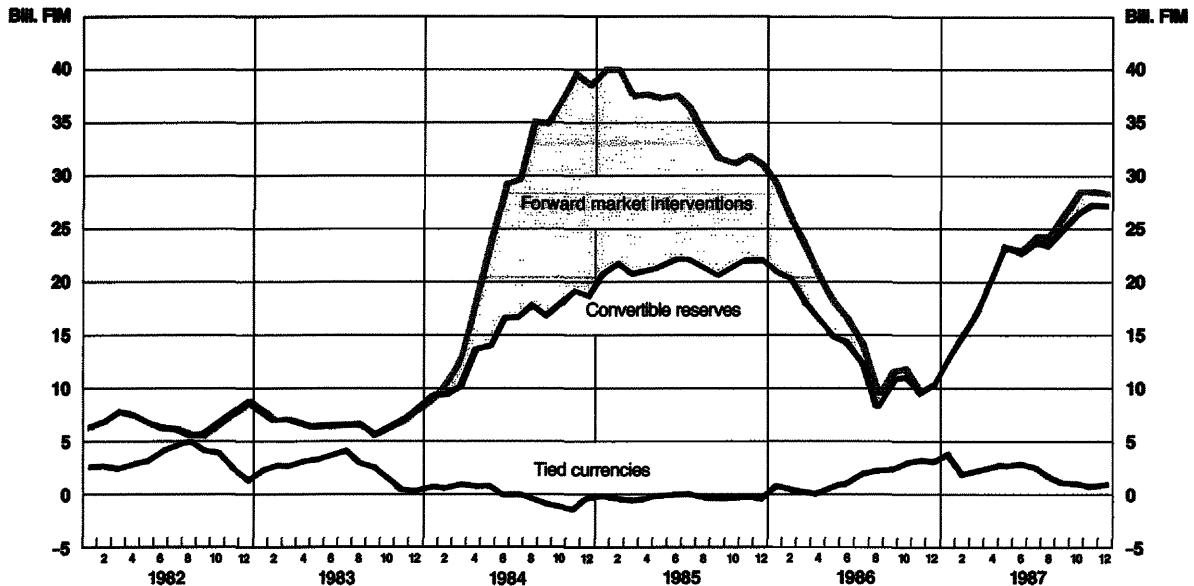
In October, the Bank of Finland issued new guidelines on personal credits to the banks. The new guidelines no longer laid down precise conditions concerning advance saving though the Bank of Finland still expected the banks to con-

needs and a minor outlet for their surplus funds.

The domestic money market underwent significant change in early 1987. Banks' certificates of

<sup>1</sup> HELIBOR (Helsinki Interbank Offered Rate) is calculated by the Bank of Finland for various maturities (1, 2, 3, 6, 9 and 12 months) as the average of the offered rates for certificates of deposit quoted daily at 1 p.m. by the five largest banks.

Chart 9.  
BANK OF FINLAND'S FOREIGN EXCHANGE RESERVES AND FORWARD POSITION



tinue requiring an appropriate amount of savings in the case of housing loans and other major personal loans. At the same time, the Bank of Finland supplemented its guidelines concerning mortgage rates. As from the beginning of 1988, banks were to be allowed to grant long-term housing loans with fixed interest rates which could be reset at intervals of 3 or 5 years by linking them to the 3- or 5-year market rates published by the Bank of Finland<sup>2</sup>.

The foreign exchange regulations were amended in 1987 in keeping with the adopted policy of gradual liberalization of exchange control. In June, exchange control was simplified and eased by exempting minor direct investments abroad from the Bank of Finland's permission with certain exceptions. Likewise, approval is no longer re-

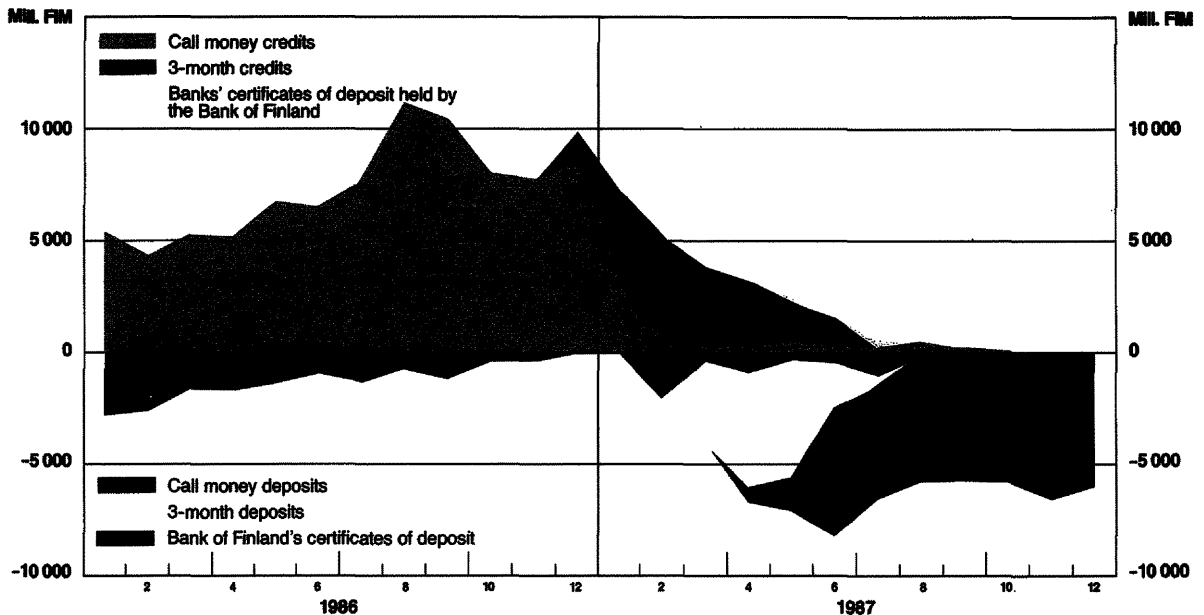
quired for the transfer of foreign exchange by emigrants or for the purchase of a dwelling abroad. Investing in publicly quoted securities abroad was also made easier. The relaxation of the controls on long-term foreign borrowing, which had started in the previous year, was continued in August by removing the controls on the long-term foreign borrowing of almost the entire corporate sector. In October, the Bank of Finland granted authorized banks the right to also write and purchase markka options.

The growth in the convertible foreign exchange reserves was boosted, in particular, by short-term capital imported by banks to cover their forward currency purchases from companies and foreign banks. Short-term trade-related credits and long-term foreign credits raised by companies also increased. With the increase in the foreign exchange reserves, the external value of the markka strengthened by over one per cent in the course of the year (Chart 13), restoring the index to roughly

<sup>2</sup> These interest rates are based on the offered rates for taxable fixed-rate bonds quoted daily at 1 p.m. by the five largest banks. The Bank of Finland calculates the rates as the average of the offered rates and publishes them as monthly averages once a month.

Chart 10.

**FINANCIAL RELATIONS BETWEEN THE BANK OF FINLAND AND THE BANKS<sup>1</sup>, EXCLUDING CASH RESERVE DEPOSITS**



<sup>1</sup> Monthly averages.

the level prevailing in the early months of 1986. The currency index was allowed to fluctuate more flexibly from day to day according to the situation in the foreign exchange market. Particularly towards the end of the year, in connection with the international monetary and currency disturbances, the fluctuations were slightly sharper than usual.

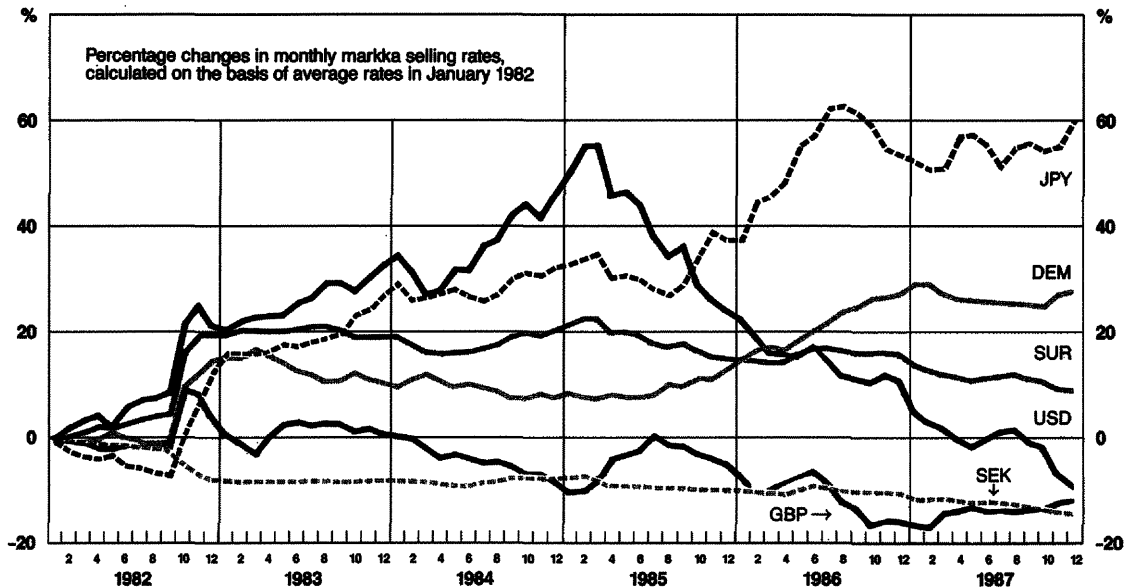
The banks' liquidity, defined as the net amount of short-term claims and liabilities (incl. forward position), remained virtually unchanged in 1987. The central bank used open market operations to mop up liquidity in the interbank market and thereby to offset the growth in the banks' short-term markka liabilities and unregulated deposits resulting from the sales of forward currency by the corporate sector. Liquidity was also absorbed at the Bank of Finland when the cash reserve requirement was raised in August (Chart 8). The banks' net claim on the central bank increased from FIM 0.2 billion to FIM 16.7 billion in the course of the year.

In spite of relatively high real interest rates, the demand for credit remained brisk and was reflected in faster growth of the banks' markka lending towards the end of the year. In the housing market, the growth in demand and easier access to credit led to an acceleration in the rate of increase in house prices, particularly in the Greater Helsinki area.

## INTERNATIONAL AND DOMESTIC FOREIGN EXCHANGE MARKETS

1987 saw further major changes in exchange rates in the international foreign exchange markets (Chart 11). The depreciation of the dollar against the other major currencies continued for the third successive year, mainly because the US current account continued to show a substantial deficit in spite of the weakening of the dollar. In accordance with an agreement concluded by the major OECD countries in February, central banks attempted to

Chart 11.  
CHANGES IN EXCHANGE RATES OF MAJOR CURRENCIES



limit changes in foreign exchange rates through support purchases of the dollar. These helped to keep the value of the dollar relatively stable until the autumn. The stability of the dollar was also due to a more stringent monetary policy in the United States, as a result of which the differential between dollar interest rates and foreign interest rates widened. After the international stock market crash in October, US monetary policy was eased, leading to a marked fall in the level of interest rates. Interest rates also fell in the other major economies (Chart 12). However, in the final months of 1987 the dollar fell sharply. Heavy intervention by the central banks of the major OECD countries stopped the depreciation of the dollar at the turn of the year.

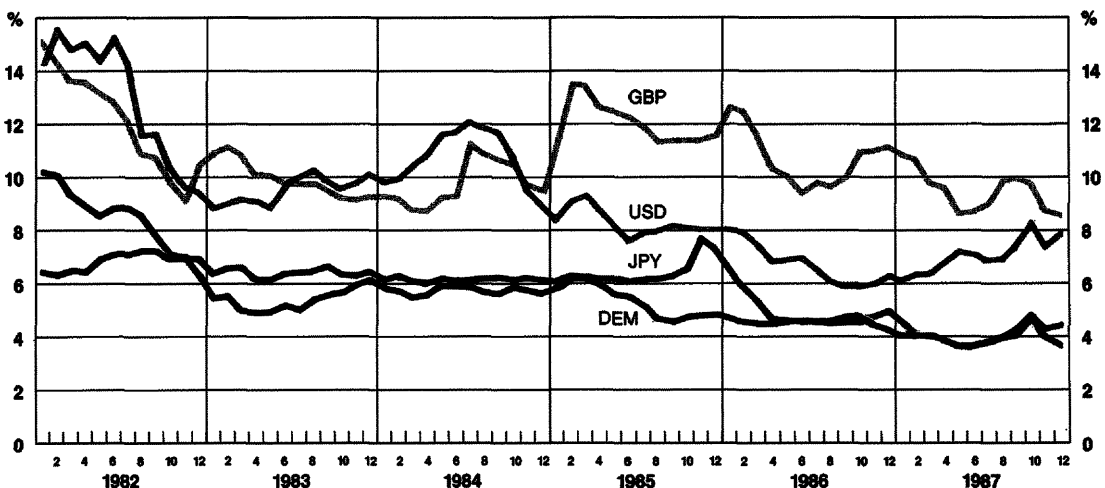
The Deutsche Mark remained strong, though it depreciated against the Japanese yen and the pound sterling, for instance. The economic policy of the Federal Republic of Germany was designed to have a modest expansionary impact on domestic demand and to reduce the foreign trade surplus.

During the year under review, demand was supported by a fairly easy monetary policy and the anticipatory effects of the tax reliefs scheduled for 1988—1990. At the end of the year, the level of interest rates was clearly lower than a year earlier.

The pound sterling strengthened in the course of the year thanks to faster economic growth and a continuing low inflation rate. It was also supported by a relatively stringent monetary policy, even though interest rates fell in the course of the year. Except for the early months of the year, the Japanese yen strengthened against all the major currencies. The Japanese current account surplus remained considerable in spite of measures aimed at strengthening the yen, lowering interest rates and increasing domestic demand.

The exchange rates of the currencies within the European Monetary System (EMS) were realigned on January 12 because of the depreciation of the French franc and the heavy capital

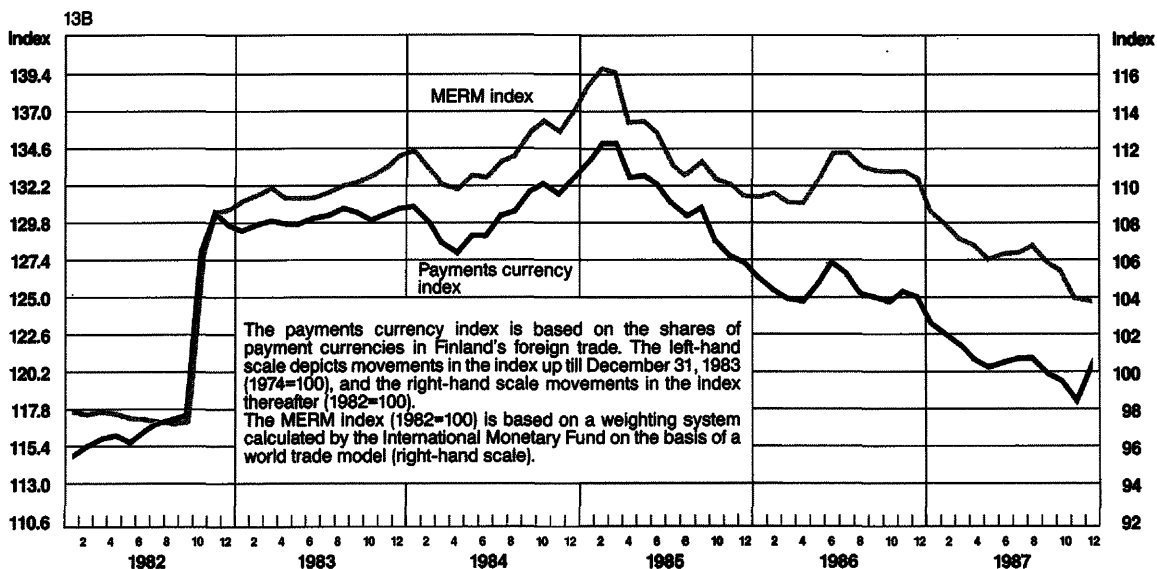
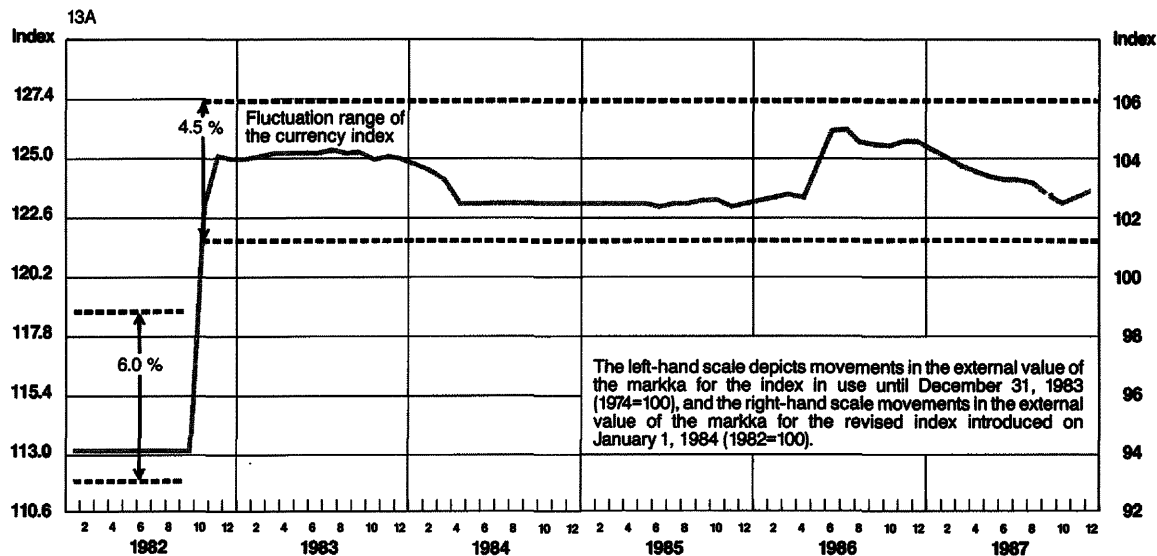
Chart 12  
3-MONTH EURO-DEPOSIT RATES



flows caused by the speculative pressures against it. The central rates of the Deutsche Mark and the Dutch guilder were raised by 3 per cent and those of the Belgian and Luxembourg francs by 2 per cent. The central rates of the other EMS currencies were kept unchanged.

There were no strong pressures on exchange and interest rates in the Nordic foreign exchange markets in 1987. The Swedish krona strengthened with the growth in the foreign exchange reserves, boosted by the widening of the interest rate differential in relation to foreign interest rates. In the

Chart 13.  
MOVEMENTS IN THE EXTERNAL VALUE OF THE MARKKA





latter half of the year, the external value of the krona fell close to the mean value of its band because of increasing uncertainty about Sweden's economic performance and sales of Swedish securities by foreign investors.

In early 1987, the Norwegian krone also strengthened within its band but depreciated again towards the end of the year in spite of a rise in interest rates. The fluctuation in the external value of the Norwegian krone was similar to that of the Swedish krona and mainly due to the same reasons, though the fluctuation in the Norwegian krone was sharper and also attributable to the fall in oil prices towards the end of the year. The Danish krone was the strongest EMS currency in the early months of the year, after which it depreciated slightly because of a deterioration in economic conditions.

The domestic foreign exchange market was calm in 1987, and confidence in the markka, which had been lacking up to the end of the previous year, was restored. This was also attributable to the favourable prospects for economic growth and foreign trade, the interest rate differential vis-à-vis foreign currencies and the low inflation rate.

The trade weights used in the calculation of the currency index were revised, as normal, five times in the course of 1987. At the beginning of the year, the weights were adjusted because of a change in the reference year. The other adjustments were due to changes in the structure of foreign trade.

The external value of the markka strengthened more as measured by indices based on payments shares and MERM weights<sup>3</sup> than as measured by the official currency index. This was mainly due to the fact that the weight of the much weakened dollar is higher in the first-mentioned indices than in the official index (Chart 13B).

The exchange rate changes in the international foreign exchange markets were the main reason for the changes in the markka rates quoted by the Bank of Finland as the external value of the markka remained relatively stable. In the course of the year, the selling rate of the US dollar fell by 17.7 per cent against the Finnish markka, that of the Soviet rouble by 5.0 per cent and that of the Swedish krona by 3.6 per cent. The selling rate of the pound sterling rose by 4.3 per cent, that of the Deutsche Mark by 0.8 per cent and that of the Japanese yen by 8.0 per cent.

The forward rates of the markka fell in the course of 1987 as the lowering of domestic market rates narrowed the interest rate differential between Finland and other countries. In the early months of 1987, the 3-month forward rate of the US dollar exceeded the spot rate by 6.8 per cent at an annual rate; at the end of the year, the differential was only 1.6 per cent.

The convertible foreign exchange reserves increased by almost FIM 17 billion in the course of the year, about one-third more than the fall in the previous year. The reserves grew rapidly from the beginning of the year until June mainly because of the inflow of short-term capital; in the second half of the year growth was slower, which was partly attributable to a slight increase in the Bank of Finland's forward purchase contracts. The Bank of Finland's outstanding forward purchase contracts, which had matured almost in full at the beginning of the year, totalled just over FIM 1 billion at the end of the year. Forward intervention was part of the Bank of Finland's open market operations aimed at restricting the increase in liquidity and the fall in interest rates.

## INTEREST RATE POLICY AND CHANGES IN THE SYSTEM OF MONETARY CONTROL

The importance of call money rates for monetary control diminished in the first half of 1987. Open market operations in the domestic money market commenced in December 1986 when the Bank of

<sup>3</sup>The payments share weights are based on the shares of payments currencies in Finland's foreign trade. The MERM index is based on a weighting system calculated by the International Monetary Fund for its world trade model.

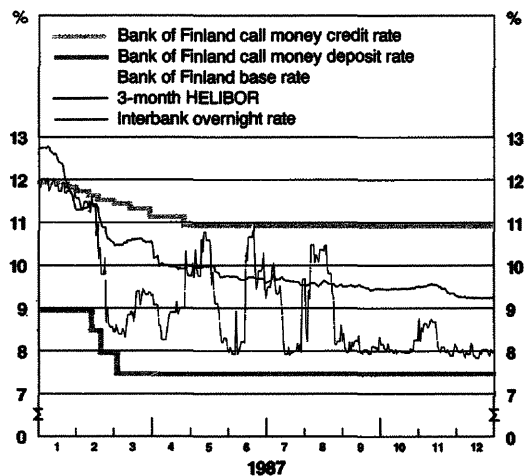
Finland introduced three-month central bank credits with a fixed rate of interest. They were granted till the beginning of April and gradually replaced the major part of call money credits in central bank financing. The interest rate on three-month credits fell from 12.65 per cent to 10.3 per cent from the beginning of January to the beginning of April (Chart 14).

In order to absorb liquidity from the market and to reduce pressures for lower interest rates the Bank of Finland started to accept three-month fixed-rate deposits from the banks at the beginning of February. Like the corresponding credits, the amount of these deposits and the rate of interest on them were determined daily on the basis of banks' bids and in accordance with the targets set for central bank financing.

The call money rates were lowered on several occasions in the early months of 1987 but were kept unchanged for the rest of the year. The call money credit rate was lowered by a total of 1 percentage point to 11 per cent over the period from January to April and the call money deposit rate by 1.5 percentage points to 7.5 per cent over the period from February to March. In December 1986, the call money deposit rate had been separated from developments in the call money credit rate and had, at the same time, been lowered (to 9 per cent); this served to promote the development of the interbank market. As the call money credit rate remained distinctly higher than short-term market rates and the call money deposit rate was lower than market rates, the banks sought to even out fluctuations in their liquidity between themselves rather than resort to the Bank of Finland's call money market (Chart 14).

With effect from the beginning of April, the use of call money credit was restricted by setting an upper limit on each bank's access to call money credit; any borrowing in excess of this limit was made subject to a penalty rate of interest. The upper limit was fixed as 7.5 per cent of the total of a bank's equity capital plus its cash reserve deposits. A penalty rate of interest of 19 per cent

Chart 14.  
RATES OF INTEREST APPLIED BY THE BANK OF FINLAND AND MONEY MARKET RATES<sup>1</sup>



<sup>1</sup> Daily values.

was charged on any call money credit exceeding this limit. After these changes, the banks ceased to use the call money market as a regular source of financing or as an investment outlet for their surplus funds. In July, the basis for determining the banks' call money credit quotas not subject to the penalty rate of interest was revised so that each bank's quota was at least FIM 10 million. The revision was designed to make it easier for small banks to operate in the money market as many of them are active in the wholesale money market. In October, the upper limit of call money credit not subject to penalty interest was raised to 10 per cent of the total of a bank's equity capital plus its cash reserve deposits. In addition, small banks could be granted a higher upper limit on application.

As from March, the Bank of Finland supplemented its open market operations in the domestic money market by introducing dealings in certificates of deposit with banks entitled to central bank financing. In mid-April, three-month central bank credits and deposits were abandoned, after which the implementation of monetary policy relied mainly on purchases and sales of certificates of deposit issued by the banks or the Bank of Finland. Most

of the transactions were in certificates of deposit with 1- or 3-months' maturity. In September, the Bank of Finland announced its willingness to also trade in certificates of deposit with the major local savings and cooperative banks. The local banks did not, however, enter into trading during the year under review.

In August, the cash reserve requirement was raised from 4.7 per cent to 4.9 per cent. The measure was a signal of the continuation of the *stringent monetary policy stance and it also sterilized liquidity more permanently than could be done in the short-term market.* The cash reserve requirement was kept unchanged in the remaining months of the year (Chart 8).

In November, the Parliamentary Supervisory Board amended the interest rate powers vested by it in the Board of Management of the Bank of Finland. The call money interest rate powers remained unchanged, but the upper limits of the rates applied in money and capital market operations were revised downwards (see Monetary and foreign exchange policy measures, page 50). The powers were also extended to apply to rates of over 6 months, thus making it possible for the Bank of Finland to operate, if necessary, in the markets for bonds and long-term certificates of deposit.

## DOMESTIC MONEY AND CAPITAL MARKETS

The market for short-term financial assets developed rapidly in 1987. Negotiable financial instruments were used increasingly in both banks' short-term funding and in short-term lending between companies. In the course of the year, banks' certificates of deposit became the main money market instrument. There was a marked increase in the stock of commercial paper, and, in April, a new negotiable instrument, local authority paper, was introduced in local authorities' short-term financing. The Bank of Finland began to quote reference rates for use in bank lending linked to reference rates.

As from the beginning of 1987, an amendment to the cash reserve agreement took effect according to which banks' certificates of deposit were exempted from the cash reserve requirement. As a consequence of the clear differentiation between the call money credit and deposit rates, the rate on market-based overnight deposits fell more than that on longer-term unregulated deposits. This diverted unregulated deposits of a sight nature to longer-term deposits. The development of the market for certificates of deposit benefited particularly from the Bank of Finland's shift from monetary control based on call money rates to open market operations in the interbank market for certificates of deposit.

The development of the money market was also promoted by the fact that, as from the beginning of May, the Bank of Finland started to quote HELIBOR reference rates on a daily basis. At the end of the year, bank loans linked to HELIBOR rates amounted to FIM 13.1 billion.

The stock of certificates of deposit shown under unregulated short-term funds in banks' balance sheets grew from FIM 2.4 billion to FIM 23.3 billion in the course of the year. At the end of the year, about half of this amount was in the interbank market. By contrast, the stock of non-negotiable deposit instruments decreased to FIM 7.2 billion. There was also a decrease in the banks' off-balance sheet funding. Deposits with bank trust departments amounted to FIM 13.3 billion; banks' sales of securities with a repurchase obligation (repo sales) diminished from FIM 1.3 billion at the beginning of the year to FIM 0.1 billion at year end. The use of commercial paper in short-term financing increased considerably in the course of the year; at the end of the year, the stock of commercial paper amounted to FIM 9.7 billion. At the end of the year, outstanding local authority paper totalled FIM 0.2 billion. The stock of outstanding Treasury notes grew from FIM 2.1 billion to FIM 3.0 billion.

In 1987, the call money rates were no longer the dominant factor affecting movements in money

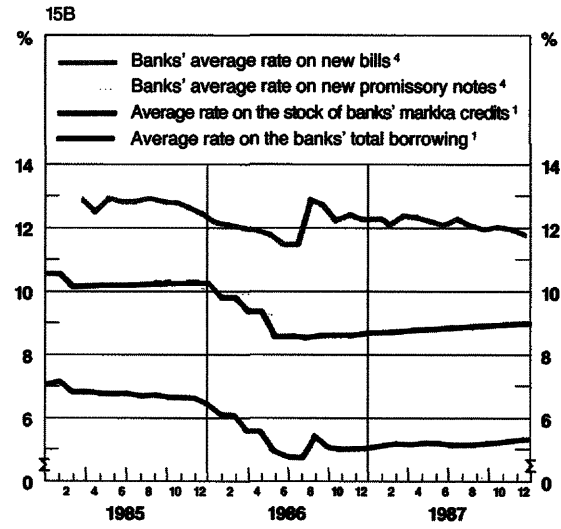
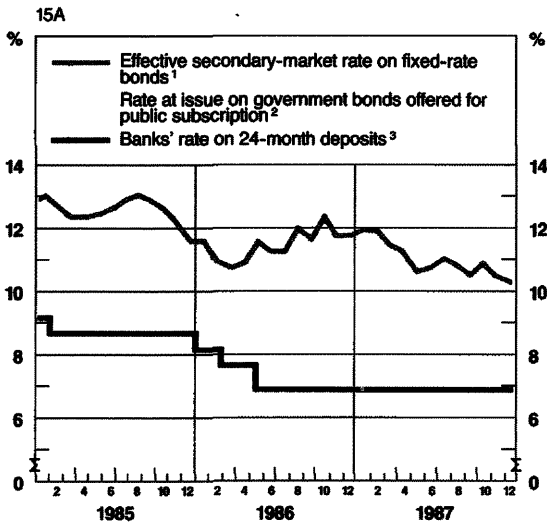
market rates, though the call money credit and deposit rates still provided some kind of variation range for the very shortest money market rates. Money market rates were primarily determined according to the demand for and supply of short-term finance. Of course, the Bank of Finland's open market operations exerted an influence on the supply of short-term finance and thus on money market rates. Money market rates fell in the early part of the year but remained fairly stable for the rest of the year.

All in all, 208 new bond and debenture issues with a total nominal value of FIM 22 billion were floated in Finland in 1987. The figures do not include Treasury notes. The nominal value of issues fell by one per cent and their number by 32 on the previous year. "Other bonds" accounted for half of the total nominal value of new issues. At the end of the year, the central government launched the first taxable bond issue to the public. The nominal value of public issues was four times that of privately placed issues.

Of taxable bonds, bonds with equity warrants, in particular, became more popular, the value of these issues amounting to FIM 2.8 billion in the course of the year. These bonds are debt instruments with a separate warrant entitling the bearer to subscribe shares in a company. The interest rate payable on the debt instrument itself is lower than the market rate, so that expectations concerning its yield focus mainly on developments in the price of the relevant shares. Its popularity was connected with the steep rise in share prices. The fall in stock prices in October checked the emission of bonds with equity warrants. In spite of this, they accounted for one-third of all taxable bonds issued in 1987.

The stock of outstanding bonds and debentures grew by 19 per cent in the course of the year and stood at FIM 82.2 billion at the end of the year. The central government accounted for FIM 26.5 billion of this amount. Of the different forms of lending, the stock of "other bonds" increased by 24 per cent and that of ordinary bonds by 18 per cent; the stock of debentures increased by 3 per cent.

Chart 15.  
CAPITAL MARKET AND BANK RATES

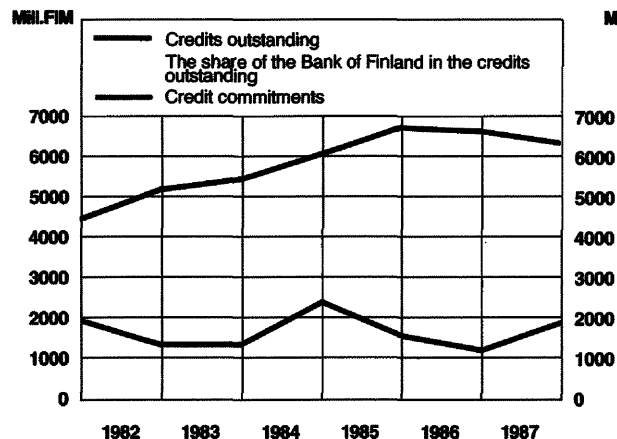


<sup>1</sup> End-month figures. <sup>2</sup> Daily values.  
<sup>3</sup> Weighted by sales of bonds. <sup>4</sup> Monthly average weighted by amounts.

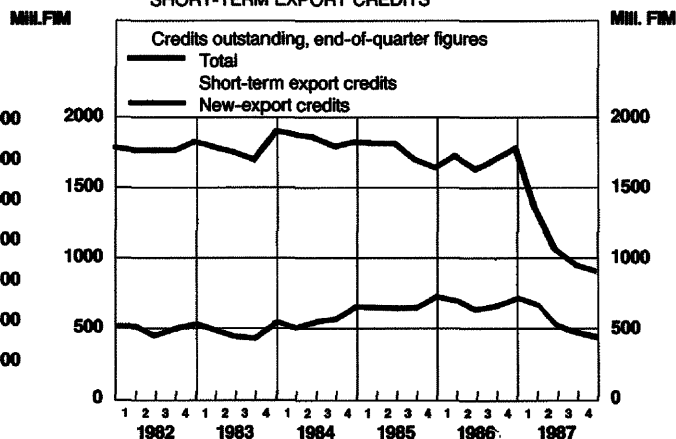
Chart 16.

## SPECIAL FINANCING ARRANGEMENTS

### 16A FINANCING OF DOMESTIC DELIVERIES



### 16B FINANCING OF NEW-EXPORT CREDITS AND SHORT-TERM EXPORT CREDITS



Interest rates on new issues fell in the course of the year. The weighted average rate of interest on new taxable bond issues (excluding bonds with equity warrants) offered for public subscription was 11.56 per cent in January and 10.18 per cent in December. The rate at issue on mortgage bank and non-taxable government bonds fell from 8 per cent to 7.75 per cent for 10-year loans and from 7.50 per cent to 7.25 per cent for 5-year loans. The effective secondary market rates on outstanding bonds also fell in the course of the year (Chart 15A).

Most of the bonds issued carried a fixed rate of interest. In the latter half of the year, HELIBOR rates were increasingly applied to floating rate bond issues as a reference rate instead of the base rate. Of the various HELIBOR rates, the most frequently used rate was the 6-month HELIBOR.

## SPECIAL FINANCING ARRANGEMENTS

The value of outstanding credit under the Bank of Finland's special financing arrangements (see Appendix on p. 46) decreased by about FIM 1 billion in 1987, totalling FIM 3.5 billion at the end

of the year. This was mainly due to the amendments to the terms and conditions of the arrangements for financing short-term export credits and new-export credits which took effect at the beginning of the year and aimed at a controlled reduction in the arrangements by allocating credit to small and medium-sized exporters.

In 1987, new commitments under the scheme for financing domestic suppliers' credits (KTR credits) totalled FIM 2.2 billion, of which forest industry machinery accounted for 74 per cent. At the end of the year, outstanding credit commitments amounted to FIM 1.9 billion, up more than 50 per cent from one year earlier. The growth was due to increased investment activity in the forest industries. The stock of domestic suppliers' credits totalled FIM 6.3 billion at the end of the year, of which the Bank of Finland's share was FIM 2.6 billion (Chart 16A).

The use of bonds as credit instruments in domestic suppliers' financing was permitted in December 1986. The aim was to introduce a more modern and flexible debt instrument alongside promissory notes. Of the credit commitments made in 1987, FIM 0.7 billion or 31 per cent was in the form of bonds.

The terms of domestic suppliers' credits were amended in December so that with effect from the beginning of 1988 the rate of interest on new credits was raised by half a percentage point, after which the rate of interest on these credits exceeded the base rate by 2.5 percentage points. In the same context, the Bank of Finland's share in financing domestic suppliers' credits was reduced from 40 per cent to 30 per cent on expiry of the temporary period when the Bank of Finland's share was higher.

A new feature as regards short-term export credits was that credits were only granted to companies whose turnover did not exceed FIM 200 million. At the end of the year, the total stock of short-term export credits was FIM 0.4 billion, a decrease of almost 60 per cent on the previous year (Chart 16B).

The voluntary investment reserve scheme is designed to influence the timing of corporate investment (see Appendix on p. 46). The stock of companies' investment deposits with the Bank of Finland amounted to FIM 4.8 billion at the end of 1987. New deposits were made to the value of FIM 1.3 billion, while drawings of deposits totalled FIM 1.2 billion. The growth of the deposit stock came to a halt as the amount of drawings doubled from the previous year. The stock of withdrawable

investment deposits stood at FIM 1.9 billion at the end of the year. In August, the Government decided to extend the period during which investment reserves made before 1985 could be used until the end of 1988 (see Monetary and foreign exchange policy measures on page 50). This measure aimed at evening out an anticipated surge in investment in the latter part of 1987.

## INTERNATIONAL FINANCIAL MARKETS AND FINLAND'S FOREIGN CAPITAL FLOWS

After many years of expansion, activity in the international financial markets started to decline in 1987. International bond issues totalled some USD 180 billion, a decrease of more than 20 per cent from the previous year. The lower level of activity focused on the bond and Eurobond markets. There was a particularly sharp fall in dollar-denominated issues, whereas yen-denominated issues increased and their share of total issues also rose. Volumes of bond issues denominated in Deutsche Mark and Swiss francs reached the same level as in the previous year.

Traditional Eurocredits and other direct lending experienced a marked recovery as securitization started to decline, although the increase was not enough to offset the fall in the bond market. Indeed,

### CAPITAL INFLOWS IN 1986—1987, MILLION FIM

	1986	1987 <sup>1</sup>
<b>A Long-term capital inflows, net</b>	<b>3 288</b>	<b>100</b>
Loans	6 022	7 693
Direct investment	- 2 014	- 3 358
Portfolio investment	- 541	- 4 054
Subscriptions	- 179	- 181
<b>B Short-term capital inflows, net</b>	<b>- 6 718</b>	<b>24 836</b>
Corporate sector	2 939	9 336
Banks (excl. forward cover)	-10 372	4 113
Banks' forward cover	715	11 387
<b>Total (A + B)</b>	<b>3 430</b>	<b>24 936</b>

<sup>1</sup> Preliminary figures.

total international lending was, at an estimated USD 300 billion, clearly down on the previous year. The decrease in international financing by major borrowers was partly attributable to the sharp fluctuations in the foreign exchange rates.

The developments in the international financial markets were also reflected in Finland's long-term borrowing. The use of conventional bank loans, i.e. Eurocredits, picked up, and the share of dollar-denominated loans decreased. Eurocredits accounted for one-quarter of all drawings of long-term foreign loans, twice the figure for the previous year. The share of dollar-denominated loans in total drawings fell from one-third in 1986 to just over one-quarter. Bond issues remained at the level of the previous year, totalling some FIM 15.5 billion. The terms of new long-term loans continued to develop favourably.

Net drawings of long-term foreign loans amounted to FIM 10.5 billion, roughly double the amount in 1986. The central government covered FIM 2.3 billion of its net borrowing requirement by recourse to foreign borrowing whereas it had exported capital totalling FIM 0.1 billion in net terms in the previous year. Banks' net drawings amounted to FIM 5.7 billion, i.e. almost the same as in 1986, which was partly due to the fact that the banks continued to convert short-term loans into long-term ones. Net borrowing by the corporate sector also grew and totalled FIM 1.0 billion. Companies' net drawings of loans intermediated by special credit institutions increased from FIM 0.7 billion to FIM 1.5 billion.

The increase in long-term foreign borrowing by the corporate sector mainly took the form of loans of five years or over, the use of which was liberalized to a large extent by the Bank of Finland in the course of the year. As from the beginning of August, the right to raise these loans, which had previously been limited to manufacturing and shipping companies, was extended to apply to almost the entire business sector. Most of the loans of five years or over were raised abroad by banks, which then intermediated them to compa-

nies as domestic foreign currency loans. These loans carried lower nominal interest rates than domestic markka credits and were usually arranged as currency basket loans so as to reduce exchange rate risks. In 1987, these loans, which are intermediated by authorized banks, grew by FIM 9.9 billion, totalling FIM 13.7 billion at the end of the year. The Bank of Finland approved applications for capital imports amounting to FIM 7.4 billion for the manufacturing industry. Applications for capital imports by companies in other branches amounted to FIM 5.8 billion over the period from August to December.

As in the previous year, there were fairly few share issues by Finnish companies on foreign stock exchanges. By contrast, sales abroad and purchases from abroad of shares quoted on the Helsinki Stock Exchange continued brisk. In particular, resales of shares to Finland increased after the international stock market crash in the autumn. In fact, the back flow of Finnish securities to Finland in 1987 exceeded sales abroad by FIM 1.6 billion.

The Bank of Finland allowed some insurance and special credit institutions to invest in foreign securities in 1987. These investments, which were short-term in maturity and closely related to these institutions' foreign operations, amounted to FIM 2.1 billion.

The internationalization of the Finnish business sector continued apace, as companies invested heavily abroad. Net direct investment by Finnish companies reached the same level as in the previous year, totalling FIM 3.8 billion. More than half of Finnish companies' investments went to EC countries and over one-third to the chemicals industry. The majority of these investments were acquisitions, which to a large extent were financed with loans raised in the international financial markets. This muted the impact of these investments on Finland's foreign exchange reserves.

Net direct investment by foreign companies in Finland was of fairly minor significance, totalling only FIM 0.4 billion. Foreign companies operating

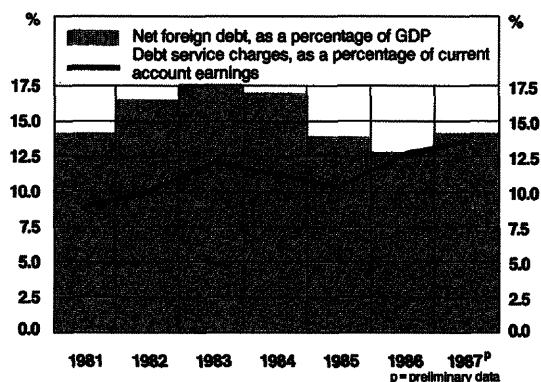
in Finland transferred almost twice as much abroad in dividends and interest as they invested in Finnish companies.

All in all, the long-term capital account showed a net inflow of FIM 0.1 billion, a decrease of FIM 3.2 billion from the previous year. Contributing to the reduction in the net capital inflow were the ongoing internationalization of Finnish companies, the setting up of a special account in connection with bilateral trade with the Soviet Union and portfolio investments in foreign securities.

There was a massive net inflow of short-term capital in 1987, amounting to FIM 24.8 billion, of which the banks accounted for FIM 15.5 billion. A significant proportion, FIM 11.4 billion, consisted of foreign funds raised by banks as forward cover. Activity in the forward market picked up in early 1987 as exporters resumed forward transactions to cover their export receivables. These forward transactions increased by FIM 10.2 billion in the course of the year.

Short-term loans raised for the financing of exports and imports increased by FIM 6.5 billion in the course of the year. In addition, the corporate sector's net short-term debt related to short-term trade credits grew by FIM 3.2 billion in the course of the year.

Chart 17.  
EXTERNAL INDEBTEDNESS



At the end of the year, Finland's net long-term foreign debt amounted to FIM 58.2 billion, which is slightly less than at the end of the previous year. Changes in foreign exchange rates reduced the net long-term debt by FIM 1.2 billion. Because of the increase in net short-term debt Finland's total net foreign debt grew by FIM 8.9 billion according to preliminary calculations and amounted to FIM 55.1 billion, representing about 14.2 per cent of GDP at current prices (Chart 17 and Table 9). The central government's foreign debt accounted for 46.6 per cent of the total net debt.

#### FINLAND'S FOREIGN DEBT IN 1984—1987, END-YEAR FIGURES, MILLION FIM

	1984	1985	1986	1987 <sup>1</sup>
Gross long-term debt <sup>2</sup>	73 546	76 603	82 920	89 547
Gross long-term assets <sup>2</sup>	19 706	20 194	23 628	31 369
Net long-term debt	53 840	56 409	59 292	58 178
Gross short-term debt	78 245	72 798	76 454	97 997
Gross short-term assets	79 035	82 113	89 493	101 082
Net short-term debt or assets <sup>3</sup>	-790	-9 314	-13 038	-3 085
Total net foreign debt	53 050	47 095	46 254	55 093
— as a percentage of GDP at current prices	17.1	14.0	12.9	14.2

<sup>1</sup> Preliminary figures.

<sup>2</sup> The markka value of balances outstanding have been calculated using the selling rates on the accounting date.

<sup>3</sup> Including the Bank of Finland's foreign exchange reserves.



## AMENDMENTS TO THE FOREIGN EXCHANGE REGULATIONS

In 1987, the gradual easing of the foreign exchange regulations and the simplification of the related permission procedures continued. Major amendments were made to provisions concerning direct investments, suppliers' credits on imports, investments in foreign securities, emigrants' foreign exchange, purchases of dwellings abroad, financing and suppliers' credits of at least five years' duration and option and futures contracts.

With effect from the beginning of June, companies were allowed to make direct investments abroad without the advance approval of the Bank of Finland provided the investment did not exceed FIM 30 million per calendar year for each investment. The exemption did not apply to direct investments made in countries with which Finland has bilateral payments agreements, or to direct investments by private individuals, banks, financial or insurance institutions, shipping companies, companies engaged in investing, financing or securities dealing or other similar activity or holding companies. At the same time, the regulations on suppliers' credits on imports were also relaxed; the Bank of Finland's permission was no longer required for exceeding a payment period of six months for merchandise with a maximum purchase price of FIM 100 000.

Emigrants were allowed to transfer abroad all their net assets in Finland without the Bank of Finland's permission. Likewise, Finnish residents are no longer required permission for acquiring foreign currency for the purpose of purchasing a dwelling abroad. Only purchases exceeding FIM 600 000 remained subject to the advance approval of the Bank of Finland. Furthermore, the opportunities for investing abroad were increased by allowing private individuals to invest up to FIM 50 000 in publicly quoted securities abroad. Securities may be purchased from a non-resident, an authorized bank or any other securities agency. Alternatively, the same amount may be transferred to portfolio management accounts held abroad.

With effect from August 1, 1987, the Bank of Finland extended the right to raise foreign loans of five years or over, which had previously been granted to manufacturing and shipping companies for financing their own operations, to apply to all other companies and co-operative societies engaged in business operations, except financial and insurance institutions and housing and real estate companies.

In September, the total currency position limits of authorized banks were raised. The change sought to give closer consideration to banks' capacity to bear risks, the level of activity in the markets and competition.

As from October, authorized banks were allowed to write and purchase currency options in which the markka is the other currency. The banks had previously been allowed to write currency options but only between two foreign currencies. However, before an authorized bank could commence writing markka option contracts, its procedure for covering risks had to be approved by the Bank of Finland. At the same time, other residents were allowed to purchase currency options involving the markka and a foreign currency from authorized banks and to sell currency options involving two foreign currencies to authorized banks. Options must be commercially based, e.g. based on a binding tender. In addition, residents were granted the right to enter into interest futures and currency futures contracts involving two foreign currencies with non-residents on the same terms as with authorized banks.

As from October, it was permitted to sell equity warrants entitling the bearer to subscribe unrestricted Finnish shares to non-residents provided that both the shares and the equity warrants were quoted on the Helsinki Stock Exchange or in the OTC markets in Finland<sup>4</sup>.

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<sup>4</sup>In the OTC markets, the securities agent is obliged to confirm the security's buying and selling rate regularly under the agreement made with the owner of the security.

In October, a decision was taken on amendments to the list of payment codes concerning payments abroad. Three-quarters of the codes were abolished and the rest reclassified to better meet the needs of the balance-of-payments statistics. The new payment codes became effective on January 1, 1988.

In December, a decision was taken on permitting the establishment abroad of companies primarily engaged in securities dealing. The right to be granted this permission was accorded to authorized banks, securities agencies referred to in the foreign exchange regulations and, with certain restrictions, insurance companies.

In 1987, the Bank of Finland also took some decisions concerning the granting of authorized bank status. Midland Montagu Ltd was accorded the status of an authorized bank in January, PKbanken International (Finland) Oy in February and Helsingin Säästöpankki in December. The status of Peruspankki Oy as an authorized bank was cancelled in August 1987.

## BILATERAL PAYMENTS ARRANGEMENTS

In 1987, Finland continued to maintain bilateral payments agreements with the Soviet Union, Bulgaria and the German Democratic Republic. The Finnish markka was used as the clearing currency in payments between Finland and

Bulgaria and between Finland and the German Democratic Republic. The Soviet rouble was used as the clearing currency in trade between Finland and the Soviet Union.

The tied foreign exchange reserves of the Bank of Finland fell considerably in the course of 1987 as a result of exceptionally large trading in third-party oil, the decline in exports to the Soviet Union and the special account arrangements introduced at the beginning of the year. At the end of the previous year, the clearing account between the Soviet Union and Finland showed a claim of SUR 460 million (FIM 3.3 billion) in Finland's favour; at the beginning of February, SUR 285 million (FIM 2.0 billion) was transferred to a special interest-bearing account, which is hedged against exchange rate fluctuations. The loan will be repaid by the end of 1991. From March to August, the clearing account balance remained above the credit limit (SUR 300 million or FIM 2.1 billion) but at the end of the year the value of the claim fell to SUR 171 million (FIM 1.2 billion).

As in previous years, the clearing account between Finland and Bulgaria showed a large claim for Finland, which amounted to FIM 121 million at the end of the year. The clearing account between Finland and the German Democratic Republic had been brought into balance in 1986 after having previously shown a substantial claim in Finland's favour. At the end of 1987, the account showed a liability of FIM 72 million for Finland.

# THE BANK OF FINLAND AND INTERNATIONAL ORGANIZATIONS

Throughout the year, the international monetary system was characterized by sustained efforts to stabilize the exchange rates of the major currencies. The imbalances in the world economy persisted and economic prospects were uncertain. The debt problems of developing countries, which are closely connected with the stability of the international financial markets, continued, and no lasting solutions were found to them.

## THE INTERNATIONAL MONETARY FUND (IMF)

The trade imbalances between the world's leading economies remained large in 1987 and maintained the need for better coordination of economic policies. The aim of strengthening the coordination of economic policies was partly achieved in monetary and foreign exchange policies; in fiscal policy, however, no solution was found to ease the imbalances in the world economy. The International Monetary Fund continued the discussion on enhancing the surveillance of the international monetary system. Thus the activities of the Fund also focused on reducing uncertainty relating to foreign exchange risks and on the coordination of economic policies among the major industrial countries.

At the Venice summit meeting in June the major industrial countries agreed on arrangements for the surveillance of economic performance and

introduced a set of objective economic indicators for use in the assessment of the need for coordination between the economic policies of various countries. The International Monetary Fund participated in the development of the surveillance system. The Managing Director of the Fund participated in the meetings of the Group of Seven, which consists of the leading industrial countries, and the Fund staff provided the meetings with background material on the medium-term economic prospects of individual countries.

During the year under review, an attempt was made to analyze the debt problems of developing countries on a more comprehensive basis than before. Special attention was paid to the situation of the least developed countries, mainly the sub-Saharan African countries, and to alternative ways of helping them. The Nordic countries participated actively in the debate on the debt problems of the poorest African countries.

## USE OF THE RESOURCES OF THE INTERNATIONAL MONETARY FUND, BILLION SDRs

	1985	1986	1987
<b>TOTAL DRAWINGS OF CREDITS</b>	<b>4.0</b>	<b>3.9</b>	<b>3.7</b>
Use of credit tranches	2.7	3.0	1.9
Medium-term credits drawn under extended arrangements	0.4	0.3	0.2
Permanent special credit arrangements:			
— Credits drawn under the compensatory financing facility	0.9	0.6	1.2
— Credits drawn under the buffer stock financing facility	0.0	0.0	0.0
Structural Adjustment Facility		0.1	0.4
<b>REPAYMENTS OF CREDITS, TOTAL</b>	<b>3.6</b>	<b>5.7</b>	<b>7.9</b>
<b>NEW CREDIT COMMITMENTS APPROVED IN 1987</b>	<b>3.3</b>	<b>3.7</b>	<b>2.6</b>

The Fund continued the planning of adjustment and growth strategies of heavily indebted member countries in close collaboration with the countries concerned, the World Bank and other creditors. Similarly, the Fund took an active part in the negotiations on debt stabilization in the context of the Paris Club. Six members were still ineligible to use Fund resources due to persistent overdue obligations to the Fund.

In 1987, the use of the Fund's ordinary resources by member countries fell slightly and thus the net use of Fund credit decreased for the second successive year. However, the countries eligible to assistance under the Structural Adjustment Facility (SAF) made use of them to an increasing extent. Access to concessional assistance under this facility requires that a member country draws up a policy framework paper, in collaboration with the Fund and the World Bank, on how the structure of the country's economy is to be adjusted to overcome its balance-of-payments problems.

Net use of Fund credit fell by SDR 4.2 billion in 1987 because of repayments of large credits drawn in previous years. In addition, developing countries did not conclude new credit arrangements with the Fund to the same extent as before. Accordingly, at the end of the year under review, there were 24 stand-by arrangements and extended arrangements in place, totalling SDR 5.6 billion. At the end of 1986, the Fund had credit arrangements with 31 countries, and the resources committed under these totalled SDR 5.1 billion.

At the end of the year under review, there were 22 separate agreements in force under the structural adjustment facility, compared with 9 at the end of the previous year. The credits committed under these agreements amounted to SDR 1.1 billion.

In early summer 1987, Michel Camdessus, the new Managing Director of the Fund, proposed that the funds available under the structural adjustment facility be tripled to SDR 9 billion, in order to alleviate the financing problems of low-income

member countries. The aim was to make the increase effective as from the beginning of 1988. In the latter part of the year, the IMF and potential donor countries held intensive bilateral negotiations on the forms of the additional financing and the distribution of contributions among donor countries. As a sufficient number of countries expressed their readiness to participate in the increased financing, the Executive Board of the Fund adopted the decisions on the expansion and established the Enhanced Structural Adjustment Facility (ESAF) in December. Finland took a positive stand on the proposed increase in SAF resources and considered participating in the financing of the interest rate subsidy under the facility. Finland's decision on participation will be taken in 1988.

The Interim Committee, the Fund's highest advisory body, convened in April and in September in connection with the joint annual meeting of the International Monetary Fund and the World Bank in Washington DC. The dominant topics at the committee meeting and the annual meeting were the state of the world economy, the debt problems of developing countries and the resource issues of the Fund.

At the annual meeting industrial countries gave their support to the aim of an international monetary system in which the values of the exchange rates of the major currencies would be controlled more than at present. Furthermore, after a lapse of a few years, concern about the acceleration of inflation was again expressed in the discussions at the annual meeting.

At the annual meeting the representatives of industrial countries made frequent references to the utilization of price movements in primary commodities in the system of economic indicators. It was proposed that a commodity index be used in the coordination of countries' economic policies as a supplement to the other economic indicators employed in seeking to stabilize the movements of countries' exchange rates.

As regards the debt problems of middle-income developing countries the annual meeting decided to continue applying the present case-by-case debt strategy; it was considered the only realistic way of dealing with the problem. The use of new financing instruments and methods was also supported, though it was recognized that from the point of view of a comprehensive approach to debt problems their importance is limited.

In accordance with the rules of the International Monetary Fund, members' quotas are revised every fifth year. The following revision, the Ninth General Review, is to be made by March 1988. There have been preliminary discussions on an increase in members' quotas. This time the final decision on the increase, its size and its distribution among member countries is not likely to be taken until after the deadline.

The Bank of Finland continued to act as agent for Finland in her relations with the Fund.

### THE BANK FOR INTERNATIONAL SETTLEMENTS (BIS)

The Bank for International Settlements (BIS) functions as the body for cooperation between the member central banks of industrial countries. In addition, the BIS monitors the functioning of banks' lending and deposit-taking and maintains a comprehensive international data bank on banks' foreign capital flows.

In December 1987, the Committee on Banking Regulations and Supervisory Practices — the Cooke Committee — which comprises the central banks of 12 industrial countries and functions under the auspices of the BIS, reached a consensus on a draft concerning the international regulation of banking operations. The committee proposes that commercial banks be set new uniform capital adequacy requirements determined on the basis of the riskiness of banks' claims. The committee's proposal is in the form of a recommendation, which is due to take effect in the Group of Ten countries and in Switzerland and Luxem-

bourg in 1992. The signed draft agreement will be circulated for comments in the countries concerned in spring 1988.

### THE WORLD BANK GROUP (IBRD, IDA, IFC)

During the two-year term 1986—1988, Finland is representing the Nordic countries on the joint development committee of the World Bank and the International Monetary Fund. The spring and autumn meetings of the committee concentrated on the special problems of indebted countries. In summer 1987, the two institutions presented a joint special programme designed to ease the debt problems of the poorest developing countries. The World Bank programme aims at allocating some USD 1.5 billion annually for the structural adjustment of the poorest developing countries over the three-year period 1988—1990.

In the year under review, the International Bank for Reconstruction and Development (IBRD) further increased the share of its lending in the form of sectoral loans and loans intended for structural adjustment. However, the majority of the loans, three quarters, were still granted for specific investment projects.

During the fiscal year closing on June 30, 1987, the World Bank Group approved new loans totalling USD 17.7 billion, an increase of 8 per cent on the previous fiscal year. The IBRD granted loans amounting to USD 14.2 billion for the financing of 127 projects in 39 member countries. The International Development Association (IDA) approved low-interest credits totalling USD 3.5 billion. They were granted for the financing of 108 projects in 44 countries belonging to the group of least developed countries. The International Finance Company (IFC) invested USD 0.9 million in private sector enterprises in developing countries.

Negotiations on the next increase in the authorized capital of the World Bank have started and are likely to be completed in spring 1988. In the year under review, Finland paid her last contribution,

FIM 117 million, to the Seventh Replenishment of IDA resources, and her third annual contribution of FIM 35 million to the African Facility. Finland paid the second instalment, FIM 4.3 million, of her contribution to the increase in the authorized capital of the International Finance Company (IFC) in 1986—1990.

The most common form of IDA financing are 'soft' loans, granted mainly by the industrial countries of the organization. The negotiations on the Eight Replenishment of IDA resources were completed in June 1987 with an agreement on additional financing of USD 11.5 billion. Thanks to voluntary additional contributions, however, the total sum amounted to some USD 12.4 billion. Finland announced her intention of raising her contribution to IDA funding from 0.7 per cent to 0.8 per cent.

The Ministry of Finance acts as agent for Finland in her relations with the World Bank Group, assisted by the Bank of Finland if necessary.

## OTHER INTERNATIONAL COOPERATION

Finland is a member of the Asian Development Bank (ADB), the African Development Bank (AfDB) and the Inter-American Development Bank (IDB). As with the World Bank Group, the Bank of Finland assists in the management of Finland's relations with these international financial institutions, and, in accordance with the respective agreements, the Bank acts as the deposit bank for these organizations in Finland.

The Bank of Finland participates jointly with the other relevant authorities in the extensive activities of the Organization for Economic Cooperation and Development (OECD) and in the activities carried on within the framework of the European Free Trade Association (EFTA), the Economic Commission for Europe (ECE), the UN system and the GATT negotiations.

Within the OECD, the Bank of Finland participated mainly in the work of the Economic Policy Committee and the working groups functioning under it.

An extensive survey has been launched within EFTA on the EC's plan to integrate its internal markets by 1992. The Bank of Finland is represented on a committee set up in Finland to monitor the development of cooperation between EFTA and the EC and the internal markets of the EC and their implications for Finland.

The Bank of Finland had its own representative in the Finnish delegation to the United Nations Conference on Trade and Development, UNCTAD VII, held in Geneva in July 1987. The preparations for the conference lasted more than a year. The agenda covered issues relating to resources and primary commodities and the special problems of world trade and the least developed countries.

The one year preparatory phase for the multilateral Uruguay round of GATT negotiations was completed in the year under review. The Bank of Finland participated in the preparatory work relating to its own field of operation. The four-year round got off to a brisk start in a constructive atmosphere. The Uruguay round has now moved to the next, more difficult phase, which aims at actual negotiations on the basis of proposals made so far.

Nordic cooperation in foreign exchange policy continued in the Nordic Financial Commission (NFU), which prepared joint Nordic statements on issues dealt with at the IMF, etc. The NFU also dealt with committee reports on obstacles to Nordic industrial cooperation, primarily in respect of direct investment and portfolio investment. Similarly, the Nordic finance ministers discussed obstacles to industrial cooperation caused by legislation on establishing and exchange control. They decided to support the promotion of the liberalization process recommended in the reports and that each of them contribute to the furthering of this matter in their own countries.

The annual meeting of the Governors of the Nordic central banks was held in Helsinki in August. The meeting dealt with current economic issues and

the increased risks of banking and the supervision of banks.

The Bank of Finland took part in the activities of the Finnish-Soviet Commission for Economic Cooperation and of the Commission for Economic Cooperation between Finland and the CMEA. The Bank of Finland participated as an observer in the 43rd session of the Council of the International Investment Bank (IIB) and the 66th session of the

Council of the International Bank for Economic Cooperation (IBEC).

The 7th Finnish-Soviet Banking Seminar, which was arranged by the Bank of Finland, was held in Helsinki in September. The seminar dealt with economic relations between Finland and the Soviet Union and the operations of banking institutions in these countries.

# NEW BANKNOTE SERIES

The Board of Management of the Bank of Finland initiated the planning of a new banknote series in the spring of 1981. The final decision on the new series was taken by the Parliamentary Supervisory Board upon the proposal of the Board of Management in February 1984. New 1000, 100 and 50 markkaa banknotes were put into circulation in December 1986. In the second phase in November 1987, new 500 and 10 markkaa banknotes were introduced. This completed the new banknote series.

## PURPOSE OF THE REFORM

The most important reason for the changeover to the new series was the desire to improve the security and reliability of the notes. The security of the old series had diminished mainly because of new colour copying methods. By employing more advanced printing techniques, it was possible to furnish the notes with new recognition features not present in the old notes.

The second reason for the redesigning the note series was the increased use of technology in the handling of notes. The Bank of Finland has installed machines for use both in the inspection of new notes and the sorting of old ones. In addition, cash dispensers and various kinds of machines accepting banknotes are becoming increasingly widespread. The use of mechanical and electronic methods for inspecting notes requires that the notes possess certain recognition features which aid the detection of counterfeits or defective notes.

Another important reason for the redesigning the note series was to provide Finland with a uniform series of banknotes. Over the preceding three decades, it had been necessary to modify the old series on a number of occasions and as a result the notes no longer constituted an integrated and artistically balanced whole.

## PICTORIAL MOTIFS OF THE NEW BANKNOTES

There are three separate aspects in the design of a new banknote series: the choice of the theme,

the artistic layout and the requirements of printing technology. The first two aspects relate to the notes' aesthetic impression. By employing various printing techniques, it is sought to make the counterfeiting of the notes as difficult as possible. In addition, the notes should be easy to handle. The final result is obtained as a combination of these three aspects.

A committee was set up to determine the theme for the new notes. Several alternatives were considered for the pictorial motifs for the new series, including cultural personages, statesmen, city life, trade and industry and persons engaged in them and old sights. The committee decided to propose that the pictorial motifs should represent different periods of Finnish history. A wide historical cross-section was felt to offer a range of visual themes.

The choice of the pictorial motifs for the new note series emphasizes the division of Finnish history into three main periods: the period of Swedish rule (1000 markkaa note), the period of autonomy (500 and 100 markkaa notes) and the period of independence (50 and 10 markkaa notes). The front of each note features a large portrait. In choosing the persons, account was taken of how characteristic, representative and well-known their work was from the point of view of the period in question. It was also endeavoured to convey the spirit of each period by a building or landscape on the back of the notes.

## DESIGN OF THE BANKNOTES

The Board of Management of the Bank of Finland approved the historical periods theme as a basis



for the pictorial motifs of the new notes. A closed competition for the design of the drafts for the note was held and it was won by Torsten Ekström, whose proposal served as the basis for the design of the new note series. The final series was the outcome of cooperation among the members of a working group responsible for the planning of the artistic design of the notes and the printing techniques. The group was headed by Kaj Wuorio with Erik Bruun, Torsten Ekström and Pentti Rahikainen as its other members. Torsten Ekström was primarily responsible for the design of the fronts of the notes and Erik Bruun for the backs. The studio of the Bank of Finland Security Printing House, headed by Pentti Rahikainen, was responsible for artistic details relating to the security of the notes. Eeva Oivo painted most of the portraits while Paavo Huovinen designed the patterns for all the watermarks and painted one of the portraits. Kaj Wuorio was the expert on printing techniques.

The implementation of the series was directed and supervised by the design committee, which, consisting of virtually the same members, had earlier considered the themes for the new series. Dr. Ele Alenius, Member of the Board of Management, acted as chairman of the design committee, and it consisted of the artist Lauri Ahlgren, Professor Yrjö Blomstedt, Mr. Tor-Leif Huggare, Managing Director, Mr. Pentti Kaskipuro, Graphic Artist, Professor Aimo Reitala, Mr. Pekka Sarvas, Curator and Mr. Heikki Taipale, Deputy Managing Director. Mr. Antti Heinonen, Head of Department, was the secretary of the group.

## SECURITY OF THE BANKNOTES

Several methods are used to prevent the counterfeiting of banknotes. The most important of these methods are those security features enabling the user of the note to easily and simply check a note which appears dubious.

As before, each note has a watermark depicting the person on the front of the note. In the 10 markkaa note, the watermark is repeated in a series running vertically through the note. Like

previous notes, the new notes also have a security thread. The letters SP and FB appear in microprint in the plastic thread and can be read by means of a magnifying glass.

Intaglio printing is used in the new notes to a greater extent than previously. By using this printing process, it is possible to vary the thickness of lines and the shade of colours to a greater degree than is possible with other printing techniques. Intaglio printing is used on both the front and back of the 1000 markkaa note. In the other notes it is used for printing the portrait, the denomination marking and the recognition marks in the form of embossed rings on the front of the note.

There are also a number of new security features in the notes. In the upper right-hand corner of all the notes except the 10 markkaa note there is a geometrical figure which is superimposed on a pattern of corresponding design on the back. This superimposition effect is difficult to produce other than with a special printing machine used by banknote printers. In addition, at the bottom of the white margin on the left-hand edge of the front of the note there is a latent image, printed using the intaglio process, which is visible when the note is held at an angle against the light. There is a letter in the latent image indicating the denomination of the note: L (50 markkaa), C (100 markkaa), D (500 markkaa) and M (1000 markkaa).

The colours and banknote paper are also chosen with a view to preventing counterfeits. To prevent counterfeits made using photocopying machines, there are very strong contrasts in the new notes and several different colours are used in the same note. In addition, the quality of the banknote paper has been changed so as to achieve a better imprint and to take into account such considerations as the texture of the paper, keeping the surface clean and the clarity of the watermarks.

The colours of the notes and the quality of the new paper aroused discussion particularly in respect of the 10 markkaa note. The problem of the colours of the new notes was accentuated by the fact that

both the old and new note series were circulating alongside each other. The old notes are being withdrawn from circulation as soiled and damaged notes are returned to the Bank of Finland in the normal course of note circulation. At the end of

1987, new notes already accounted for more than half of the total notes in circulation. Thus the transition phase in the outstanding stock of notes should come to an end quite soon, even though the old notes will remain legal tender.

# CHANGES IN THE BANK'S ORGANIZATION

In October 1987, the Board of Management of the Bank of Finland took a decision to make certain changes in departmental division at the Head Office and the areas of responsibility of the departments with effect from the beginning of 1988. The reorganization was designed to adapt the Bank's activities to the changed circumstances in the financial markets. The last significant organizational changes had been effected at the beginning of the 1970s.

The main factors underlying the reorganization were the financial deregulation and internationalization and integration that had taken place in financial markets. It was no longer necessary on organizational grounds to separate domestic and foreign operations and therefore the bank's foreign currency and markka operations were combined. On the other hand, it was desired to draw a clear distinction between the preparation of policy principles and operative functions. In addition, the preparation of the central bank's own policy was separated from the general operations concerning financial market developments and supervision.

Under the new organization, the Bank's operations were divided into six sectors, each director being responsible for two sectors. The sectors are currency supply, internal services, macroeconomic analysis, principles relating to central bank policy and supervision and the operative sector, which was divided into two parts — markets and supervision. The number of the bank's departments remained unchanged at 16.

The combination of foreign currency and markka operations involved the transfer of the policy preparation work formerly carried out by the Monetary Policy and Exchange Policy Departments to a new department, the Central Bank Policy Department. Similarly, on the operative side, the foreign exchange market operations that had previously been performed by the Foreign Exchange Department and the market operations carried out by the Domestic Financing Department were combined into a new department called Market Operations Department. Another new de-

partment, the Payments and Settlement Department became responsible for the recording of both foreign currency and markka operations and for payment transactions.

The Bank of Finland's function in maintaining the stability of the financial system has been accentuated as a result of the strengthening in the role of market forces. With the decrease in regulation, the monitoring of risks relating to banking has also become necessary. Matters concerning general developments in financial markets, the responsibility for which had previously been distributed among several departments, were combined under two new departments, the Financial Markets and Risk Monitoring Departments. The Financial Markets Department monitors general developments in the financial markets, participates in related preparatory work together with other authorities and prepares policy changes in connection with exchange control. The department is also responsible for the general principles applied in monitoring financial institutions and in the authorization procedure concerning these institutions. The Risk Monitoring Department is responsible for monitoring individual financial institutions and the handling of authorizations.

The capital control functions previously carried out by the Foreign Financing Department were transferred to the Exchange Control Department.

In the currency supply sector, the only change was the changing of the name of the Cash Department into the Payment Instruments Department.

# THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT OF THE BANK OF FINLAND

The Bank of Finland's end-year Balance Sheets for the years 1986 and 1987 are presented on pages 38—39. In keeping with the Regulations for the Bank, balance sheets are prepared and published four times a month. The end-month balance sheets for 1987 are shown in Table 1 of the Tables section. Chart 18 depicts the movements in the main balance sheet items. The profit and loss accounts for the Bank of Finland for 1986 and 1987 are given on page 43.

## FOREIGN SECTOR

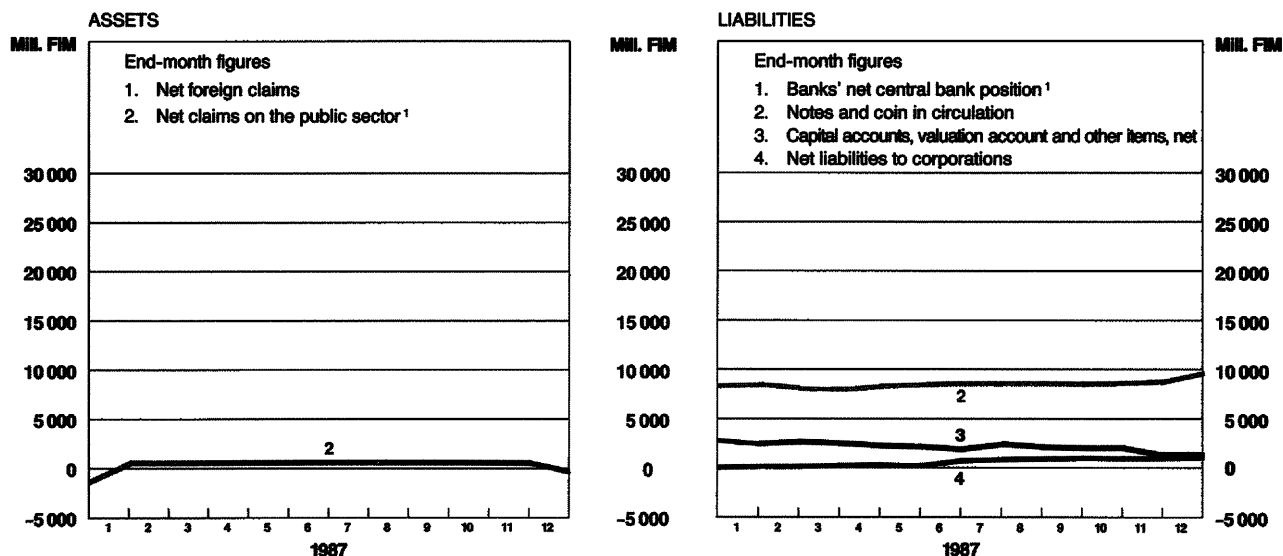
Net foreign claims of the Bank of Finland increased by FIM 16.5 billion. Foreign claims increased by FIM 16.4 billion and foreign liabilities decreased by FIM 0.1 billion. At the end of the year, net foreign claims totalled FIM 29.7 billion.

The convertible foreign exchange reserves of the Bank of Finland, which include gold, special drawing rights, the IMF reserve tranche and net convertible currency claims, grew by FIM 16 756 million to FIM 27 391 million in the course of the

year. Purchases of gold increased the value of gold by FIM 47 million in the balance sheet; special drawing rights fell by FIM 84 million. Net holdings of convertible currencies, comprising foreign bonds and deposits with foreign banks, increased by FIM 16 793 million. Holdings of convertible currencies were at their highest, over FIM 23.6 billion, at the end of November, and at their lowest, some FIM 6.6 billion, at the beginning of 1987.

The tied foreign exchange reserves fell by FIM 2 209 million and stood at FIM 1 212 million at the end of the year. The tied reserves were at their

Chart 18.  
BALANCE SHEET OF THE BANK OF FINLAND



<sup>1</sup> Incl. cash reserve deposits and certificates of deposit.

highest, FIM 4 127 million, at the end of January, and at their lowest, FIM 779 million, in the latter part of December.

Other foreign claims increased by FIM 1 772 million to FIM 4 357 million in the course of the year. This item includes a FIM 1 930 million fixed-term claim on the Bank for Foreign Trade of the USSR. Other foreign liabilities fell by a total of FIM 197 million to FIM 3 226 million, mainly because of valuation adjustments.

## FINANCIAL INSTITUTIONS

At the end of the year, the Bank of Finland had a net liability (incl. certificates of deposit) of FIM 11 589 million to financial institutions. At the beginning of the year, the Bank of Finland had had a net claim of FIM 4 345 million on financial institutions.

The Bank of Finland's claims on financial institutions fell by FIM 8 926 to FIM 5 147 million, while liabilities to financial institutions increased by FIM 7 007 million to FIM 16 736 million. At the end of the year, the banks did not have any call money credits; at the end of the previous year, call money credits had amounted to FIM 6 818 million. Call money deposits increased by FIM 627 million, totalling FIM 757 million. Cheque account claims and liabilities no longer appear in the balance sheet because the banks' daily cheque account totals are included under call money credits or deposits. As the banks' term credits and deposits were replaced by trading in certificates of deposit during the year, the item "Certificates of deposit" was added under liabilities. At the end of 1987, outstanding certificates of deposit issued by the Bank of Finland totalled FIM 4 970 million.

The financial institutions cash reserve deposits with the Bank of Finland increased by FIM 1 671 million in the course of the year. The increase was mainly due to an expansion in the deposit base but also to an increase in the cash reserve requirement. During the year, the financial institutions

withdrew all their capital import deposits, which had stood at FIM 255 million at the beginning of the year.

Till-money credits, which are used to finance the notes and coin held by banking institutions in their tills, totalled FIM 2 730 million at the end of the year. This was FIM 425 million more than a year earlier. The Bank of Finland's holdings of bonds issued by financial institutions grew by FIM 29 million to FIM 2 140 million.

In addition to claims and liabilities, the financial institutions had contingent liabilities to the Bank of Finland, which had arisen in connection with the Bank's special financing arrangements. These liabilities comprise the Bank of Finland's holdings of export and new-export bills, for the repayment of which the banks are liable. In the balance sheet, they are entered as "financing of exports" under claims on corporations and they amounted to FIM 868 million at the end of the year. In addition, contingent claims include guarantees given by the banks for the repayment of domestic suppliers' credits; at the end of 1987, they totalled FIM 2 581 million.

## THE PUBLIC SECTOR

At the end of 1987, the Bank of Finland had a net claim of FIM 76 million on the public sector; at the end of the previous year, the Bank of Finland had had a net liability of FIM 999 million to the public sector.

The Bank of Finland's claims on the public sector fell by FIM 26 million to FIM 977 million in the course of the year. The Bank of Finland's holdings of government bonds fell by FIM 56 million, while total coinage grew by FIM 32 million. The government deposit account, which had shown a balance of FIM 2 000 million at the beginning of the year, was closed in early 1987 after the central government started to place funds in the interbank market. On the last day of the year, the central government made a FIM 900 million counter-

## BALANCE SHEET, FIM

ASSETS	Dec. 31, 1987		Dec. 31, 1986	
<b>Gold and foreign currency claims</b>				
Gold <sup>1</sup>	2 128 285 723,28		2 081 473 367,59	
Special drawing rights	898 984 060,75		982 808 877,02	
IMF reserve tranche	792 804 335,18		793 424 959,89	
Convertible currencies <sup>2</sup>	23 634 441 272,77		6 794 836 229,34	
Tied currencies	1 284 149 733,83	28 738 665 125,81	3 435 168 207,81	14 087 711 641,65
<b>Other foreign claims</b>				
Markka subscription to Finland's quota in the IMF <sup>3</sup>	2 427 095 584,81		2 584 934 647,11	
Term credit <sup>4</sup>	1 929 846 435,00	4 356 942 019,81	—	2 584 934 647,11
<b>Claims on financial institutions</b>				
Call money credits	40 664,43		6 818 080 669,95	
Term assets	—		2 381 000 000,00	
Till-money credits	2 729 887 000,00		2 305 239 000,00	
Bonds	2 140 057 800,00		2 111 055 156,00	
Other claims on financial institutions	277 260 820,80	5 147 246 285,23	458 145 574,83	14 073 520 400,78
<b>Claims on the public sector</b>				
Bonds	3 780 217,80		59 368 866,30	
Total coinage	966 777 037,50		934 892 337,50	
Other claims on the public sector	6 208 172,54	976 765 427,84	8 121 146,98	1 002 382 350,78
<b>Claims on corporations</b>				
Financing of exports	867 999 030,18		1 748 451 566,11	
Financing of domestic deliveries (KTR)	2 568 335 099,27		2 833 056 306,89	
Bonds: KTR credits	13 316 652,00		—	
Bonds: Other	46 102 029,48		65 274 258,24	
Other claims on corporations	182 177 487,48	3 677 930 298,41	197 051 223,61	4 843 833 354,85
<b>Other assets</b>				
Accrued items	486 652 400,09		271 610 716,34	
Other assets	105 091 967,50	591 744 367,59	149 508 627,13	421 119 343,47
<b>TOTAL</b>		<b>43 489 293 524,69</b>		<b>37 013 501 738,64</b>

## ACCOUNTING PRINCIPLES APPLIED IN THE BALANCE SHEET

Foreign currency claims and liabilities have been translated into markkaa at the middle exchange rates as of December 31, 1987.

<sup>1</sup>Gold has been entered at the value of FIM 35/kg.

<sup>2</sup>Securities included in convertible currency claims have been entered in the foreign exchange reserves at nominal value. The difference between the nominal value of the securities and their acquisition cost or the market price, if it is lower, has been entered in the valuation account.

cyclical deposit with the Bank of Finland. Liabilities to the public sector declined by a total of FIM 1 100 million, amounting to FIM 901 million at the end of the year.

## CORPORATIONS

The Bank of Finland's net liability to corporations grew by FIM 1 156 million to FIM 1 331 million in the course of the year.

<b>LIABILITIES</b>	Dec. 31, 1987		Dec. 31, 1986	
<b>Foreign currency liabilities</b>				
Convertible currencies	63 174 520,74		16 937 900,38	
Tied currencies	71 564 836,41	134 739 357,15	13 852 350,03	30 790 250,41
<b>Other foreign liabilities</b>				
IMF markka accounts <sup>3</sup>	2 427 159 215,50		2 584 978 568,94	
Allocations of special drawing rights	799 178 152,00	3 226 337 367,50	838 507 796,70	3 423 486 365,64
<b>Notes and coin in circulation</b>				
Notes	9 117 302 616,00		7 855 664 484,00	
Coin	872 775 869,78	9 990 078 485,78	811 611 811,97	8 667 276 295,97
<b>Certificates of deposit</b>		4 970 000 000,00	—	
<b>Liabilities to financial institutions</b>				
Call money deposits	757 321 443,37		130 787 689,43	
Cash reserve deposits	10 940 962 596,00		9 269 636 101,87	
Capital import deposits	—		254 513 460,00	
Other liabilities to financial institutions	67 408 381,30	11 765 692 420,67	73 925 155,09	9 728 862 406,39
<b>Liabilities to the public sector</b>				
Cheque accounts	637 054,57		363 241,63	
Government deposit account	—		2 000 000 000,00	
Counter-cyclical deposits	900 000 000,00		—	
Capital import deposits	—		—	
Other liabilities to the public sector	247 260,85	900 884 315,42	269 621,81	2 000 632 863,44
<b>Liabilities to corporations</b>				
Deposits for investment and ship purchase	4 798 698 931,15		4 671 296 496,97	
Capital import deposits	208 503 731,60		336 211 288,47	
Other liabilities to corporations	2 045 744,42	5 009 248 407,17	11 553 625,45	5 019 061 410,89
<b>Other liabilities</b>				
Accrued items	733 203 912,24		610 447 626,02	
Other liabilities	23 689 021,96	756 892 934,20	22 807 755,32	633 255 381,34
<b>Valuation account and reserves</b>		1 247 059 403,41		1 581 446 400,11
<b>SITRA's capital</b>		400 000 000,00		400 000 000,00
<b>Capital accounts</b>				
Primary capital	5 000 000 000,00		5 000 000 000,00	
Reserve fund	528 690 364,45		484 527 236,65	
Profit/Loss for the accounting year	-440 329 531,06	5 088 360 833,39	44 163 127,80	5 528 690 364,45
<b>TOTAL</b>		<b>43 489 293 524,69</b>		<b>37 013 501 738,64</b>

<sup>3</sup>The markka subscription and the corresponding markka accounts in the International Monetary Fund are linked to the value of the special drawing right (SDR) in accordance with the practice of the IMF.

<sup>4</sup>The fixed-term claim on the Bank for Foreign Trade of the USSR is linked to a basket of convertible currencies.

Claims on corporations decreased by FIM 1 166 million to FIM 3 678 million. Financing of exports fell by FIM 880 million, financing of domestic deliveries by FIM 252 million and bonds and other claims on corporations by a total of FIM 34 million.

Of liabilities to corporations, deposits for investment and ship purchase grew by FIM 127 million to FIM 4 799 million, while capital import deposits fell by FIM 128 million to FIM 209 million. Capital import deposits also include cash reserve depos-

its made by companies in respect of short-term credits raised from foreign banks.

## NOTES AND COIN IN CIRCULATION

The amount of notes and coin in circulation grew by FIM 1 323 million, or 15.3 per cent, which is almost double the figure for the nominal growth of the economy. At the end of the year, the amount of notes and coin in circulation totalled FIM 9 990 million, of which notes accounted for FIM 9 117 million and coin for FIM 873 million. In addition, the balance sheet item "other liabilities" includes notes in the old nomination to the value of FIM 9 million.

## OTHER BALANCE SHEET ITEMS

Accrued items under other claims increased by FIM 215 million to FIM 487 million, and accrued items under other liabilities by FIM 123 million to FIM 733 million. Accrued items under other claims and accrued items under other liabilities were previously shown in net terms under the item "valuation account and reserves". The corresponding balance sheet items for 1986 have been adjusted so as to be comparable with those of the 1987 balance sheet, and this also has an effect on the balance sheet total for 1986.

The Bank's capital accounts, before deducting the loss for the financial year, amounted to FIM 5 529 million, which is FIM 44 million higher than the total

capital accounts at the end of the previous year. Capital accounts accounted for 12.7 per cent of the balance sheet total.

In keeping with the Regulations for the Bank of Finland, the value of the Bank's holdings of real estate, equipment and shares was not entered in the balance sheet but the costs of these were depreciated in full in the profit and loss account at the rate they were incurred to the Bank. The Bank of Finland owns the bank premises in Helsinki and in the cities where the Bank has branch offices. The Bank owns the industrial premises in the City of Vantaa on which the Bank of Finland Security Printing House operates. The activities of the Security Printing House are described in a separate annual report. The Bank of Finland also owns SITRA (Finnish National Fund for Research and Development), the equity capital of which stood at FIM 400 million at the end of the year according to the balance sheet. SITRA's activities are also described in a separate annual report. In the course of the year, the Bank of Finland disposed of its shareholdings in industrial enterprises and special credit institutions.

## NOTE ISSUE

Ordinary note cover, which includes gold reserves and the Bank's indisputable foreign claims, grew by FIM 14 272 million to FIM 28 889 million in the course of 1987. Supplementary note cover, which comprises coverable bills, decreased by

## ITEMS IN THE NET BALANCE SHEET, MILLION FIM

	December 31, 1987	December 31, 1986	Change
+ Net foreign claims	29 735	13 218	+16 516
+ Net claims on the public sector	76	- 998	+ 1 074
<b>= Total net claims</b>	<b>29 810</b>	<b>12 220</b>	<b>+17 590</b>
+ Net liability to financial institutions	11 588	- 4 345	+15 933
+ Net liability to corporations	1 331	175	+ 1 156
+ Notes and coin in circulation	9 990	8 667	+ 1 323
+ Capital accounts, valuation account and other balance sheet items, net	6 901	7 722	- 822
<b>= Net liability plus capital accounts, total</b>	<b>29 810</b>	<b>12 220</b>	<b>+17 590</b>



FIM 1 461 million to FIM 39 million. Hence, the total right of note issue increased by FIM 12 810 million and amounted to FIM 28 928 million.

As the utilized right of note issue, which includes notes in circulation and liabilities payable on demand, went up by a total of FIM 2 108 million, the note reserve increased by FIM 10 702 million and amounted to FIM 18 825 million at the end of the year.

## THE NET BALANCE SHEET OF THE BANK OF FINLAND

The changes in the net balance sheet of the Bank of Finland in 1986 are summarized on page 40 by main sector.

In 1987, there were large increases in the net balance sheet items. Net foreign claims increased by just under FIM 17 billion and the net liability to financial institutions increased by almost FIM 16 billion.

## THE PROFIT AND LOSS ACCOUNT OF THE BANK OF FINLAND

The format of the Bank's profit and loss account has been made more informative, and in its revised form the classification broadly follows that of the balance sheet.

In 1987, domestic interest income totalled FIM 764 million. This represents a substantial decrease, a total of FIM 815 million, on the previous year, and was mainly due to a sharp decline in claims on financial institutions during the year. In addition, interest rates had been exceptionally high in the previous year. The largest decrease, FIM 903 million, was recorded for interest on call money credit. The main sources of interest income were the Bank's holdings of domestic bonds and KTR credits. Interest income on certificates of deposit and term credits amounted to FIM 181 million.

Foreign interest income increased by FIM 506 million, totalling FIM 1 449 million. The increase

was due to an increase in the foreign exchange reserves. Interest on securities grew by FIM 218 million and interest on other foreign currency claims by FIM 310 million. The tied foreign currency reserves do not generate any interest income for the Bank.

Domestic interest expense remained approximately at the level of the previous year and amounted to FIM 1 438 million. The highest interest expense arose from the cash reserve deposits, a total of FIM 679 million. Interest on investment deposits amounted to FIM 158 million. A new item, interest expense on certificates of deposit, was included in the profit and loss account. Interest paid on certificates of deposit issued by the Bank of Finland and on the term deposits included in the same item totalled FIM 461 million.

Because of the fall in interest income, the interest margin decreased by FIM 218 million to FIM 723 million.

Other income was exceptionally high, amounting to FIM 333 million. The major part of this income derived from sales of shareholdings. During the year, the Bank of Finland sold its shares in Enso-Gutzeit Oy, Teollistamisrahasto Oy (the Industrialization Fund of Finland) and Valmet Oy.

Other expense totalled FIM 364 million, an increase of 76 million on the previous year. Depreciation includes a total of FIM 74 million in respect of depreciation on new buildings, alterations to real estate and basic repairs and FIM 29 million in respect of depreciation on machinery and equipment.

Net valuation gain on foreign securities includes gains and losses realized on the sale of securities and differences due to revaluation of the securities portfolio. The net gain totalled FIM 54 million.

The change in the value of foreign currency claims and liabilities resulting from exchange rate changes and income from foreign exchange dealings were entered in net terms under net ex-

change rate loss. Calculated at the exchange rates as of December 31, 1987, exchange rate losses amounted to FIM 1 186 million.

There was no change in the reserves in the profit and loss account.

The loss for the financial year was FIM 440 million. In the previous year, there had been a profit of FIM 44 million. The loss was covered out of the reserve fund at the beginning of 1988 in accordance with clause 3 of § 30 of the Regulations for the Bank of Finland.

The loss is closely related to the monetary and foreign policies pursued during the year. The

increase in the foreign exchange reserves improved liquidity in the markets and had to be sterilized at the central bank through sales of certificates of deposit. However, interest expense on the liquidity absorbed by the Bank exceeded the interest income from the foreign exchange reserves. The loss was also attributable to the effect of the fall in the dollar and the strengthening of the markka on the markka value of the foreign exchange reserves. At the end of 1987, the exchange rate for the dollar was 17.7 per cent and the currency index expressing the external value of the markka 1.1 per cent lower than a year earlier.

# PROFIT AND LOSS ACCOUNT, FIM

	Jan. 1—Dec. 31, 1987		Jan. 1—Dec. 31, 1986	
<b>INTEREST INCOME</b>				
<b>Domestic</b>				
Call money credits	56 886 892,50		960 019 464,88	
Certificates of deposit	181 050 049,75		15 200 000,00	
Financing of exports	80 876 559,38		144 855 950,13	
Financing of domestic deliveries (KTR-credits)	191 431 553,33		226 769 500,64	
Bonds	206 903 296,54		210 153 958,31	
Other claims	46 377 756,59	763 526 108,09	21 647 615,26	1 578 646 489,22
<b>Foreign</b>				
IMF	80 008 441,30		102 402 826,78	
Securities	862 776 852,43		644 772 636,00	
Other currency claims	506 683 273,90	1 449 468 567,63	195 870 821,33	943 046 284,11
<b>Total interest income</b>		<b>2 212 994 675,72</b>		<b>2 521 692 773,33</b>
<b>INTEREST EXPENSE</b>				
<b>Domestic</b>				
Call money deposits	- 53 743 219,05		- 140 977 782,06	
Certificates of deposit	- 461 238 683,12		-	
Cash reserve deposits	- 679 322 651,98		- 743 675 098,58	
Investment deposits	- 158 452 466,06		- 196 524 851,06	
Capital import deposits	- 26 551 108,13		- 59 521 175,51	
Forward exchange dealings <sup>1</sup>	- 17 668 000,00		- 234 617 500,00	
Other liabilities	- 41 481 882,09	- 1 438 458 010,43	- 139 431 242,30	- 1 514 747 649,51
<b>Foreign</b>				
IMF	- 49 659 731,25		- 64 896 393,07	
Other liabilities	- 2 338 970,14	- 51 998 701,39	- 1 396 031,65	- 66 292 424,72
<b>Total interest expense</b>		<b>- 1 490 456 711,82</b>		<b>- 1 581 040 074,23</b>
<b>INTEREST MARGIN</b>		<b>722 537 963,90</b>		<b>940 652 699,10</b>
<b>OTHER INCOME</b>				
Commissions and fees	1 525 979,13		1 413 321,92	
Other	331 546 694,40	333 072 673,53	302 084 220,83	303 497 542,75
<b>OTHER EXPENSE</b>				
Salaries	- 111 846 805,19		- 103 614 712,56	
Social security costs	- 46 530 199,31		- 43 497 863,41	
Banknote printing	- 40 941 373,66		- 34 845 200,60	
Depreciation <sup>2</sup>	- 103 401 003,93		- 49 580 340,96	
Other expense	- 60 866 775,93	- 363 586 158,02	- 56 812 609,16	- 288 350 726,69
<b>PROFIT BEFORE VALUATION ADJUSTMENTS AND RESERVES</b>		<b>692 024 479,41</b>		<b>955 799 515,16</b>
<b>Net valuation gain on foreign securities<sup>3</sup></b>		<b>53 761 497,76</b>		<b>101 842 571,23</b>
<b>Net exchange rate loss<sup>4</sup></b>		<b>- 1 186 115 508,23</b>		<b>- 1 013 478 958,59</b>
<b>Change in reserves</b>		<b>—</b>		<b>—</b>
<b>PROFIT (+) / LOSS (-) FOR THE ACCOUNTING YEAR</b>		<b>- 440 329 531,06</b>		<b>+ 44 163 127,80</b>

## ACCOUNTING PRINCIPLES APPLIED IN THE PROFIT AND LOSS ACCOUNT

<sup>1</sup> Exchange rate differences arising from forward trading are included in the item net exchange rate loss.

<sup>2</sup> Depreciation includes fixed assets acquired during the financial period and other long-term expenses in full.

<sup>3</sup> Net valuation gain on foreign securities includes gains and losses realized on the sale of securities and differences due to revaluation of the securities portfolio in net terms.

<sup>4</sup> Net exchange rate loss includes the changes in the value of claims and liabilities resulting from changes in exchange rates and foreign exchange earnings in net terms.



## APPENDICES

## **SPECIAL FINANCING ARRANGEMENTS OF THE BANK OF FINLAND**

The aim of the domestic suppliers' credits scheme is to ensure that Finnish firms are financially competitive with foreign suppliers in financing deliveries of capital goods in the domestic market. The scheme is operated by the Bank of Finland, the commercial banks and Postipankki. Up till December 31, 1987, the Bank of Finland's share in the financing of the purchase price of a delivery was 40 per cent and the rate of interest collected from borrowers the base rate plus two percentage points. Since then, the Bank of Finland's share in financing has been 30 per cent and the rate of interest applied to these credits the Bank of Finland's base rate plus 2.5 percentage points.

The purpose of the financing scheme for short-term export credits is to finance export credits granted for a maximum of 24 months in connection with exports payable in convertible currencies. A company's short-term export credits can be financed by the Bank up to an annual average amount of FIM 20 million, provided that the company's turnover does not exceed FIM 200 million. The rate of interest collected from exporters is the Bank of Finland's base rate plus 0.25 percentage point.

New-export credits are used to finance small and medium-sized industrial firms' working capital needs arising from their exports. The credit limits for individual companies are decided semiannually on the basis of the companies' actual and projected exports. A new-export credit extended to a company cannot exceed five years from the drawing of the first credit instalment. The rate of interest collected from companies is the Bank of Finland's base rate plus 0.25 percentage point.

In accordance with a decision taken in December 1987, both the short-term export credit scheme and the new-export credit scheme will be abolished as from the beginning of 1989. The special financing arrangements were introduced in the 1960s. They were designed to secure the availability of financing for business operations important for foreign trade in a situation of permanent excess demand for credit. Now that credit rationing has been abolished there is no longer any need for this type of financing.

## **INVESTMENT RESERVES**

The investment reserve scheme was set up as a counter-cyclical instrument aimed at influencing the timing of investments by encouraging companies to voluntarily postpone their investments from economic upswings until recessions. Investment reserves, which are tax deductible, can, at most, account for half of the company's net profit for the accounting period, unless some other percentage has been separately agreed upon at any time. Funds representing at least half of the transfer to the reserve must be deposited in a blocked account with the Bank of Finland. Tax-free interest is paid on deposits at half the Bank of Finland's base rate. In accordance with a separate decision, the Bank of Finland may pay a higher rate of interest on these deposits. The Government grants a temporary permit for the utilization of investment reserves, and the National Board of Taxation gives permission for the withdrawal of deposits.

## MONETARY AND FOREIGN EXCHANGE POLICY MEASURES IN 1987

January

### Financing of short-term export credits

As from the beginning of 1987, the Bank of Finland limited the financing of short-term export credits to apply only to export companies with a maximum turnover of FIM 200 million.

### New-export credits

As from the beginning of 1987, the Bank of Finland restricted the use of new-export credits so that the maximum duration of a new-export credit extended to a company was five years from the drawing of the first credit instalment. The rate of interest charged by the Bank of Finland for new-export credits was raised to the same level as that applied to the financing of short-term export credits, i.e. the Bank of Finland's base rate.

### Cash reserve agreement

The Bank of Finland and the banks agreed on the revision of the cash reserve agreement as from January 1, 1987 so that certificates of deposit and certain long-term foreign credits intermediated by banks were no longer subject to the cash reserve requirement.

### Amendments to the Foreign Exchange Regulations

On January 1, 1987, the Bank of Finland granted the status of an authorized bank to the Labour Savings Bank of Finland, and on January 27, 1987, to Samuel Montagu Ltd (Midland Montagu Ltd from February 1987).

### Payment arrangements between Finland and the Soviet Union

The Bank of Finland and the Ministry of Foreign Trade of the Soviet Union agreed on January 6, 1987 that the claim exceeding the technical credit limit on the clearing account of Finland and the Soviet Union be transferred to a special interest-bearing rouble account. The credit will be repaid by the end of 1991.

### Call money market

On January 26, the Bank of Finland lowered the rate on call money credits from 12.0 to 11.9 per cent.

February

### Call money market

The Bank of Finland implemented the following changes in its call money rates:

Effective as from	Rate on call money credits, per cent	Rate on call money deposits, per cent
February 2	11.8	9.0
February 13	11.7	8.5
February 20	11.6	8.0

### Term deposits

With effect from February 4, the Bank of Finland allowed the banks entitled to central bank financing to make bids for three-month fixed-rate deposits with the Bank of Finland. This arrangement was to operate alongside the existing arrangement for three-month central bank credits.

### Amendment to Foreign Exchange Regulations

The Bank of Finland granted the status of an authorized bank to PKbanken International (Finland) Oy as from February 26, 1987.

March

### Call money market

The Bank of Finland implemented the following changes in its call money rates:

Effective as from	Rate on call money credits, per cent	Rate on call money deposits, per cent
March 5	11.5	7.5
March 17	11.4	7.5

### Banks' central bank financing

On March 17, 1987 the Bank of Finland complemented its system of monetary control by introducing dealings in certificates of deposit with banks on an experimental basis, alongside term credits and term assets. At the same time, the use of call money credits was restricted with effect from March 30, 1987. As from that date, a bank entitled to central bank financing could daily resort to call money credit only up to an amount corresponding to 7.5 per cent of the total amount of its equity capital and cash reserve deposits. A penalty rate of interest was to be charged on credit exceeding the limit.

These measures were preceded by a decision by the Parliamentary Supervisory Board to amend the interest rate powers of the Board of Management with effect from March 1, 1987 as follows. A part of or the total amount of interest on banks' central bank credit could be charged as penalty interest if a set limit or quota was exceeded. The lower limit of interest on term deposits and call money deposits was abolished. The interest rate limits applied to fixed-term central bank financing could also be applied to the Bank of Finland's dealings in certificates of deposit.

April

### Call money market

The Bank of Finland implemented the following changes in its call money rates:

Effective as from	Rate on call money credits, per cent	Rate on call money deposits, per cent
April 2	11.2	7.5
April 29	11.0	7.5



May

#### Reference rates

As from the beginning of May, the Bank of Finland reduced the restrictions on the use of money market rates as reference rates. Besides the base rate, banks could, without special approval, use some other Bank of Finland rate, the official money market rate used in market transactions or some derivative of these rates as reference rates for all lending except housing loans.

As from the beginning of May, the Bank of Finland began to publish daily 1, 2, 3, 6, 9 and 12-month HELIBOR rates, which the banks could from then on use as reference rates in their lending. HELIBOR rates are the average offered rates for each category of certificates of deposit as quoted by the five largest banks each day at 1 a.m.

June

#### Amendments to the Foreign Exchange Regulations

The Bank of Finland decided on amendments to certain provisions in the Foreign Exchange Regulations, which entered into force on June 15, 1987.

With certain exceptions, direct investments abroad up to the value of FIM 30 million could be made without the advance permission of the Bank of Finland. However, the authorized bank was to be provided with the information required by the Bank of Finland.

In payments of suppliers' credits for imports, credit periods exceeding six months were allowed without the special permission of the Bank of Finland up to the amount of FIM 100 000.

The handling of applications for permission in respect of recreational dwellings abroad was transferred to the authorized banks.

Investments abroad in publicly quoted securities were allowed up to the amount of FIM 50 000.

July

#### Call money market

With effect from July 1, 1987, the Bank of Finland supplemented the conditions governing borrowing by commercial banks in the Bank of Finland's call money market by stipulating that the upper limit on the right of any bank to resort to call money credit was not less than FIM 10 million in all cases.

August

#### Amendments to the Foreign Exchange Regulations

The Bank of Finland decided to extend the right, previously only granted to manufacturing and shipping companies, to raise foreign loans with a maturity of at least five years for the financing of their own operations. As from August 1, 1987,

the right also applied to other companies and cooperative societies engaged in business, with the exception of financial and insurance institutions and housing and real estate companies.

#### Investment reserves

On August 6, the Government decided to extend the period during which investment reserves made in accounting periods closing before 1985 could be used to the end of 1988. At the same time, the Government also extended the validity period of the increased investment allowance (6 per cent) subject to the investment reserve being used outside the Greater Helsinki area in accounting periods closing between November 1, 1986 and December 31, 1988. In other cases, the investment allowance was the statutory 3 per cent.

#### Cash reserve requirement

The Bank of Finland raised the cash reserve requirement from 4.7 per cent to 4.9 per cent of the cash reserve base in August.

### October

#### Amendments to the Foreign Exchange Regulations

The Bank of Finland decided to allow authorized banks to write and purchase markka options as from October 1, 1987. At the same time, the Bank of Finland granted companies and other residents the right to purchase such options. Previously, the banks had been allowed to write foreign currency options but not markka options. Markka options entitle but do not oblige the holder to purchase or sell foreign currency at an agreed markka rate within an agreed period.

#### Banks' central bank financing

With effect from October 1, savings and cooperative banks were allowed to deal in certificates of deposit with the Bank of Finland provided that the banks concerned met with the requirements set on trading.

As from October 1, the Bank of Finland enlarged to some extent the right of banks to use call money credit not subject to penalty interest.

#### Personal credits

With effect from October 16, the Bank of Finland ceased issuing precise guidelines to the banks concerning prior savings required for housing loans and other personal credits.

### November

#### Interest rate powers of the Board of Management

The Parliamentary Supervisory Board decided on new interest rate powers for the Board of Management of the Bank of Finland in respect of both call money rates and money and capital market operations. The powers became effective on November 16.

The call money rate powers remained unchanged so that the upper limit on call money rates was still the base rate plus 15.0 percentage points.

Under the new powers, for rates of interest longer than one day, the Board of Management may, at its discretion, intervene in the market to regulate movements within a range the lower limit of which is the base rate and the upper limit the base rate plus 5 percentage points. Should market forces cause interest rates to move beyond these limits, the Board of Management may only undertake such operations as reduce the gap between market rates and these limits.

The new powers were extended to rates of interest on assets with a maturity of over 6 months whereas previously they had only applied to rates of interest up to 6 months.

December

#### Amendment to the Foreign Exchange Regulations

With effect from December 15, the Bank of Finland granted the status of an authorized bank to Helsingin Säästöpankki.

#### Finnish-owned securities companies abroad

The Bank of Finland decided to allow the establishment abroad of companies mainly engaged in securities trading. The right to be granted the permission was accorded to the authorized banks, securities agents referred to in the Foreign Exchange Regulations and, with some limitations, to insurance companies.

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Decisions were taken on the following measures to take effect in 1988

#### Housing loans

With effect from the beginning of 1988, banks may, in addition to the base rate, use the 3- and 5-year market rates calculated and published by the Bank of Finland as reference rates for their new long-term housing loans. The Bank of Finland commences to publish 3- and 5-year market rates monthly as reference rates for new long-term housing loans. In addition to housing loans, the rates may also be applied to other long-term lending.

#### Special financing arrangements

The Bank of Finland decided to amend the conditions applied to the financing of domestic suppliers' credits with effect from the beginning of 1988. According to the new conditions, the rate of interest on KTR credits is 2.5 percentage points higher than the Bank of Finland's base rate, and the Bank of Finland's share in the financing of the purchase price is 30 per cent.

Decisions were taken on the following measures to take effect in 1989

#### Special financing arrangements

As from the beginning of 1989, the Bank of Finland will terminate the financing arrangements for new-export credits and short-term export credits.



## TABLES

Discrepancies between constituent figures and totals are due to rounding.

0 less than half the final digit shown  
. logically impossible  
.. data not available  
- nil

Table 1.

**THE MONTHLY BALANCE SHEET OF THE BANK OF FINLAND IN 1987, MILLION FIM**

<b>ASSETS</b>	<b>I</b>	<b>II</b>	<b>III</b>
<b>Gold and foreign currency claims</b>	<b>17 358</b>	<b>17 291</b>	<b>19 875</b>
Gold	2 081	2 081	2 081
Special drawing rights	961	967	962
IMF reserve tranche	776	773	770
Convertible currencies	9 386	11 257	13 510
Tied currencies	4 154	2 213	2 552
<b>Other foreign claims</b>	<b>2 585</b>	<b>4 584</b>	<b>4 567</b>
Markka subscription to Finland's quota in the IMF	2 585	2 585	2 585
Term credit	—	1 999	1 982
<b>Claims on financial institutions</b>	<b>9 493</b>	<b>9 305</b>	<b>8 491</b>
Call money credits	428	24	179
Certificates of deposit <sup>1</sup>	4 266	4 736	3 572
Till-money credits	2 231	2 012	2 177
Bonds	2 119	2 118	2 153
Other claims on financial institutions	449	415	410
<b>Claims on the public sector</b>	<b>1 001</b>	<b>957</b>	<b>959</b>
Bonds	58	10	9
Total coinage	939	942	945
Other claims on the public sector	4	5	5
<b>Claims on corporations</b>	<b>4 618</b>	<b>4 518</b>	<b>4 327</b>
Financing of exports	1 575	1 467	1 325
Financing of domestic deliveries	2 785	2 792	2 748
Bonds: KTR credits	—	—	—
Bonds: Other	63	63	59
Other claims on corporations	195	196	195
<b>Other assets</b>	<b>151</b>	<b>151</b>	<b>152</b>
Accrued items	—	—	—
Other assets	151	151	152
<b>TOTAL</b>	<b>35 206</b>	<b>36 806</b>	<b>38 371</b>

<sup>1</sup> The item includes term liabilities from January to July.

IV	V	VI	VII	VIII	IX	X	XI	XII
<b>23 229</b>	<b>26 377</b>	<b>26 131</b>	<b>26 812</b>	<b>25 726</b>	<b>26 625</b>	<b>28 030</b>	<b>28 629</b>	<b>28 739</b>
2 081	2 081	2 081	2 081	2 081	2 081	2 081	2 081	2 128
961	967	969	969	973	970	964	961	899
769	769	787	787	789	757	753	793	793
16 491	19 516	19 064	20 043	19 801	21 330	22 785	23 637	23 634
2 927	3 045	3 229	2 931	2 081	1 486	1 447	1 156	1 284
<b>4 557</b>	<b>4 560</b>	<b>4 462</b>	<b>4 468</b>	<b>4 449</b>	<b>4 469</b>	<b>4 470</b>	<b>4 377</b>	<b>4 357</b>
2 585	2 585	2 483	2 483	2 477	2 506	2 506	2 455	2 427
1 972	1 975	1 979	1 985	1 972	1 962	1 964	1 922	1 930
<b>7 879</b>	<b>6 416</b>	<b>6 359</b>	<b>5 183</b>	<b>5 314</b>	<b>4 923</b>	<b>4 921</b>	<b>5 219</b>	<b>5 147</b>
1 076	0	185	305	81	20	49	55	0
2 111	1 690	1 217	89	258	—	—	—	—
2 114	2 139	2 370	2 234	2 439	2 385	2 284	2 538	2 730
2 161	2 171	2 176	2 147	2 129	2 099	2 159	2 196	2 140
417	415	411	409	407	418	429	430	277
<b>960</b>	<b>959</b>	<b>959</b>	<b>954</b>	<b>963</b>	<b>965</b>	<b>968</b>	<b>971</b>	<b>977</b>
9	9	9	4	4	4	4	4	4
946	947	950	950	958	961	964	967	967
5	2	—	—	—	—	—	—	6
<b>4 188</b>	<b>4 068</b>	<b>3 987</b>	<b>3 957</b>	<b>3 855</b>	<b>3 808</b>	<b>3 840</b>	<b>3 798</b>	<b>3 678</b>
1 191	1 079	1 029	1 014	932	914	937	922	868
2 736	2 728	2 706	2 692	2 676	2 653	2 664	2 631	2 568
—	—	—	—	—	—	—	8	13
59	59	58	58	54	49	47	46	46
202	201	195	193	193	193	191	190	182
<b>152</b>	<b>140</b>	<b>124</b>	<b>104</b>	<b>104</b>	<b>105</b>	<b>105</b>	<b>105</b>	<b>592</b>
—	—	—	—	—	—	—	—	487
152	140	124	104	104	105	105	105	105
<b>40 967</b>	<b>42 519</b>	<b>42 022</b>	<b>41 478</b>	<b>40 411</b>	<b>40 894</b>	<b>42 334</b>	<b>43 099</b>	<b>43 489</b>

Table 1. (Cont.)

<b>LIABILITIES</b>	<b>I</b>	<b>II</b>	<b>III</b>
<b>Foreign currency liabilities</b>	<b>69</b>	<b>59</b>	<b>57</b>
Convertible currencies	42	42	42
Tied currencies	27	17	15
<b>Other foreign liabilities</b>	<b>3 405</b>	<b>3 402</b>	<b>3 399</b>
IMF markka accounts	2 585	2 585	2 585
Allocations of special drawing rights	820	817	814
<b>Notes and coin in circulation</b>	<b>8 851</b>	<b>8 453</b>	<b>8 325</b>
Notes	8 053	7 653	7 524
Coin	798	800	801
<b>Certificates of deposit <sup>1</sup></b>	<b>—</b>	<b>1 600</b>	<b>4 000</b>
<b>Liabilities to financial institutions</b>	<b>10 451</b>	<b>10 999</b>	<b>10 465</b>
Call money deposits	798	1 337	548
Cash reserve deposits	9 353	9 356	9 597
Capital import deposits	240	241	236
Other liabilities to financial institutions	60	65	84
<b>Liabilities to the public sector</b>	<b>1</b>	<b>1</b>	<b>1</b>
Cheque account	1	1	1
Counter-cyclical deposits	—	—	—
Capital import deposits	—	—	—
Other liabilities to the public sector	0	0	0
<b>Liabilities to corporations</b>	<b>4 943</b>	<b>4 868</b>	<b>4 770</b>
Deposits for investment and ship purchase	4 606	4 538	4 437
Capital import deposits	333	328	331
Other liabilities to corporations	4	2	2
<b>Other liabilities</b>	<b>17</b>	<b>19</b>	<b>23</b>
Accrued items	—	—	—
Other liabilities	17	19	23
<b>Valuation account and reserves</b>	<b>1 540</b>	<b>1 476</b>	<b>1 402</b>
<b>SITRA's capital</b>	<b>400</b>	<b>400</b>	<b>400</b>
<b>Capital accounts</b>	<b>5 529</b>	<b>5 529</b>	<b>5 529</b>
Primary capital	5 000	5 000	5 000
Reserve fund	529	529	529
Net earnings	—	—	—
<b>TOTAL</b>	<b>35 206</b>	<b>36 806</b>	<b>38 371</b>

<sup>1</sup> The item includes term liabilities from February to July.



IV	V	VI	VII	VIII	IX	X	XI	XII
70	83	80	83	96	97	144	151	135
51	74	58	52	57	39	73	62	63
19	9	22	32	40	58	72	89	72
3 397	3 395	3 295	3 295	3 285	3 312	3 307	3 246	3 226
2 585	2 585	2 483	2 483	2 477	2 506	2 506	2 455	2 427
812	810	812	813	808	806	801	791	799
8 705	8 865	9 011	9 029	9 013	8 952	9 069	9 218	9 990
7 889	8 051	8 187	8 198	8 183	8 124	8 234	8 372	9 117
816	814	823	831	829	828	835	847	873
6 703	7 402	7 072	5 709	4 199	4 883	6 178	5 817	4 970
10 223	11 144	10 312	10 652	11 183	11 168	11 190	12 690	11 766
198	872	95	148	798	243	159	1 625	757
9 734	9 975	10 118	10 435	10 335	10 853	10 984	11 024	10 941
231	235	—	—	—	—	—	—	—
60	61	99	70	50	71	47	42	67
1	1	1	1	1	0	0	1	901
1	1	0	1	1	0	0	0	1
—	—	—	—	—	—	—	—	900
—	—	—	—	—	—	—	—	—
0	0	0	0	0	0	0	0	0
4 688	4 482	4 957	5 057	5 031	5 080	5 028	5 009	5 009
4 341	4 263	4 747	4 830	4 818	4 864	4 810	4 793	4 799
343	212	208	212	203	207	206	205	209
4	7	2	15	10	9	12	10	2
24	26	30	34	30	27	36	28	757
—	—	—	—	—	—	—	—	733
24	26	30	34	30	27	36	28	24
1 227	1 192	1 335	1 689	1 644	1 446	1 453	1 010	1 247
400	400	400	400	400	400	400	400	400
5 529	5 529	5 529	5 529	5 529	5 529	5 529	5 529	5 088
5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000	5 000
529	529	529	529	529	529	529	529	529
—	—	—	—	—	—	—	—	-440
40 967	42 519	42 022	41 478	40 411	40 894	42 334	43 099	43 489

Table 2.

**CONVERTIBLE AND TIED FOREIGN EXCHANGE RESERVES AT THE END OF THE YEAR,  
1982—1987, MILLION FIM**

	1982	1983	1984	1985	1986	1987
Gold	1 382	1 383	1 732	2 081	2 081	2 128
Special drawing rights	609	226	936	931	983	899
IMF reserve tranche	453	751	859	775	794	793
Convertible currencies						
Claims	6 578	5 869	15 387	18 608	6 795	23 634
Liabilities	- 17	- 34	- 84	- 36	- 17	- 63
<b>Convertible foreign exchange reserves</b>	<b>9 005</b>	<b>8 195</b>	<b>18 830</b>	<b>22 359</b>	<b>10 636</b>	<b>27 391</b>
Tied currencies						
Claims	1 530	550	388	255	3 435	1 284
Liabilities	- 5	- 0	- 725	- 540	- 14	- 72
<b>Tied foreign exchange reserves</b>	<b>1 525</b>	<b>550</b>	<b>- 337</b>	<b>- 285</b>	<b>3 421</b>	<b>1 213</b>

Table 3.

**INTEREST RATES APPLIED BY THE BANK OF FINLAND 1979—1987, PER CENT**

Effective as from	Base rate	Limits on interest rates for credits <sup>1</sup>		Call money rate		Interest rates applied in money and capital market operations	
		Minimum	Maximum	Minimum	Maximum	Minimum	Maximum
Nov. 1, 1979	8 1/2	6 3/4	9 3/4	8 1/2	24	.	.
Feb. 1, 1980	9 1/4	7 1/2	10 1/2	9 1/4	24 3/4	.	.
Jan. 1, 1981	9 1/4	7 1/2	10 1/2	9 1/4	24 1/4	.	.
June 1, 1982	8 1/2	6	11	8 1/2	23 1/2	.	.
July 1, 1983	9 1/2	7	12	9 1/2	24 1/2	.	.
Feb. 1, 1985	9	6 1/2	11 1/2	9	24	.	.
Jan. 1, 1986	8 1/2	6	11	8 1/2	23 1/2	.	.
March 1, 1986	8	5 1/2	10 1/2	8	23	.	.
May 16, 1986	8	5 1/2	10 1/2	8	30	.	.
May 19, 1986	7	4 1/2	9 1/2	7	30	.	.
June 16, 1986	7	4 1/2	9 1/2	7	22	.	.
Aug. 1, 1986	7	4 1/2	9 1/2	7	—	.	.
Oct. 21, 1986	7	4 1/2	9 1/2	7	22	.	.
Dec. 1, 1986	7	4 1/2	9 1/2	7	22	7	22
Nov. 16, 1987	7	4 1/2	9 1/2	7	22	7	12

<sup>1</sup>Limits on rates of interest applied in domestic lending other than bank financing.

Table 4.

### THE BANK OF FINLAND'S MONEY MARKET OPERATIONS IN 1987

Year and month	Purchases of certificates of deposit by the Bank of Finland <sup>1</sup> Million FIM/ month	Average rate of interest on certificates of deposit purchased by the Bank of Finland <sup>2</sup> %	Certificates of deposit held by the Bank of Finland <sup>3</sup> Million FIM	Sales of certificates of deposit by the Bank of Finland <sup>1</sup> Million FIM	Average rate of interest on certificates of deposit sold by the Bank of Finland <sup>2</sup> %	Certificates of deposit issued by the Bank of Finland <sup>3</sup> Million FIM	The Bank of Finland's net deposit in the money market <sup>3</sup> Million FIM (3-6)
	1	2	3	4	5	6	7
1987	5 165.7	10.98	1 580.5	29 258.1	9.63	4 705.1	-3 124.6
1987							
January	1 885.0	12.25	3 433.0	.	.	.	3 433.0
February	470.0	11.27	4 536.7	1 600.0	10.72	258.9	4 277.8
March	1 217.1	10.45	3 573.4	2 399.7	10.60	3 647.8	- 74.4
April	423.6	10.37	2 971.7	2 713.4	9.96	5 755.9	-2 784.2
May	50.0	9.80	1 861.5	2 335.0	9.63	6 720.4	-4 858.9
June	800.0	9.57	1 517.8	2 970.0	9.58	7 709.4	-6 191.5
July	60.0	9.53	749.7	2 585.0	9.53	5 457.1	-4 707.5
August	260.0	9.55	180.8	1 380.0	9.41	5 589.4	-5 408.6
September	—	—	141.9	2 735.0	9.41	5 080.4	-4 938.5
October	—	—	—	4 240.0	9.31	5 244.1	-5 244.1
November	—	—	—	3 390.0	9.33	5 897.0	-5 897.0
December	—	—	—	2 910.0	9.17	5 100.8	-5 100.8

<sup>1</sup>Purchases of certificates of deposit by the Bank of Finland also include 3-month term credits and similarly sales of certificates of deposit include 3-month term deposits.

<sup>2</sup>Weighted by amounts.

<sup>3</sup>Average daily values.

Table 5.

## BANKS' CENTRAL BANK POSITION IN 1982—1987, MILLION FIM

Average daily values	Banks' call money credits	Banks' call money deposits	The Bank of Finland's net deposit in the call money market (1-2)	The Bank of Finland's net deposit in the money market	Banks' cash reserve deposits	Banks' central bank position <sup>1</sup> (3+4-5)
	1	2	3	4	5	6
1982	2 778.4	1 207.1	1 571.3	.	2 777.5	- 783.2
1983	4 131.3	1 407.0	2 724.3	.	4 344.9	- 1 212.9
1984	3 175.8	3 215.0	- 39.2	.	6 325.5	- 6 364.8
1985	5 811.8	4 526.6	1 285.2	.	9 577.9	- 8 292.7
1986	7 117.0	1 255.9	5 861.1	120.1	9 189.1	- 3 207.8
1987	481.4	703.4	- 221.9	-3 124.6	10 092.5	-13 439.0
1987						
January	3 673.3	79.7	3 593.6	3 433.0	9 275.0	- 2 248.4
February	498.7	2 094.0	-1 595.3	4 277.8	9 353.0	- 6 670.5
March	158.2	439.5	- 281.3	- 74.4	9 361.7	- 9 717.4
April	164.9	938.2	- 773.3	-2 784.2	9 602.0	-13 159.6
May	407.0	365.3	41.6	-4 858.9	9 757.6	-14 574.9
June	188.9	474.2	- 285.3	-6 191.5	9 980.2	-16 457.1
July	145.3	1 057.2	- 911.9	-4 707.5	10 128.4	-15 747.8
August	435.2	180.9	254.4	-5 408.6	10 431.4	-15 585.7
September	39.1	666.7	- 627.6	-4 938.5	10 352.2	-15 918.3
October	19.3	556.7	- 537.4	-5 244.1	10 861.4	-16 642.9
November	36.5	678.7	- 642.2	-5 897.0	10 985.0	-17 524.3
December	10.5	909.1	- 898.6	-5 100.8	11 021.4	-17 020.8

<sup>1</sup>The central bank position for 1982—1984 also includes central bank credit subject to quotas.

Table 6.

**DOMESTIC BOND AND DEBENTURE ISSUES IN 1986 AND 1987**

	Number of issues			Nominal value of issues Million FIM		
	1986	1987	Change	1986	1987	Change
<b>Bond issues</b>	<b>34</b>	<b>31</b>	<b>- 3</b>	<b>3 424</b>	<b>2 987</b>	<b>- 437</b>
Public issues, mortgage banks	23	27	+ 4	2 304	2 745	+ 441
Tax-exempt	15	17	+ 2	1 799	2 090	+ 291
Taxable	8	10	+ 2	505	655	+ 150
Private placements, mortgage banks	11	4	- 7	1 120	242	- 878
<b>Debentures</b>	<b>16</b>	<b>17</b>	<b>+ 1</b>	<b>1 088</b>	<b>1 006</b>	<b>- 82</b>
Public issues	9	15	+ 6	518	837	+ 319
Private placements	7	2	- 5	570	169	- 401
<b>Other bonds</b>	<b>176</b>	<b>145</b>	<b>- 31</b>	<b>11 630</b>	<b>10 265</b>	<b>- 1 365</b>
Public issues	97	91	- 6	4 965	7 414	+ 2 449
Private placements	79	54	- 25	6 665	2 851	- 3 814
<b>Bond and debenture issues other than those by the central government, total</b>	<b>226</b>	<b>193</b>	<b>- 33</b>	<b>16 142</b>	<b>14 258</b>	<b>- 1 884</b>
Public issues, total	129	133	+ 4	7 787	10 996	+ 3 209
Private placements, total	97	60	- 37	8 355	3 262	- 5 093
<b>Government bonds</b>	<b>25</b>	<b>27</b>	<b>+ 2</b>	<b>7 870</b>	<b>11 137</b>	<b>+ 3 267</b>
Public issues	10	11	+ 1	5 688	7 240	+ 1 552
Tax-exempt	10	10	—	5 688	6 740	+ 1 052
Taxable	—	1	+ 1	—	500	+ 500
Private placements	15	16	+ 1	2 182	3 897	+ 1 715
Treasury notes	11	12	+ 1	1 338	3 018	+ 1 680
Other private placements	4	4	—	844	879	+ 35
<b>All bond and debenture issues, total</b>	<b>251</b>	<b>220</b>	<b>- 31</b>	<b>24 012</b>	<b>25 395</b>	<b>+ 1 383</b>
Public issues, total	139	144	+ 5	13 475	18 236	+ 4 761
Private placements, total	112	76	- 36	10 537	7 159	- 3 378

Table 7.

**FOREIGN EXCHANGE: SPOT SELLING RATES IN 1982—1987, FIM**

Currency	1982			1983			1984		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	5.572	4.820	4.325	5.899	5.570	5.241	6.552	6.010	5.530
1 CAD, Montreal	4.570	3.913	3.611	4.726	4.524	4.277	4.964	4.645	4.347
1 GBP, London	9.356	8.423	8.108	8.845	8.456	7.996	8.444	8.023	7.584
1 IEP, Dublin	7.461	6.854	6.518	7.540	6.957	6.613	6.696	6.533	6.371
1 SEK, Stockholm	0.8050	0.7703	0.7265	0.7310	0.7275	0.7245	0.7375	0.7277	0.7185
1 NOK, Oslo	0.7770	0.7484	0.6925	0.7745	0.7644	0.7525	0.7580	0.7384	0.7195
1 DKK, Copenhagen	0.6340	0.5793	0.5420	0.6385	0.6107	0.5885	0.5955	0.5816	0.5675
1 ISK, Reykjavik	0.5430	0.4079	0.3205	0.3225	0.2325	0.2035	0.2080	0.1939	0.1615
1 DEM, Frankfurt o.M.	2.2365	1.9876	1.9005	2.2725	2.1861	2.1175	2.1825	2.1165	2.0525
1 NLG, Amsterdam	2.0240	1.8066	1.7300	2.0445	1.9566	1.8935	1.9325	1.8772	1.8200
1 BEF, Brussels commercial	0.11450	0.10584	0.09870	0.11860	0.10934	0.10450	0.10670	0.10428	0.10170
1 CHF, Zurich	2.6625	2.3779	2.2195	2.7415	2.6570	2.6060	2.6750	2.5642	2.4775
1 FRF, Paris	0.7900	0.7365	0.6785	0.8000	0.7353	0.6980	0.7090	0.6907	0.6695
1 ITL, Rome	0.00389	0.00358	0.00341	0.00393	0.00369	0.00352	0.00353	0.00344	0.00334
1 ATS, Vienna	0.3185	0.2831	0.2712	0.3230	0.3111	0.3015	0.3100	0.3013	0.2920
1 PTE, Lisbon	0.0685	0.0613	0.0548	0.0604	0.0514	0.0441	0.0446	0.0414	0.0387
1 ESB, Madrid	0.0482	0.0441	0.0419	0.0425	0.0391	0.0371	0.0381	0.0375	0.0367
1 JPY, Tokyo	0.02274	0.01943	0.01783	0.02521	0.02351	0.02254	0.02626	0.02534	0.02414
1 AUD, Melbourne	..	..	..	..	..	..	..	..	..
1 SUR, Moscow, clearing	7.473	6.624	6.170	7.636	7.491	7.411	7.547	7.357	7.198
1 special drawing right (SDR)	5.92336	5.30563	5.05149	6.11828	5.94325	5.81780	6.42611	6.14739	5.90956
1 ECU	..	..	..	..	..	..	..	..	..

Currency	1985			1986			1987		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	7.132	6.206	5.425	5.467	5.078	4.802	4.793	4.404	3.954
1 CAD, Montreal	5.129	4.554	3.889	3.914	3.659	3.484	3.501	3.325	3.044
1 GBP, London	8.501	8.000	7.424	7.916	7.459	6.927	7.425	7.213	6.911
1 IEP, Dublin	6.763	6.590	6.435	7.090	6.816	6.593	6.730	6.556	6.464
1 SEK, Stockholm	0.7385	0.7222	0.7135	0.7261	0.7138	0.7045	0.7067	0.6952	0.6789
1 NOK, Oslo	0.7285	0.7231	0.7150	0.7290	0.6882	0.6501	0.6666	0.6547	0.6332
1 DKK, Copenhagen	0.6060	0.5871	0.5745	0.6572	0.6290	0.6005	0.6665	0.6444	0.6258
1 ISK, Reykjavik	0.1730	0.1520	0.1305	0.1323	0.1259	0.1213	0.1216	0.1163	0.1127
1 DEM, Frankfurt o.M.	2.2090	2.1142	2.0635	2.4814	2.3454	2.2055	2.5267	2.4514	2.4048
1 NLG, Amsterdam	1.9620	1.8745	1.8195	2.1953	2.0789	1.9585	2.2401	2.1755	2.1375
1 BEF, Brussels commercial	0.10820	0.10483	0.10250	0.11930	0.11399	0.10780	0.12190	0.11806	0.11590
1 CHF, Zurich	2.6540	2.5360	2.4240	3.0081	2.8349	2.6025	3.0956	2.9563	2.8862
1 FRF, Paris	0.7215	0.6940	0.6760	0.7589	0.7355	0.7010	0.7583	0.7345	0.7239
1 ITL, Rome	0.00344	0.00327	0.00315	0.00359	0.00343	0.00322	0.00356	0.00341	0.00333
1 ATS, Vienna	0.3145	0.3012	0.2940	0.3546	0.3339	0.3140	0.3593	0.3488	0.3420
1 PTE, Lisbon	0.0393	0.0367	0.0342	0.0355	0.0343	0.0331	0.0332	0.0315	0.0304
1 ESB, Madrid	0.0382	0.0366	0.0351	0.0373	0.0364	0.0353	0.0377	0.0358	0.0348
1 JPY, Tokyo	0.02770	0.02610	0.02490	0.03258	0.03028	0.02675	0.03248	0.03050	0.02945
1 AUD, Melbourne	..	..	..	..	..	..	3.259	3.106	2.810
1 SUR, Moscow clearing	7.773	7.419	7.140	7.367	7.228	7.040	7.186	6.965	6.792
1 special drawing right (SDR)	6.75940	6.27879	5.93241	6.10906	5.94432	5.79542	5.86330	5.68010	5.54077
1 ECU	..	..	..	..	..	..	5.198	5.075	4.995

Table 8.

**FOREIGN EXCHANGE: SPOT SELLING RATES IN 1987, FIM**

Currency	January			February			March		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.793	4.641	4.496	4.643	4.560	4.511	4.559	4.509	4.443
1 CAD, Montreal	3.501	3.413	3.354	3.480	3.422	3.391	3.462	3.421	3.391
1 GBP, London	7.085	6.998	6.931	7.050	6.971	6.911	7.268	7.185	7.052
1 IEP, Dublin	6.730	6.689	6.655	6.691	6.660	6.616	6.618	6.579	6.556
1 SEK, Stockholm	0.7067	0.7031	0.7001	0.7040	0.7021	0.7008	0.7050	0.7040	0.7025
1 NOK, Oslo	0.6513	0.6485	0.6464	0.6540	0.6520	0.6493	0.6547	0.6521	0.6503
1 DKK, Copenhagen	0.6661	0.6590	0.6528	0.6665	0.6619	0.6584	0.6583	0.6537	0.6509
1 ISK, Reykjavik	0.1216	0.1190	0.1171	0.1195	0.1184	0.1178	0.1184	0.1176	0.1163
1 DEM, Frankfurt o.M.	2.5267	2.4988	2.4776	2.5230	2.4991	2.4828	2.4788	2.4603	2.4465
1 NLG, Amsterdam	2.2401	2.2148	2.1936	2.2372	2.2140	2.1979	2.1949	2.1785	2.1660
1 BEF, Brussels commercial	0.12190	0.12042	0.11900	0.12180	0.12073	0.12000	0.11980	0.11884	0.11820
1 CHF, Zurich	3.0086	2.9774	2.9449	2.9921	2.9603	2.9390	2.9519	2.9353	2.9108
1 FRF, Paris	0.7583	0.7512	0.7453	0.7573	0.7517	0.7472	0.7463	0.7407	0.7367
1 ITL, Rome	0.00356	0.00354	0.00350	0.00356	0.00353	0.00350	0.00350	0.00347	0.00346
1 ATS, Vienna	0.3593	0.3553	0.3520	0.3592	0.3555	0.3533	0.3526	0.3503	0.3483
1 PTE, Lisbon	0.0332	0.0329	0.0323	0.0331	0.0325	0.0321	0.0324	0.0322	0.0321
1 ESB, Madrid	0.0366	0.0360	0.0355	0.0357	0.0356	0.0354	0.0353	0.0352	0.0350
1 JPY, Tokyo	0.03026	0.03004	0.02968	0.03010	0.02975	0.02958	0.03042	0.02980	0.02945
1 AUD, Melbourne	3.209	3.084	2.980	3.112	3.063	3.020	3.159	3.119	3.088
1 SUR, Moscow clearing	7.186	7.107	7.046	7.111	7.050	7.023	7.027	7.003	6.971
1 special drawing right (SDR)	5.86330	5.79556	5.71303	5.79533	5.74575	5.72743	5.73526	5.71328	5.69304
1 ECU	5.198	5.156	5.119	5.190	5.153	5.128	5.126	5.103	5.088



Currency	April			May			June		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.481	4.422	4.345	4.433	4.358	4.322	4.483	4.427	4.367
1 CAD, Montreal	3.429	3.360	3.247	3.309	3.253	3.215	3.365	3.311	3.261
1 GBP, London	7.267	7.216	7.142	7.315	7.280	7.191	7.280	7.221	7.157
1 IEP, Dublin	6.582	6.535	6.510	6.549	6.534	6.520	6.552	6.530	6.500
1 SEK, Stockholm	0.7042	0.7014	0.6988	0.6988	0.6979	0.6968	0.7000	0.6990	0.6981
1 NOK, Oslo	0.6567	0.6542	0.6516	0.6588	0.6561	0.6523	0.6661	0.6606	0.6560
1 DKK, Copenhagen	0.6523	0.6480	0.6459	0.6508	0.6486	0.6463	0.6496	0.6469	0.6430
1 ISK, Reykjavik	0.1174	0.1162	0.1147	0.1172	0.1155	0.1147	0.1173	0.1163	0.1152
1 DEM, Frankfurt o.M.	2.4578	2.4429	2.4323	2.4484	2.4398	2.4312	2.4438	2.4353	2.4260
1 NLG, Amsterdam	2.1775	2.1652	2.1565	2.1705	2.1648	2.1585	2.1698	2.1620	2.1536
1 BEF, Brussels commercial	0.11880	0.11797	0.11750	0.11800	0.11770	0.11730	0.11790	0.11754	0.11710
1 CHF, Zurich	2.9929	2.9599	2.9323	2.9900	2.9689	2.9270	2.9521	2.9367	2.9205
1 FRF, Paris	0.7402	0.7350	0.7315	0.7332	0.7316	0.7302	0.7335	0.7306	0.7284
1 ITL, Rome	0.00346	0.00343	0.00343	0.00343	0.00339	0.00337	0.00340	0.00337	0.00337
1 ATS, Vienna	0.3498	0.3478	0.3462	0.3485	0.3474	0.3463	0.3481	0.3468	0.3456
1 PTE, Lisbon	0.0321	0.0319	0.0317	0.0318	0.0316	0.0314	0.0316	0.0315	0.0314
1 ESB, Madrid	0.0351	0.0350	0.0348	0.0350	0.0350	0.0349	0.0354	0.0352	0.0350
1 JPY, Tokyo	0.03151	0.03097	0.3048	0.03126	0.03106	0.03068	0.03081	0.03066	0.03039
1 AUD, Melbourne	3.226	3.165	3.089	3.182	3.136	3.079	3.234	3.196	3.147
1 SUR, Moscow, clearing	7.003	6.971	6.939	6.964	6.935	6.918	7.002	6.969	6.943
1 special drawing right (SDR)	5.71786	5.70115	5.67953	5.69494	5.67351	5.65120	5.69868	5.68539	5.66002
1 ECU	5.097	5.072	5.056	5.082	5.063	5.045	5.065	5.050	5.037

Table 8. (Cont.)

Currency	July			August			September		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.515	4.487	4.447	4.586	4.505	4.405	4.424	4.394	4.357
1 CAD, Montreal	3.427	3.389	3.345	3.462	3.404	3.345	3.384	3.344	3.317
1 GBP, London	7.273	7.236	7.182	7.234	7.207	7.185	7.264	7.240	7.209
1 IEP, Dublin	6.550	6.522	6.507	6.523	6.503	6.480	6.524	6.493	6.464
1 SEK, Stockholm	0.6992	0.6981	0.6973	0.6981	0.6956	0.6980	0.6915	0.6902	0.6874
1 NOK, Oslo	0.6665	0.6652	0.6613	0.6666	0.6645	0.6613	0.6639	0.6624	0.6600
1 DKK, Copenhagen	0.6450	0.6409	0.6395	0.6408	0.6334	0.6275	0.6320	0.6299	0.6259
1 ISK, Reykjavik	0.1179	0.1170	0.1161	0.1185	0.1171	0.1155	0.1162	0.1155	0.1150
1 DEM, Frankfurt o.M.	2.4420	2.4309	2.4262	2.4328	2.4275	2.4188	2.4366	2.4258	2.4057
1 NLG, Amsterdam	2.1688	2.1589	2.1541	2.1601	2.1547	2.1468	2.1644	2.1552	2.1385
1 BEF, Brussels commercial	0.11780	0.11730	0.11710	0.11730	0.11695	0.11650	0.11730	0.11686	0.11600
1 CHF, Zurich	2.9457	2.9246	2.9115	2.9556	2.9321	2.9108	2.9458	2.9284	2.8963
1 FRF, Paris	0.7336	0.7316	0.7299	0.7322	0.7288	0.7259	0.7299	0.7280	0.7239
1 ITL, Rome	0.00337	0.00337	0.00337	0.00337	0.00337	0.00333	0.00340	0.00337	0.00333
1 ATS, Vienna	0.3477	0.3460	0.3451	0.3461	0.3455	0.3444	0.3465	0.3450	0.3422
1 PTE, Lisbon	0.0315	0.0314	0.0313	0.0314	0.0313	0.0311	0.0313	0.0311	0.0308
1 ESB, Madrid	0.0359	0.0355	0.0353	0.0364	0.0360	0.0357	0.0364	0.0364	0.0363
1 JPY, Tokyo	0.03035	0.02989	0.02952	0.03113	0.03057	0.03010	0.03116	0.03071	0.03029
1 AUD, Melbourne	3.232	3.199	3.163	3.253	3.206	3.157	3.259	3.215	3.171
1 SUR, Moscow, clearing	7.011	6.985	6.960	7.060	7.020	6.971	6.971	6.953	6.934
1 special drawing right (SDR)	5.69873	5.68463	5.66786	5.73197	5.70792	5.66391	5.68336	5.66425	5.64464
1 ECU	5.061	5.045	5.035	5.044	5.031	5.015	5.045	5.031	4.996

Currency	October			November			December		
	Max.	Av.	Min.	Max.	Av.	Min.	Max.	Av.	Min.
1 USD, New York	4.438	4.361	4.244	4.241	4.138	4.050	4.114	4.043	3.954
1 CAD, Montreal	3.401	3.337	3.233	3.227	3.151	3.104	3.140	3.096	3.044
1 GBP, London	7.350	7.249	7.196	7.409	7.354	7.319	7.425	7.399	7.383
1 IEP, Dublin	6.536	6.489	6.466	6.577	6.551	6.530	6.627	6.584	6.556
1 SEK, Stockholm	0.6894	0.6872	0.6858	0.6878	0.6827	0.6797	0.6831	0.6813	0.6789
1 NOK, Oslo	0.6618	0.6591	0.6516	0.6535	0.6462	0.6365	0.6377	0.6352	0.6332
1 DKK, Copenhagen	0.6381	0.6301	0.6258	0.6405	0.6382	0.6366	0.6481	0.6422	0.6378
1 ISK, Reykjavik	0.1159	0.1152	0.1147	0.1151	0.1140	0.1133	0.1140	0.1135	0.1127
1 DEM, Frankfurt o.M.	2.4640	2.4196	2.4048	2.4738	2.4617	2.4506	2.5000	2.4753	2.4619
1 NLG, Amsterdam	2.1882	2.1504	2.1375	2.1977	2.1875	2.1769	2.2212	2.1998	2.1881
1 BEF, Brussels commercial	0.11780	0.11629	0.11590	0.11820	0.11772	0.11720	0.11950	0.11837	0.11770
1 CHF, Zurich	2.9758	2.9163	2.8862	3.0168	2.9957	2.9793	3.0956	3.0403	3.0064
1 FRF, Paris	0.7315	0.7262	0.7240	0.7315	0.7266	0.7242	0.7388	0.7316	0.7261
1 ITL, Rome	0.00337	0.00336	0.00333	0.00337	0.00336	0.00333	0.00340	0.00338	0.00337
1 ATS, Vienna	0.3501	0.3441	0.3420	0.3517	0.3501	0.3487	0.3554	0.3519	0.3500
1 PTE, Lisbon	0.0309	0.0308	0.0307	0.0309	0.0306	0.0305	0.0307	0.0305	0.0304
1 ESB, Madrid	0.0377	0.0369	0.0363	0.0371	0.0367	0.0365	0.0369	0.0366	0.0365
1 JPY, Tokyo	0.03084	0.03044	0.03016	0.03090	0.03061	0.03042	0.03248	0.03151	0.03064
1 AUD, Melbourne	3.204	3.135	2.893	2.916	2.863	2.810	2.909	2.891	2.873
1 SUR, Moscow, clearing	6.952	6.928	6.905	6.915	6.838	6.795	6.844	6.820	6.792
1 special drawing right (SDR)	5.65432	5.63821	5.61109	5.63014	5.57249	5.54077	5.61156	5.57906	5.55058
1 ECU	5.075	5.020	4.995	5.098	5.076	5.057	5.149	5.105	5.079

Table 9.

## FINLAND'S LONG-TERM FOREIGN ASSETS AND LIABILITIES IN 1987, MILLION FIM

	Debt Dec. 31, 1986	Drawings in 1987	Redemptions in 1987	Net drawings in 1987	Impact of ex- change rates in 1987	Debt Dec. 31, 1987
<b>Financial loans</b>	<b>68 067</b>	<b>21 348</b>	<b>11 123</b>	<b>10 225</b>	<b>- 2 590</b>	<b>75 702</b>
Individual financial loans	21 238	5 879	5 015	864	- 498	21 604
Bonds	46 829	15 469	6 108	9 361	- 2 092	54 098
Ordinary bonds	33 946	11 608	3 953	7 655	- 1 444	40 157
Debentures	6 101	2 464	472	1 992	- 429	7 664
Certificates of deposit	336	—	220	- 220	- 37	79
Private placement loans	6 446	1 397	1 463	- 66	- 182	6 198
Import credits	2 049	187	541	- 354	- 125	1 570
Ship and aircraft credits	604	139	220	- 81	- 55	468
Other import credits	1 445	48	321	- 273	- 70	1 102
Leasing credits	214	696	55	641	- 32	823
Direct investment	4 896	627	199	428	- 35	5 289
Equity capital	4 476	474	175	299	- 19	4 756
Loans to subsidiaries and associates	420	153	24	129	- 16	533
Portfolio investment	6 959	4 232	5 858	- 1 626	—	5 333
Subscriptions <sup>1</sup>	739	272	181	+ 91	—	830
<b>Gross long-term debt<sup>1,2</sup></b>	<b>82 924</b>	<b>27 362</b>	<b>17 957</b>	<b>9 405</b>	<b>- 2 782</b>	<b>89 547</b>
Financial loans	939	2 605	35	2 570	- 171	3 338
Export credits	5 649	1 534	1 353	181	- 570	5 260
Development credits	366	73	1	72	—	438
Direct investment	13 727	3 966	180	3 786	- 827	16 686
Equity capital	11 926	2 669	65	2 604	- 700	13 830
Loans to subsidiaries and associates	1 801	1 297	115	1 182	127	2 856
Portfolio investment <sup>3</sup>	567	2 119 <sup>4</sup>	..	2 119	—	2 686
Other investment <sup>3</sup>	460	309 <sup>4</sup>	..	309	—	769
Subscriptions <sup>1</sup>	1 920	272	—	272	—	2 192
<b>Gross long-term assets<sup>2</sup></b>	<b>23 628</b>	<b>10 878</b>	<b>1 569</b>	<b>9 309</b>	<b>- 1 568</b>	<b>31 369</b>
<b>Net long-term debt</b>	<b>59 296</b>	<b>16 484</b>	<b>16 388</b>	<b>96</b>	<b>- 1 214</b>	<b>58 178</b>

<sup>1</sup> On the liabilities side, subscriptions to international financial institutions paid up in the form of bonds, and on the assets side, Finland's subscriptions to international financial institutions.

<sup>2</sup> The markka values of balances outstanding were calculated by using the selling rates of the same date, drawings and redemptions by using the middle rate on the date of transaction.

<sup>3</sup> Real estate and other transactions.

<sup>4</sup> Net drawings.

Table 10.

**INTERNAL CLEARING OPERATIONS<sup>1</sup> IN 1982—1987**

Year and month	Head office		Branch offices <sup>2</sup>		Total	
	Number, in thousands	Value, in million FIM	Number, in thousands	Value, in million FIM	Number, in thousands	Value, in million FIM
1982	72 251	354 482	4 722	25 129	76 973	379 611
1983	102 802	415 428	467	12 370	103 269	427 798
1984	112 179	475 412	208	13 189	112 387	488 601
1985	133 684	553 345	192	16 633	133 876	569 978
1986	159 105	604 292	61	13 451	159 166	617 743
1987	170 494	662 296	4	2 243	170 498	664 539
1987						
January	13 126	49 172	2	1 179	13 129	50 351
February	11 189	43 493	2	1 064	11 191	44 557
March	14 282	56 319	.	.	14 282	56 319
April	13 535	54 958	.	.	13 535	54 958
May	11 705	50 822	.	.	11 705	50 822
June	15 098	60 364	.	.	15 098	60 364
July	15 345	56 595	.	.	15 345	56 595
August	14 191	52 106	.	.	14 191	52 106
September	15 134	55 952	.	.	15 134	55 952
October	15 605	57 976	.	.	15 605	57 976
November	14 922	57 410	.	.	14 922	57 410
December	16 361	67 131	.	.	16 361	67 131

<sup>1</sup>Bank bills, cheques, bank and post giros and automatic bank transfers between banks.<sup>2</sup>Clearing operations were terminated at branch offices other than Turku and Tampere as from the end of March, 1986; at the Turku and Tampere branch offices they were terminated at the end of February.

Table 11.

**NOTE ISSUE IN 1982—1987, MILLION FIM**

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 1982	11 109	1 500	12 609	5 572	64	2	5 638	6 971
1983	9 491	1 500	10 991	6 029	88	2	6 119	4 872
1984	19 911	1 500	21 411	6 744	1 067	0	7 811	13 600
1985	23 056	1 500	24 556	7 304	679	.	7 983	16 573
1986	14 617	1 500	16 117	7 856	139	.	7 995	8 122
1987	28 889	39	28 928	9 117	986	.	10 103	18 825
1987								
Jan. 30	17 789	1 500	19 289	8 054	521	.	8 575	10 714
Feb. 27	17 659	1 500	19 159	7 653	1 461	.	9 114	11 045
March 31	20 167	1 500	21 667	7 524	537	.	8 060	13 607
April 30	23 468	1 500	24 968	7 889	159	.	8 048	16 920
May 29	26 583	1 500	28 083	8 051	1 050	.	9 102	18 982
June 30	26 327	521	26 848	8 187	212	.	8 399	18 449
July 31	27 007	184	27 191	8 198	203	.	8 400	8 790
Aug. 31	25 904	25	25 929	8 183	905	.	9 088	16 841
Sept. 30	26 794	36	26 829	8 124	428	.	8 551	18 278
Oct. 30	28 194	47	28 241	8 234	350	.	8 584	19 657
Nov. 30	28 784	48	28 832	8 372	1 802	.	10 174	18 658
Dec. 31	28 889	39	28 928	9 117	986	.	10 103	18 825

Table 12.

**NOTES AND COIN IN CIRCULATION AT THE END OF THE YEAR, 1982—1987, MILLION FIM**

Denomination	1982	1983	1984	1985	1986	1987
<b>NOTES</b>						
1 000 markkaa	.	.	.	.	497.8	1 727.3
500 "	1 925.1	2 173.0	2 659.8	2 984.3	2 815.1	2 467.5
100 "	2 728.1	2 890.7	3 101.5	3 247.7	3 410.6	3 686.9
50 "	476.1	498.2	557.5	611.9	661.2	736.2
10 "	345.1	362.0	389.5	429.6	441.9	470.7
5 "	90.8	98.5	29.1	23.3	22.1	21.5
1 "	6.5	6.7	6.8	6.9	7.0	7.2
<b>Total</b>	<b>5 571.7</b>	<b>6 029.1</b>	<b>6 744.2</b>	<b>7 303.7</b>	<b>7 855.7</b>	<b>9 117.3</b>
Issued before 1963	9.4	9.4	9.4	9.4	9.4	9.4
<b>Grand total</b>	<b>5 581.1</b>	<b>6 038.5</b>	<b>6 753.6</b>	<b>7 313.1</b>	<b>7 865.1</b>	<b>9 126.7</b>
<b>COIN</b>						
50 markkaa	42.7	63.4	62.6	75.9	75.5	74.3
25 "	19.9	19.9	19.9	19.9	19.9	19.9
10 "	38.4	38.4	38.5	38.4	38.4	38.3
5 "	30.1	32.1	169.6	202.7	221.3	249.8
1 "	214.6	234.1	243.8	256.8	273.6	295.8
50 penniä	50.0	55.3	56.9	60.7	63.7	69.6
20 "	42.9	46.8	49.8	54.0	57.6	59.9
10 "	23.0	24.8	26.1	27.8	29.2	31.3
5 "	19.9	21.2	22.3	23.5	24.4	25.9
1 "	8.8	8.5	8.2	8.1	8.0	7.9
<b>Total</b>	<b>490.3</b>	<b>544.5</b>	<b>697.7</b>	<b>767.8</b>	<b>811.6</b>	<b>872.8</b>
Issued before 1963	15.7	15.7	15.7	15.7	15.7	15.7
<b>Grand total</b>	<b>506.0</b>	<b>560.2</b>	<b>713.4</b>	<b>783.5</b>	<b>827.3</b>	<b>888.5</b>

Table 13.

**PRINTING AND DESTRUCTION OF NOTES IN 1982—1987, MILLION FIM**

Notes printed	1982	1983	1984	1985	1986	1987
1 000 markkaa	.	.	.	.	10 650.0	-
500 "	-	-	-	200.0	400.0	5 360.5
100 "	2 024.5	362.2	2 679.8	2 183.8	2 647.2	-
50 "	-	-	1 288.4	1 796.0	-	1 142.0
10 "	155.2	824.3	1 081.2	520.0	695.0	841.0
5 "	333.2	344.6	.	.	.	.
1 "	.	.	.	.	.	.
Total	2 512.9	1 531.1	5 049.4	4 699.8	14 392.2	7 343.5
In millions	102.4	155.0	160.7	110.2	107.4	117.7
<b>Notes cancelled</b>						
1 000 markkaa	.	.	.	.	.	9.7
500 "	325.7	383.8	296.5	603.1	324.3	566.9
100 "	1 720.0	1 675.0	875.0	1 855.0	1 550.0	2 505.0
50 "	660.0	660.0	452.5	632.5	665.0	177.5
10 "	570.7	608.3	520.5	689.1	826.3	506.0
5 "	256.1	286.4	396.1	12.0	2.2	0.5
1 "	0.2	0.1	0.1	0.1	-	0.0
Total	3 532.7	3 613.6	2 540.7	3 791.8	3 367.8	3 765.7
In millions	139.5	149.0	149.8	103.8	112.5	80.5



Table 14.

## NOTES AND COIN IN 1987, MILLION FIM

Denomination	Total issue Dec. 31, 1986	Issued in 1987	Destroyed in 1987	Total issue Dec. 31, 1987	Held by the Bank of Finland Dec. 31, 1987	In circulation Dec. 31, 1987
<b>NOTES</b>						
1000 markkaa	10 650.0	-	9.7	10 640.3	8 913.0	1 727.3
500 "	4 296.7	5 360.5	566.9	9 090.3	6 622.7	2 467.6
100 "	8 799.2	-	2 505.0	6 294.2	2 607.3	3 686.9
50 "	2 652.9	1 142.0	177.5	3 617.4	2 881.2	736.2
10 "	1 311.1	841.0	506.0	1 646.1	1 175.5	470.7
5 "	48.2	.	0.5	47.6	26.1	21.5
1 "	10.3	.	0.0	10.2	3.1	7.2
<b>Total</b>	<b>27 768.4</b>	<b>7 343.5</b>	<b>3 765.7</b>	<b>31 346.1</b>	<b>22 228.8</b>	<b>9 117.3</b>
<b>In millions</b>	<b>311.3</b>	<b>117.7</b>	<b>80.5</b>	<b>348.5</b>	<b>231.7</b>	<b>116.8</b>
<b>Issued before 1963</b>						
<b>Total</b>	<b>9.4</b>	<b>.</b>	<b>0.0</b>	<b>9.4</b>	<b>0.0</b>	<b>9.4</b>
<b>In millions</b>	<b>11.5</b>	<b>.</b>	<b>0.0</b>	<b>11.5</b>	<b>0.0</b>	<b>11.5</b>
<b>Grand total</b>	<b>27 777.8</b>	<b>7 343.5</b>	<b>3 765.7</b>	<b>31 355.5</b>	<b>22 228.8</b>	<b>9 126.7</b>
<b>In millions</b>	<b>322.8</b>	<b>117.7</b>	<b>80.5</b>	<b>360.0</b>	<b>231.7</b>	<b>128.3</b>
<b>COIN</b>						
50 markkaa	78.5	.	1.3	77.2	2.9	74.3
25 "	20.0	.	-	20.0	0.1	20.0
10 "	38.5	.	-	38.5	0.1	38.4
5 "	289.2	15.0	0.1	304.1	54.3	249.8
1 "	304.7	10.0	0.2	314.6	18.7	295.8
50 penniä	74.2	2.5	0.0	76.7	7.1	69.6
20 "	62.7	4.2	0.0	66.9	6.9	59.9
10 "	33.1	1.0	0.0	34.1	2.8	31.3
5 "	25.9	1.0	0.0	26.9	1.0	25.9
1 "	8.1	-	0.2	7.9	0.0	7.9
<b>Total</b>	<b>934.9</b>	<b>33.8</b>	<b>1.9</b>	<b>966.8</b>	<b>94.0</b>	<b>872.8</b>
<b>Issued before 1963</b>						
<b>Total</b>	<b>15.7</b>	<b>.</b>	<b>-</b>	<b>15.7</b>	<b>0.0</b>	<b>15.7</b>
<b>Grand total</b>	<b>950.6</b>	<b>33.8</b>	<b>1.9</b>	<b>982.5</b>	<b>94.0</b>	<b>888.5</b>



## AUDITORS' REPORT

### on the audit of the accounts and operations of the Bank of Finland for 1987

We, the Auditors elected by Parliament, have audited the accounts, including the financial statements, and the management of the Bank of Finland for 1987 on February 16—19, 1988, to the extent required by good auditing practice.

In the course of the accounting year, the Internal Audit Department of the Bank of Finland has carried out the audit of the Bank's accounting and operations. We have examined the reports issued on the internal audit at the Bank.

We have read the Annual Statement of the Bank of Finland, and the Board of Management has provided us with information on the Bank's operations.

The financial statements of the Bank of Finland, showing a loss of FIM 440 329 531.06 for the accounting year, have been prepared in keeping with the principles on closing the accounts confirmed by the Parliamentary Supervisory Board and the Regulations for the Bank of Finland.

On the basis of the above and in the absence of any further comments raised by the audit, we propose that the profit and loss account and the balance sheet be confirmed and the Board of Management discharged from liability for the accounting year audited by us.

Helsinki, February 19, 1988

**Pentti Mäki-Hakola**

Markus Aaltonen

Kalevi Mattila

Pentti Kettunen

Esko Seppänen

*./.* Kalervo Virtanen  
Authorized Public Accountant

## **MEMBERS OF THE PARLIAMENTARY SUPERVISORY BOARD, AT THE END OF 1987**

Mauri Miettinen (Chairman)  
Pertti Paasio (Vice Chairman)  
Matti Maijala  
Heikki Perho  
Erkki Pystynen  
Antti Kalliomäki  
Jussi Ranta  
Kauko Juhantalo  
Henrik Westerlund

## **THE BOARD OF MANAGEMENT OF THE BANK OF FINLAND, AT THE END OF 1987**

### **The division of responsibilities in the Board of Management, as confirmed by the Parliamentary Supervisory Board**

Rolf Kullberg Chairman	Overall management and supervision of the activities of the Bank General principles of central bank policy Representation of the Board of Management Supervision of the activities of the Members of the Board and the substance of their decisions Internal Audit
Pentti Uusivirta	Matters related to — the Bilateral Trade Department — the Exchange Control Department — the Foreign Financing Department International financial institutions and organizations (issues related to international foreign exchange and trade policy and development cooperation)
Ele Alenius	Branches Matters related to — the Cash Department — the Data Processing Department — the Research Department Security Printing House
Harri Holkeri Prime Minister, on leave of absence	
Esko Ollila	Matters related to — the Accounting Department — the Administration Department — the Domestic Financing Department — the Foreign Exchange Department — the Personnel Department Building projects SITRA (The Finnish National Fund for Research and Development)
Kalevi Sorsa Minister of Foreign Affairs, on leave of absence	
Markku Puntila Acting Member	International organizations (general issues related to economic and structural policies) Matters related to — the Economics Department — the Foreign Exchange Policy Department — the Information Department — the Monetary Policy Department Security

## HEAD OFFICE

### Directors

Pentti Koivikko

Sirkka Hämäläinen

Matti Vanhala

Secretary to the Parliamentary  
Supervisory Board and  
the Board of Management

Internal Audit

Security

Building Projects

### Departments

Accounting Department  
Administration Department  
Cash Department

Personnel Department  
Experts  
note handling techniques  
personnel projects

Data Processing Department  
Economics Department  
Exchange Policy Department  
Information Department  
Monetary Policy Department  
Research Department

Bilateral Trade Department  
Domestic Financing Department  
Exchange Control Department  
Foreign Exchange Department  
Foreign Financing Department

Internal Audit Department

### Heads of Department

Ossi Leppänen  
Urpo Levo  
Reijo Mäkinen  
Chief Cashier  
Anton Mäkelä

Heikki Taipale  
Anneli Soini

Riitta Jokinen  
Kari Puumanen  
Johnny Åkerholm  
Antti Heinonen  
Ralf Pauli  
Heikki Koskenkylä

Kari Holopainen  
Raimo Hyvärinen  
Esa Ojanen  
Kari Pekonen  
Kaarlo Jännäri (Acting Head)

Heikki T. Hämäläinen

Timo Männistö

Jyrki Ahvonen  
Security Manager

Bengt Palmroos  
Project Manager

## BRANCH NETWORK

### Branches

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

### Branch Managers

Hilkka-Liisa Pitkänen  
Pauli Lähde  
Jouni Honkanen (Acting Head)  
Pekka Konttinen  
Kari Lottanen  
Juhani Huuskonen  
Juhani Vanhala (Acting Head)  
Aarno Alsi (Acting Head)  
Renne Kurth  
Rauno Haikarainen  
Reino Ylönen  
Martti Hagman

## SECURITY PRINTING HOUSE

Tor-Leif Huggare, Managing Director

## **BANK OF FINLAND**

Established 1811

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Vaasa:	Kirkkopuistikko 22, P.O.Box 44, 65101 Vaasa, Telephone (961) 118 322